

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

**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 **June 30, 2019**
- 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** **47-1016855**  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

**1 Vista Way** **Anoka MN 55303**  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: **(763) 433-1000**  
Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.01	VSTO	New York Stock Exchange

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

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

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

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

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

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

As of July 29, 2019, there were 57,753,803 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 BALANCE SHEETS  
(unaudited)

(Amounts in thousands except share data)	June 30, 2019	March 31, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 31,595	\$ 21,935
Net receivables	363,364	344,249
Net inventories	387,676	344,491
Assets held for sale	195,938	207,607
Other current assets	23,678	21,180
Total current assets	1,002,251	939,462
Net property, plant, and equipment	207,416	215,592
Operating lease assets	72,349	—
Goodwill	204,496	204,496
Net intangible assets	355,699	360,520
Deferred charges and other non-current assets	19,090	17,953
Total assets	\$ 1,861,301	\$ 1,738,023
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 19,335	\$ 19,335
Accounts payable	128,670	99,283
Accrued compensation	25,421	36,456
Accrued income taxes	845	436
Federal excise tax	20,128	18,482
Liabilities held for sale	38,733	46,030
Other current liabilities	105,061	97,175
Total current liabilities	338,193	317,197
Long-term debt	740,312	684,670
Deferred income tax liabilities	17,214	17,757
Long-term operating lease liabilities	75,799	—
Accrued pension and postemployment benefits	45,423	46,083
Other long-term liabilities	49,411	63,276
Total liabilities	1,266,352	1,128,983
Commitments and contingencies (Notes 3, 13, and 16)		
<b>Common stock — \$.01 par value:</b>		
Authorized — 500,000,000 shares		
Issued and outstanding — 57,745,745 shares as of June 30, 2019 and 57,710,934 shares as of March 31, 2019	577	577
Additional paid-in capital	1,752,760	1,752,419
Accumulated deficit	(821,584)	(804,969)
Accumulated other comprehensive loss	(82,620)	(82,967)
Common stock in treasury, at cost — 6,218,694 shares held as of June 30, 2019 and 6,253,505 shares held as of March 31, 2019	(254,184)	(256,020)
Total stockholders' equity	594,949	609,040
Total liabilities and stockholders' equity	\$ 1,861,301	\$ 1,738,023

See Notes to the Condensed Consolidated Financial Statements.

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

(Amounts in thousands except per share data)	3 months ended	
	June 30, 2019	July 1, 2018
Sales, net	\$ 459,774	\$ 528,836
Cost of sales	364,696	415,498
Gross profit	95,078	113,338
Operating expenses:		
Research and development	6,494	6,968
Selling, general, and administrative	83,909	101,054
Impairment of held-for-sale assets (Note 7)	9,429	44,921
Income (loss) before interest and income taxes	(4,754)	(39,605)
Interest expense, net	(11,124)	(13,472)
Income (loss) before income taxes	(15,878)	(53,077)
Income tax provision (benefit)	737	(729)
Net income (loss)	\$ (16,615)	\$ (52,348)
Earnings (loss) per common share:		
Basic	\$ (0.29)	\$ (0.91)
Diluted	\$ (0.29)	\$ (0.91)
Weighted-average number of common shares outstanding:		
Basic	57,722	57,454
Diluted	57,722	57,454
Net income (loss) (from above)	\$ (16,615)	\$ (52,348)
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 \$0 and \$19, respectively.	(78)	(60)
Reclassification of net actuarial loss for pension and postretirement benefit plans recorded to net income, net of tax expense of \$0 and \$(171), respectively.	811	543
Change in derivatives, net of tax expense of \$0 and \$(63), respectively.	(1,150)	200
Change in cumulative translation adjustment.	764	(7,146)
Total other comprehensive income (loss)	347	(6,463)
Comprehensive income (loss)	\$ (16,268)	\$ (58,811)

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)	3 months ended	
	June 30, 2019	July 1, 2018
<b>Operating Activities:</b>		
Net income (loss)	\$ (16,615)	\$ (52,348)
Adjustments to net income (loss) to arrive at cash (used for) provided by operating activities:		
Depreciation	11,290	14,139
Amortization of intangible assets	5,097	6,842
Impairment of held-for-sale assets (Note 7)	9,429	44,921
Amortization of deferred financing costs	580	1,268
Deferred income taxes	(168)	(3,302)
Loss on disposal of property, plant, and equipment	—	(50)
Stock-based compensation	2,190	2,368
Changes in assets and liabilities:		
Net receivables	(4,749)	26,935
Net inventories	(53,811)	(36,620)
Accounts payable	29,098	55,945
Accrued compensation	(11,026)	(9,555)
Accrued income taxes	992	(617)
Federal excise tax	(881)	(52)
Pension and other postretirement benefits	101	(184)
Other assets and liabilities	(7,695)	24,482
Cash (used for) provided by operating activities	(36,168)	74,172
<b>Investing Activities:</b>		
Capital expenditures	(9,212)	(9,949)
Proceeds from the disposition of property, plant, and equipment	85	65
Cash used for investing activities	(9,127)	(9,884)
<b>Financing Activities:</b>		
Borrowings on lines of credit	120,239	40,000
Payments on lines of credit	(60,240)	(40,000)
Payments made on long-term debt	(4,834)	(33,000)
Payments made for debt issuance costs	(103)	(2,759)
Settlement from former parent	—	13,047
Shares withheld for payroll taxes	(297)	(830)
Cash provided by (used for) financing activities	54,765	(23,542)
Effect of foreign exchange rate fluctuations on cash	190	(256)
Increase in cash and cash equivalents	9,660	40,490
Cash and cash equivalents at beginning of period	21,935	22,870
Cash and cash equivalents at end of period	\$ 31,595	\$ 63,360
<b>Supplemental Cash Flow Disclosures:</b>		
Non-cash investing activity:		
Capital expenditures included in accounts payable	\$ 2,531	\$ 2,613

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 Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Total Equity
	Shares	Amount					
<b>Balance, March 31, 2018</b>	<b>57,431,299</b>	<b>\$ 574</b>	<b>\$1,746,182</b>	<b>\$ (156,526)</b>	<b>\$ (104,296)</b>	<b>\$ (268,444)</b>	<b>\$ 1,217,490</b>
Comprehensive income (loss)	—	—	—	(52,348)	(6,463)	—	(58,811)
Share-based compensation	—	—	2,380	—	—	(12)	2,368
Restricted stock vested and shares withheld	24,430	—	(1,755)	—	—	1,486	(269)
Employee stock purchase plan	7,241	—	(192)	—	—	299	107
Settlement from former parent	—	—	13,047	—	—	—	13,047
Other	58,935	1	(980)	—	—	984	5
<b>Balance, July 1, 2018</b>	<b><u>57,521,905</u></b>	<b><u>\$ 575</u></b>	<b><u>\$1,758,682</u></b>	<b><u>\$ (208,874)</u></b>	<b><u>\$ (110,759)</u></b>	<b><u>\$ (265,687)</u></b>	<b><u>\$ 1,173,937</u></b>
<b>Balance, March 31, 2019</b>	<b>57,710,934</b>	<b>\$ 577</b>	<b>\$1,752,419</b>	<b>\$ (804,969)</b>	<b>\$ (82,967)</b>	<b>\$ (256,020)</b>	<b>\$ 609,040</b>
Comprehensive income (loss)	—	—	—	(16,615)	347	—	(16,268)
Share-based compensation	—	—	2,190	—	—	—	2,190
Restricted stock vested and shares withheld	23,059	—	(1,534)	—	—	1,428	(106)
Employee stock purchase plan	11,028	—	(358)	—	—	451	93
Other	724	—	43	—	—	(43)	—
<b>Balance, June 30, 2019</b>	<b><u>57,745,745</u></b>	<b><u>\$ 577</u></b>	<b><u>\$1,752,760</u></b>	<b><u>\$ (821,584)</u></b>	<b><u>\$ (82,620)</u></b>	<b><u>\$ (254,184)</u></b>	<b><u>\$ 594,949</u></b>

See Notes to the Condensed Consolidated Financial Statements.

**VISTA OUTDOOR INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**3 months ended June 30, 2019**  
**(Amounts in thousands except share and per share data unless otherwise indicated)**

**1. Significant Accounting Policies**

*Nature of Operations*—Vista Outdoor Inc. (together with our subsidiaries, "Vista Outdoor", "we", "our", and "us") is a leading global designer, manufacturer and marketer of consumer products in the outdoor sports and recreation markets. We operate in two segments, Outdoor Products and Shooting Sports. Vista Outdoor is headquartered in Anoka, Minnesota and has manufacturing and distribution facilities in 18 U.S. States, Canada, Mexico, and Puerto Rico along with international customer service, sales and sourcing operations in Asia, Canada, and Europe. Vista Outdoor was incorporated in Delaware in 2014. The consolidated financial statements reflect our financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles.

This Quarterly Report on Form 10-Q should be read in conjunction with our consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2019 ("fiscal 2019").

*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 normally are 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 financial statements in our Annual Report on Form 10-K for fiscal 2019. Management is responsible for the condensed consolidated financial statements included in this report, which are unaudited but, in the opinion of management, include all adjustments necessary for a fair presentation of our financial position as of June 30, 2019 and March 31, 2019, our results of operations for the quarters ended June 30, 2019 and July 1, 2018, and our cash flows for the quarters ended June 30, 2019 and July 1, 2018.

*New Accounting Pronouncements*

Our accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our fiscal year 2019 Annual Report on Form 10-K. Such significant accounting policies are applicable for periods prior to the adoption of the following new accounting standards.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards update ("ASU") 2016-02, "Leases" (Topic 842), which requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. We adopted ASU 2016-02 prospectively starting on April 1, 2019. As part of the adoption, we elected the package of practical expedients which permits us under the new standard not to reassess historical lease classification, not to recognize short-term leases on our balance sheet, and not to separate lease and non-lease components for all its leases. In addition, we elected the use of hindsight to determine the lease term of its leases and applied its incremental borrowing rate based on the remaining term of its leases as of the adoption date. The impact upon adoption, on April 1, 2019, resulted in the recognition of right-of-use assets of approximately \$75,749, and lease liabilities of approximately \$91,604 on our unaudited condensed consolidated balance sheet. See Note 3, *Leases*, for additional information.

In August 2018, the FASB issued ASU 2018-15, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." ASU 2018-15 clarifies the accounting treatment for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license. ASU 2018-15 is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. ASU 2018-15 may be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently assessing the impact that adoption of ASU 2018-15 will have on the 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



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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.

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 debt is based on market quotes for each issuance. We consider these to be Level 2 instruments.

*Interest rate swaps*—We periodically enter into floating-to-fixed interest rate swap agreements in order to hedge our forecasted interest payments on our outstanding variable-rate debt. The fair value of those swaps is determined using a pricing model based on observable inputs for similar instruments and other market assumptions. We consider these to be Level 2 instruments. See Note 13, *Long-term Debt*, for additional information.

*Commodity Price Hedging Instruments*—We periodically enter into commodity forward contracts to hedge our exposure to price fluctuations on certain commodities we use for raw material components in our manufacturing process. When actual commodity prices exceed the fixed price provided by these contracts, we receive this difference from the counterparty, and when actual commodity prices are below the contractually provided fixed price, we pay this difference to the counterparty. We consider these to be Level 2 instruments. See Note 4, *Derivative Financial Instruments*, for additional information.

*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 is evaluated on an ongoing basis and is based on management estimates and entity-specific assumptions which are considered Level 3 inputs. 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, approximately \$10,000 of the purchase price is payable over a three-year period from the closing date if certain incremental growth milestones are met and key members of Camp Chef management continue their employment with us through the respective milestone dates. The approximately \$10,000 is being expensed over the three-year measurement period and is to be paid in three equal installments as each milestone is achieved. The growth milestones for the second year have been met and, therefore, we paid \$3,371 during the quarter ended December 30, 2018. The third installment is expected to be paid during the third quarter of fiscal 2020.

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:

	June 30, 2019		March 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Fixed-rate debt	\$ 350,000	\$ 341,555	\$ 350,000	\$ 326,375
Variable-rate debt	419,676	419,676	364,509	364,509

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### 3. Leases

We lease certain warehouse and distribution space, manufacturing space, office space, retail locations, equipment and vehicles. All of these leases are classified as operating leases. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. These rates are assessed on a quarterly basis. The operating lease assets also include any lease payments made less lease incentives. Leases with an initial term of 12 months or less are not recorded on the balance sheet. For operating leases, expense is recognized on a straight-line basis over the lease term. Variable lease payments associated with the Company's leases are recognized upon occurrence of the event, activity, or circumstance in the lease agreement on which those payments are assessed. Tenant improvement allowances were recorded as leasehold improvements with an offsetting adjustment included in the Company's calculation of its right-of-use asset.

Many leases include one or more options to renew, with renewal terms that can extend the lease term for three years or more. The exercise of lease renewal options is at our sole discretion. The depreciable life of assets and leasehold improvements are limited by the expected lease term.

The amounts of assets and liabilities related to our operating leases follow.

	<u>Balance Sheet Caption</u>	<u>June 30, 2019</u>
<b>Assets:</b>		
Operating lease assets	Operating lease assets	\$ 72,349
<b>Liabilities:</b>		
Current:		
Operating lease liabilities	Other current liabilities	\$ 12,196
Long-term:		
Operating lease liabilities	Long-term operating lease liabilities	75,799
Total lease liabilities		\$ 87,995

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

	<u>3 months ended June 30, 2019</u>
Fixed operating lease costs	\$ 5,017
Variable operating lease costs	535
Sublease income	(281)
Net Lease costs	\$ 5,271

	<u>June 30, 2019</u>
<b>Weighted Average Remaining Lease Term (Years):</b>	
Operating leases	9.89
<b>Weighted Average Discount Rate:</b>	
Operating leases	8.61%

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The approximate future minimum lease payments under operating leases at June 30, 2019 follow.

Remainder of fiscal 2020	\$	14,570
Fiscal 2021		16,560
Fiscal 2022		13,265
Fiscal 2023		11,574
Fiscal 2024		10,242
Thereafter		69,804
Total lease payments		136,015
Less imputed interest		(48,020)
Present value of lease liabilities	\$	87,995

Supplemental cash flow information related to leases is as follows:

	<b>3 months ended June 30, 2019</b>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows - operating leases	\$ 5,205
Right of use assets obtained in exchange for lease liabilities:	
Operating leases	701

#### **4. Derivative Financial Instruments**

We are exposed to market risks arising from adverse changes in:

- commodity prices affecting the cost of raw materials,
- interest rates, and
- foreign exchange risks.

In the normal course of business, these risks are managed through a variety of strategies, including the use of derivative instruments. See Note 13, *Long-term Debt*, for additional information on our interest rate swaps.

We entered into various commodity forward contracts during fiscal 2020 and 2019. These contracts are used to hedge our exposure to price fluctuations on lead we purchase for raw material components in our ammunition manufacturing process and are designated and qualify as effective cash flow hedges. The effectiveness of cash flow hedges is assessed at inception and quarterly thereafter. Hedge accounting would cease if it became probable that the originally-forecasted hedged transaction will not occur. The related change in fair value of the ineffective portion of the derivative instrument would be reclassified from accumulated other comprehensive income (loss) and recognized in earnings.

The fair value of the lead forward contracts is recorded within other assets or liabilities, as appropriate, and the effective portion is reflected in accumulated other comprehensive loss ("AOCL") in our financial statements. The gains or losses on the lead forward contracts are recorded in inventory as the commodities are purchased and in cost of sales when the related inventory is sold. As of June 30, 2019, we had outstanding lead forward contracts on 13.4 million pounds of lead.

The derivative gains or losses in the unaudited condensed consolidated statements of comprehensive income (loss) related to lead forward contracts during the quarter ended June 30, 2019 were immaterial. The liability related to the lead forward contracts is immaterial and is recorded as part of other current liabilities.

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### 5. Revenue Recognition

The following tables disaggregate our net sales by major category:

	3 months ended June 30, 2019			3 months ended July 1, 2018		
	Outdoor Products	Shooting Sports	Total	Outdoor Products	Shooting Sports	Total
Ammunition	\$ —	\$ 213,810	\$ 213,810	\$ —	\$ 217,122	\$ 217,122
Firearms	—	24,017	24,017	—	40,934	40,934
Hunting and Shooting Accessories	95,861	—	95,861	103,688	—	103,688
Action Sports	67,909	—	67,909	71,708	—	71,708
Outdoor Recreation	58,177	—	58,177	63,113	—	63,113
Eyewear	—	—	—	32,271	—	32,271
Total	\$ 221,947	\$ 237,827	\$ 459,774	\$ 270,780	\$ 258,056	\$ 528,836

#### Geographic Region

United States	\$ 171,795	\$ 209,361	\$ 381,156	\$ 196,649	\$ 231,894	\$ 428,543
Rest of the World	50,152	28,466	78,618	74,131	26,162	100,293
Total	\$ 221,947	\$ 237,827	\$ 459,774	\$ 270,780	\$ 258,056	\$ 528,836

Typically, our contracts require customers to pay within 30-60 days of product delivery with a discount available to some customers for early payment. In some cases, we offer extended payment terms to customers. However, we do not consider these extended payment terms to be a significant financing component of the contract because the payment terms are less than a year.

We recognize revenue for our products at a point in time upon the transfer of control of the products to the customer, which typically occurs upon shipment and coincides with our right to payment, the transfer of legal title, and the transfer of the significant risks and rewards of ownership of the product.

In limited circumstances, our contract with a customer may have shipping terms that indicate a transfer of control of the products upon their arrival at the destination rather than upon shipment. In those cases, we recognize revenue only when the product reaches the customer destination, which may require us to estimate the timing of transfer of control based on the expected delivery date. In all cases, however, we consider our costs related to shipping and handling to be a cost of fulfilling the contract with the customer.

The total amount of revenue we recognize for the sale of our products reflects various sales adjustments for discounts, returns, refunds, allowances, rebates, and other customer incentives. These sales adjustments can vary based on market conditions, customer preferences, timing of customer payments, volume of products sold, and timing of new product launches. These adjustments require management to make reasonable estimates of the amount we expect to receive from the customer.

The total amount of revenue we recognize for the sale of our products reflects various sales adjustments for discounts, returns, refunds, allowances, rebates, and other customer incentives. These sales adjustments can vary based on market conditions, customer preferences, timing of customer payments, volume of products sold, and timing of new product launches. These adjustments require management to make reasonable estimates of the amount we expect to receive from the customer. We estimate sales adjustments by customer or by product category on the basis of our historical experience with similar contracts with customers, adjusted as necessary to reflect current facts and circumstances and our expectations for the future. Sales taxes, firearms and ammunition excise tax and other similar taxes are excluded from revenue.

Incentives in the form of cash paid to the customer (or a reduction of a customer cash payment to us) typically are recognized as a reduction of sales unless the incentive is for a distinct benefit that we receive from the customer (e.g., advertising or marketing).

We provide consumer warranties against manufacturing defects on certain products within the Shooting Sports and Outdoor Products segments. Our warranty periods typically range from one year to the lifetime of the product. The costs of such product warranties are recognized upon delivery of the product at the time the sale is recorded, and are estimated based on our past experience.

We pay commissions to some of our employees based on agreed-upon sales targets. We recognize the incremental costs of obtaining a contract as an expense when incurred because our sales contracts with commissions are a year or less.

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### 6. Earnings Per Share

The computation of earnings 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 ended June 30, 2019 and July 1, 2018, earnings, as reported for each respective period, is divided by the number of shares below:

	3 months ended	
	June 30, 2019	July 1, 2018
Net income (loss)	\$ (16,615)	\$ (52,348)
Weighted-average number of common shares outstanding:		
Basic EPS shares outstanding	57,722	57,454
Dilutive effect of stock-based awards (1)	—	—
Diluted EPS shares outstanding	57,722	57,454
Earnings (loss) per common share:		
Basic	\$ (0.29)	\$ (0.91)
Diluted	\$ (0.29)	\$ (0.91)

(1) Due to the loss from continuing operations in the quarters ended June 30, 2019 and July 1, 2018, there are no common shares added to calculate dilutive EPS because the effect would be antidilutive.

### 7. Assets and Liabilities Held for Sale

Subsequent to quarter-end we entered into a purchase agreement for the sale of the legal entities comprising our firearms business, which is part of our Shooting Sports segment and comprises our Firearms reporting unit. See Note 19, *Subsequent Events*. The decision to sell this business reflects our ongoing review of our portfolio of brands to focus our attention on assets that are core to our mission and strategy.

The gross proceeds from the divestiture will be approximately \$170,000, subject to reductions for fair value, net working capital adjustments and transaction costs. We measured this business at the lower of its carrying value or fair value less any costs to sell, and subsequently recognized additional impairment of \$9,429 during the quarter. Impairment of \$120,238 was recognized during fiscal 2019.

The operating results of this business do not qualify for reporting as discontinued operations. For the quarters ended June 30, 2019 and July 1, 2018, the earnings before interest and taxes for this business were \$1,230 and \$2,962, respectively.

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The following table presents information related to the assets and liabilities of the firearms business that was classified as held for sale at June 30, 2019:

### Assets and Liabilities Held for Sale

	<u>June 30, 2019</u>
<b>Assets</b>	
Net receivables	\$ 37,047
Net inventories	45,446
Other current assets	1,476
Net property, plant, and equipment	37,976
Goodwill	121,666
Net intangible assets	79,809
Deferred charges and other non-current assets	2,184
Total assets held for sale	\$ 325,604
<b>Liabilities</b>	
Accounts payable	\$ 10,698
Accrued compensation	1,640
Accrued income taxes	282
Federal excise tax	2,039
Other current liabilities	1,574
Other long-term liabilities	522
Deferred tax liabilities	21,978
Total liabilities held for sale	\$ 38,733
Total net assets held for sale	\$ 286,871
Total net assets held for sale	\$ 286,871
Currency translation adjustment attributable to firearms business	3,045
Total net assets including currency translation adjustment	289,916
Estimated fair value less costs to sell	160,250
Impairment of held-for-sale goodwill and assets	\$ 129,666
Total assets held for sale	\$ 325,604
Impairment of held-for-sale goodwill and assets	(129,666)
Adjusted assets held for sale	\$ 195,938

During the quarter ended July 1, 2018, we recognized an impairment of \$44,921 related to an expected loss on the sale of our held-for-sale assets of our Eyewear business.

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### 8. Receivables

Net receivables are summarized as follows:

	<b>June 30, 2019</b>	<b>March 31, 2019</b>
Trade receivables	\$ 370,914	\$ 356,035
Other receivables	11,722	7,106
Less: allowance for doubtful accounts and discounts	(19,272)	(18,892)
Net receivables	<u>\$ 363,364</u>	<u>\$ 344,249</u>

Walmart represented 16% and 14% of the total trade receivables balance as June 30, 2019 and March 31, 2019, respectively. No other customer represented more than 10% of our total trade receivables balance as of June 30, 2019 and March 31, 2019.

### 9. Inventories

Net inventories consist of the following:

	<b>June 30, 2019</b>	<b>March 31, 2019</b>
Raw materials	\$ 95,463	\$ 65,240
Work in process	32,285	32,213
Finished goods	259,928	247,038
Net inventories	<u>\$ 387,676</u>	<u>\$ 344,491</u>

We consider inventories to be long-term if they are not expected to be sold within one year. Long-term inventories are presented on the balance sheet net of reserves within deferred charges and other non-current assets and totaled \$17,615 and \$16,227 as of June 30, 2019 and March 31, 2019, respectively.

### 10. Accumulated Other Comprehensive Loss (AOCL)

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

	<b>June 30, 2019</b>	<b>March 31, 2019</b>
Pension and other postretirement benefits	\$ (73,937)	\$ (74,670)
Derivatives	(415)	735
Cumulative translation adjustment	(8,268)	(9,032)
Total AOCL	<u>\$ (82,620)</u>	<u>\$ (82,967)</u>

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

	3 months ended June 30, 2019			
	Derivatives	Pension and other postretirement benefits	Cumulative translation adjustment	Total
Beginning balance in AOCL	\$ 735	\$ (74,670)	\$ (9,032)	\$ (82,967)
Net actuarial losses reclassified from AOCL <sup>(1)</sup>	—	811	—	811
Prior service costs reclassified from AOCL <sup>(1)</sup>	—	(78)	—	(78)
Net decrease in fair value of derivatives	(1,150)	—	—	(1,150)
Net change in cumulative translation adjustment	—	—	764	764
Ending balance in AOCL	\$ (415)	\$ (73,937)	\$ (8,268)	\$ (82,620)

(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.

	3 months ended July 1, 2018			
	Derivatives	Pension and other postretirement benefits	Cumulative translation adjustment	Total
Beginning balance in AOCL	\$ 1,904	\$ (66,656)	\$ (39,544)	\$ (104,296)
Net actuarial losses reclassified from AOCL <sup>(1)</sup>	—	543	—	543
Prior service costs reclassified from AOCL <sup>(1)</sup>	—	(60)	—	(60)
Net increase in fair value of derivatives	200	—	—	200
Net change in cumulative translation adjustment	—	—	(7,146)	(7,146)
Ending balance in AOCL	\$ 2,104	\$ (66,173)	\$ (46,690)	\$ (110,759)

(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.

## 11. Goodwill and Intangible Assets

There were no changes in the carrying amount of goodwill during the quarter ended June 30, 2019. The carrying amounts of goodwill for our Outdoor Products and Shooting Sports segments as of June 30, 2019 were \$121,329 and \$83,167, respectively, for a consolidated balance of \$204,496.

Net intangible assets other than goodwill consisted of the following:

	June 30, 2019			March 31, 2019		
	Gross carrying amount	Accumulated amortization	Total	Gross carrying amount	Accumulated amortization	Total
Trade names	\$ 48,360	\$ (11,628)	\$ 36,732	\$ 48,360	\$ (10,694)	\$ 37,666
Patented technology	16,684	(9,828)	6,856	16,684	(9,604)	7,080
Customer relationships and other	238,742	(71,995)	166,747	238,595	(68,185)	170,410
Total	303,786	(93,451)	210,335	303,639	(88,483)	215,156
Non-amortizing trade names	145,364	—	145,364	145,364	—	145,364
Net intangible assets	\$ 449,150	\$ (93,451)	\$ 355,699	\$ 449,003	\$ (88,483)	\$ 360,520



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Amortization expense for the quarters ended June 30, 2019 and July 1, 2018 was \$5,097 and \$6,842, respectively.

As of June 30, 2019, we expect amortization expense related to these assets to be as follows:

Remainder of fiscal 2020	\$	14,931
Fiscal 2021		19,886
Fiscal 2022		19,831
Fiscal 2023		19,715
Fiscal 2024		19,663
Thereafter		116,309
Total	\$	<u>210,335</u>

## 12. Other Current and Non-Current Liabilities

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

	<u>June 30, 2019</u>	<u>March 31, 2019</u>
Other current liabilities:		
Accrual for in-transit inventory	\$ 23,568	\$ 11,275
Rebate accrual	10,387	13,911
Other	71,106	71,989
Total other current liabilities	<u>\$ 105,061</u>	<u>\$ 97,175</u>
Other non-current liabilities:		
Non-current portion of accrued income tax liability	\$ 34,730	\$ 34,118
Other	14,681	29,158
Total other non-current liabilities	<u>\$ 49,411</u>	<u>\$ 63,276</u>

We provide consumer warranties against manufacturing defects on certain products within the Shooting Sports and Outdoor Products segments with warranty periods ranging from one year to the expected lifetime of the product. 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 periods presented:

Balance, March 31, 2019	\$	8,144
Payments made		(364)
Warranties issued		479
Other adjustments		74
Changes related to pre-existing warranties		(33)
Balance, June 30, 2019	\$	<u>8,300</u>

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### 13. Long-term Debt

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

	June 30, 2019	March 31, 2019
Credit Agreements:		
ABL Revolving Credit Facility	\$ 280,000	\$ 220,000
Term Loan	99,676	104,509
Junior Term Loan	40,000	40,000
Total principal amount of Credit Agreements	419,676	364,509
5.875% Senior Notes	350,000	350,000
Principal amount of long-term debt	769,676	714,509
Less: unamortized deferred financing costs	(10,029)	(10,504)
Carrying amount of long-term debt	759,647	704,005
Less: current portion	(19,335)	(19,335)
Carrying amount of long-term debt, excluding current portion	\$ 740,312	\$ 684,670

*Credit Agreements*—In fiscal 2019, we refinanced our Amended and Restated Credit Agreement dated April 1, 2016, by entering into the New Credit Facilities, which provide for (a) a \$450,000 senior secured asset-based revolving credit facility (the “ABL Revolving Credit Facility”), comprised of \$20,000 in first-in, last-out (“FILO”) revolving credit commitments and \$430,000 in non-FILO revolving credit commitments, (b) a \$109,343 senior secured asset-based term loan facility (the “Term Loan”) and (c) the \$40,000 Junior Term Loan. The amount available under the ABL Revolving Credit Facility is the lesser of the total commitment of \$450,000 or a borrowing base based on percentages of eligible receivables, inventory, and cash, minus certain reserves. As of June 30, 2019, based on the borrowing base less outstanding borrowings of \$280,000 and outstanding letters of credit of \$24,974, the amount available to us under the ABL Revolving Credit Facility was \$77,223.

The New Credit Facilities each mature on November 19, 2023 (the “Maturity Date”), subject to a customary springing maturity in respect of the 5.875% Notes due 2023. The loans under the Term Loan are subject to quarterly principal repayments of \$4,834 on the first business day of each January, April, July, and October, with the remaining balance due on the Maturity Date. The FILO commitments under the ABL Revolving Credit Facility are subject to reductions of \$1,667 on the first business day of each fiscal quarter beginning on April 1, 2019. The balance of the FILO revolving credit commitment as of June 30, 2019 was \$18,333. Any outstanding revolving loans under the ABL Revolving Credit Facility will be payable in full on the Maturity Date. There are no scheduled principal payments under the Junior Term Loan, which will be payable in full on the Maturity Date.

Borrowings under the ABL Revolving Credit Facility bear interest at a rate equal to, in the case of (a) non-FILO revolving credit loans, either the sum of a base rate plus a margin ranging from 0.75% to 1.25% or the sum of a LIBO rate plus a margin ranging from 1.75% to 2.25%, and (b) FILO revolving credit loans, a rate that is 1.00% higher than the rate paid on the non-FILO revolving credit loans. All such rates vary based on our Average Excess Availability under the ABL Revolving Credit Facility. As of June 30, 2019, the margin under the (1) ABL Revolving Credit Facility was, in the case of (a) non-FILO revolving credit loans, 1.25% for base rate loans and 2.25% for LIBO rate loans and (b) FILO revolving credit loans, 2.25% for base rate loans and 3.25% for LIBO rate loans, (2) Term Loan was 2.75% for base rate loans and 3.75% for LIBO rate loans, and (3) Junior Term Loan was 8.00% for base rate loans and 9.00% for LIBO rate loans. The weighted average interest rate for our borrowings under the New Credit Facilities as of June 30, 2019 was 5.84%, excluding the impact of the interest rate swaps that are discussed below. We pay a commitment fee on the unused commitments under the ABL Revolving Credit Facility of 0.25% per annum.

Substantially all domestic tangible and intangible assets of Vista Outdoor and our domestic 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 New Credit Facilities.

Debt issuance costs related to the New Credit Facilities, including a portion of the existing unamortized debt issuance costs, totaling approximately \$12,100 are being amortized over the term of the New Credit Facilities.

*5.875% Notes*—In fiscal 2016, 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 the notes is payable semi-

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annually in arrears on April 1 and October 1 of each year. We have the right to redeem some or all of these notes from time to time at specified redemption prices. Debt issuance costs of approximately \$4,300 are being amortized to interest expense over 8 years, the term of the notes.

*Rank and guarantees*—The New Credit Facilities' obligations are guaranteed on a secured basis, jointly and severally and fully and unconditionally by substantially all of our domestic subsidiaries 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 of Vista Outdoor 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 of Vista Outdoor. The 5.875% Notes are fully and unconditionally guaranteed, jointly and severally, by our existing and future domestic subsidiaries that guarantee indebtedness under our New Credit Facilities 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
- if such subsidiary guarantor has been released from its guarantees of indebtedness under the New Credit Facilities and all capital markets debt securities

*Interest rate swaps*—During fiscal 2018, we entered into floating-to-fixed interest rate swap agreements in order to hedge our forecasted interest payments on our outstanding variable-rate debt. As of June 30, 2019, we had the following cash flow hedge interest rate swap in place:

	<u>Notional</u>	<u>Fair Value</u>	<u>Pay Fixed</u>	<u>Receive Floating</u>	<u>Maturity Date</u>
Non-amortizing swap	100,000	219	1.629%	2.402%	June 2020

The amount paid or received under these swaps is recorded as an adjustment to interest expense. The asset related to the swaps is recorded as part of other current assets.

## *Covenants*

*New Credit Facilities*—Our New Credit Facilities impose restrictions on us, including limitations on our ability to pay cash dividends, incur debt or liens, redeem or repurchase Vista Outdoor stock, enter into transactions with affiliates, make investments, merge or consolidate with others or dispose of assets. In addition, the New Credit Facilities contain financial covenants requiring us to (a) maintain Excess Availability under the ABL Revolving Credit Facility of \$45,000 at all times before all amounts owing under the Term Loan Facility and the Junior Term Loan Facility have been paid in full, (b) maintain a Consolidated Fixed Charge Coverage Ratio ("FCCR"), as defined below, of not less than 1.15:1.00 for any fiscal quarter beginning with the fiscal quarter ending on March 31, 2019 until the fiscal quarter ending immediately prior to the date the Term Loan Facility and the Junior Term Loan Facility have been paid in full, and (c) maintain a FCCR of not less than

1.00:1.00 for any fiscal quarter ending after the Term Loan Facility and the Junior Term Loan Facility have been paid in full if Excess Availability falls below certain levels. If we do not comply with the covenants in any of the New Credit Facilities, the lenders may, subject to customary cure rights, require the immediate payment of all amounts outstanding under each of the New Credit Facilities.

The FCCR is Covenant EBITDA (which includes adjustments for items such as non-recurring or extraordinary items, non-cash charges related to stock-based compensation, and intangible asset impairment charges, as well as adjustments for acquired or divested business units on a *pro forma* basis) less capital expenditures (subject to certain adjustments) for the past four fiscal quarters, divided by fixed charges (which includes debt principal and interest payments made since October 28, 2018, annualized; plus income tax payments and restricted payments over the past four fiscal quarters). As of June 30, 2019, our FCCR was 1.37.

*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

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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 New Credit Facilities and the indenture governing the 5.875% Notes contain cross-default provisions so that noncompliance with the covenants within one debt agreement could also cause a default under the other debt agreements. As of June 30, 2019, we were in compliance with the covenants of all of the debt agreements. However, we cannot provide assurance that we will be able to comply with such financial covenants in the future because of various risks and uncertainties some of which may be beyond our control. Any failure to comply with the restrictions in the New Credit Facilities may prevent us from drawing under the ABL Revolving Credit Facility and may result in an event of default under the New Credit Facilities, which default may allow the creditors to accelerate the related indebtedness and the indebtedness under our 5.875% Notes and proceed against the collateral that secures the indebtedness. We may not have sufficient liquidity to repay the indebtedness in such circumstances.

*Cash paid for interest on debt*—Cash paid for interest on debt, including commitment fees, for the quarters ended June 30, 2019 and July 1, 2018 totaled \$15,654 and \$7,073, respectively.

### **14. Employee Benefit Plans**

During the quarter ended June 30, 2019, we recognized an aggregate net benefit for employee defined benefit plans of \$101 compared to \$186 during the quarter ended July 1, 2018. The decrease in income was primarily due to expected return on plan assets.

*Employer contributions and distributions*—During the quarters ended June 30, 2019 and July 1, 2018, there were no required contributions to the pension trust, we made no contributions to our other postretirement benefit plans, and we made no distributions to retirees under the non-qualified supplemental executive retirement plan. During the remainder of fiscal 2020, we expect to make additional contributions to the pension trust of \$3,600. There are no expected contributions to our other postretirement benefit plans, or directly to retirees under our non-qualified supplemental executive retirement plans.

### **15. Income Taxes**

Our provision for income taxes includes federal, foreign, and state income taxes. Income tax provisions for interim periods are based on the year-to-date effective tax rate for both the current and prior year.

The income tax provisions for the quarters ended June 30, 2019 and July 1, 2018 represent effective tax rates of (4.6)% and 1.4%, respectively. The decrease in the rate from the prior year quarter is primarily caused by increased valuation allowance due to the operating loss incurred during the current quarter and interest expense on uncertain tax positions, offset by the larger prior period impairment of held-for-sale assets for the quarter ended July 1, 2018.

The effective tax rate for the quarter ended June 30, 2019 was lower than the statutory rate primarily because of the increased valuation allowance and interest expense on uncertain tax positions. The effective tax rate for the quarter ended July 1, 2018 was lower than the statutory rate primarily because of the operating loss in the quarter, which caused the unfavorable tax adjustments to decrease the rate.

On February 9, 2015, we entered into a Tax Matters Agreement with Orbital ATK that governs the respective rights, responsibilities and obligations of Vista Outdoor and Orbital ATK following 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 between the parties, the Tax Matters Agreement is not binding on the IRS.

The allocation of tax liabilities for the period from April 1, 2014 through the date of the Spin-Off was settled on June 15, 2018. Orbital ATK paid Vista Outdoor \$13,047 to settle this matter, which was reflected as an adjustment to the distribution from Vista Outdoor to Orbital ATK at the time of the Spin-Off.

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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 that included Vista Outdoor. In addition, certain of our subsidiaries filed income tax returns in foreign jurisdictions. Since the Spin-Off, we file 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 2012. The IRS has completed the audits of Orbital ATK through fiscal 2014 and is currently auditing Orbital ATK's tax return for fiscal 2015. The IRS has also completed the audit of our tax return for the period that began after the Spin-Off (February 9, 2015) and ended 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.

Income taxes paid, net of refunds, totaled \$(253) and \$3,087 for the quarters ended June 30, 2019 and July 1, 2018, respectively.

Although the timing and outcome of income tax audit settlements are uncertain, it is reasonably possible that a \$9,253 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 \$8,067.

## **16. 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 have been identified as a potentially responsible party (“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 have recorded a liability for environmental remediation of \$729 and \$729 as of June 30, 2019 and March 31, 2019, respectively.

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 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.

## **17. Condensed Consolidating Financial Statements**

In accordance with the provisions of the 5.875% Notes, the outstanding notes are guaranteed on an unsecured basis, jointly and severally and fully and unconditionally, by substantially all of Vista Outdoor domestic subsidiaries 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 and any subsidiaries of the parent company other than the subsidiary guarantors are minor. These guarantees are senior or senior subordinated obligations, as applicable, of the applicable subsidiary guarantors.

## **18. Operating Segment Information**

We operate our business structure within two operating segments, which 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 and general and administrative expenses are not allocated to the segments. Each segment is described below:

- Outdoor Products generated approximately 48% of our external sales in the quarter ended June 30, 2019. The Outdoor Products product lines are action sports, archery/hunting accessories, outdoor cooking, golf, hydration products, optics,

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shooting accessories, and tactical products. 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. 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.

- Shooting Sports generated approximately 52% of our external sales in the quarter ended June 30, 2019. Shooting Sports product lines include centerfire ammunition, rimfire ammunition, shotshell ammunition, reloading components, and firearms.

Sales to Walmart represented 14% of our sales in both the quarters ended June 30, 2019 and July 1, 2018. No other single customer contributed 10% or more of our sales in the quarters ended June 30, 2019 and July 1, 2018.

The following summarizes our results by segment:

	3 months ended	
	June 30, 2019	July 1, 2018
Sales to external customers:		
Outdoor Products	\$ 221,947	\$ 270,780
Shooting Sports	237,827	258,056
Total sales to external customers	<u>\$ 459,774</u>	<u>\$ 528,836</u>
Gross Profit		
Outdoor Products	\$ 55,666	\$ 70,950
Shooting Sports	39,412	42,388
Total gross profit	<u>\$ 95,078</u>	<u>\$ 113,338</u>

The sales above exclude intercompany sales between Outdoor Products and Shooting Sports of \$922 and \$1,622 for the quarters ended June 30, 2019 and July 1, 2018, respectively.

### **19. Subsequent Events**

On July 5, 2019, Vista Outdoor Inc. and one of its subsidiaries, Vista Outdoor Operations LLC, entered into a definitive agreement to sell all of the issued and outstanding equity interests of Caliber Company, the legal entity operating Vista's Savage Arms and Stevens firearms brands, to a financial buyer, Long Range Acquisition LLC, for a total purchase price of \$170,000. The Buyer paid \$158,000 in cash, subject to certain transaction adjustments, and \$12,000 in the form of a note payable on July 5, 2024. The proceeds from this sale were used to pay off the balance of our Term Loan and reduce our ABL Revolving Credit Facility.

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### 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," including those that discuss, among other things: our plans, objectives, expectations, intentions, strategies, goals, outlook or other non-historical matters; projections with respect to future revenues, income, earnings per share or other financial measures for Vista Outdoor; and the assumptions that underlie these matters. The words "believe," "expect," "anticipate," "intend," "aim," "should" and similar expressions are intended to identify such forward-looking statements. To the extent that any such information is forward-looking, it is intended to fit within the safe harbor for forward-looking information provided by the Private Securities Litigation Reform Act of 1995. Numerous risks, uncertainties and other factors could cause our actual results to differ materially from expectations described in such forward-looking statements, including the following:

- general economic and business conditions in the United States and our markets outside the United States, including conditions affecting employment levels, consumer confidence and spending, conditions in the retail environment, 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, including our ability to obtain acceptable third-party licenses;
- our ability to adapt our products to changes in technology, the marketplace and customer preferences, including our ability to respond to shifting preferences of the end consumer from brick and mortar retail to online retail;
- our ability to maintain and enhance brand recognition and reputation;
- others' use of social media to disseminate negative commentary about us and boycotts;
- reductions in or unexpected changes in or our inability to accurately forecast demand for ammunition, firearms or accessories, or other outdoor sports and recreation products;
- risks associated with our sales to significant retail 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 diversification into new international and commercial markets, including regulatory compliance;
- changes in the current tariff structures;
- 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 realize expected benefits from acquisitions and integrate acquired businesses;
- our ability to execute our strategic transformation plan, including our ability to realize expected benefits from the divestiture of non-core brands and profitability improvement initiatives;
- 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.

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You are cautioned not to place undue reliance on any forward-looking statements we make. A more detailed description of risk factors that may affect our operating results can be found in Part 1, Item 1A, Risk Factors, of our Annual Report on Form 10-K for fiscal 2019 and in the filings we make with the SEC from time to time. We undertake no obligation to update any forward-looking statements, except as otherwise required by law.

### **Business Overview**

We serve the outdoor sports and recreation markets through a diverse portfolio of over 40 well-recognized brands that provide consumers with a wide range of performance-driven, high-quality and innovative products, including sporting ammunition and firearms, golf rangefinders, hydration products, outdoor accessories, outdoor cooking solutions, 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 Academy, Amazon, Bass Pro Shops/Cabela's, Big Rock Sports, Sports South, Sportsman's Warehouse, Target, 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 consumer.

### **Organizational Structure**

We conduct our operations through two operating segments which are defined based on the reporting and review process used by the chief operating decision maker, our Chief Executive Officer. As of June 30, 2019, our two operating segments were:

- Outdoor Products generated approximately 48% of our sales in the quarter ended June 30, 2019. The Outdoor Products product lines are action sports, archery/hunting accessories, outdoor cooking, golf, hydration products, optics, shooting accessories, and tactical products. 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. 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.
- Shooting Sports generated approximately 52% of our sales in the quarter ended June 30, 2019. Shooting Sports product lines include centerfire ammunition, rimfire ammunition, shotshell ammunition, reloading components, and firearms.

### **Business Strategy**

Our current strategic business plan is designed to allow us to focus our resources on pursuing growth in our market-leading brands by serving our target consumer with new and innovative products; leveraging our channel relationships and the reputation of our brands with our end consumers; expanding our e-commerce capabilities; and continuously improving operations.

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

Certain notable events or activities affecting our first quarter fiscal 2020 financial results included the following:

#### *Financial highlights for the quarter ended June 30, 2019*

- Quarterly sales were \$459,774 and \$528,836 for the quarters ended June 30, 2019, and July 1, 2018, respectively. The decrease was largely due to the sale of the Eyewear brands which accounted for approximately \$32,271 of the decrease. Outdoor Products sales decreased \$48,833 and Shooting Sports sales decreased \$20,229 for the reasons described in the Results of Operations section.
- Gross profit was \$95,078 and \$113,338 for the quarters ended June 30, 2019, and July 1, 2018, respectively. The decrease in gross profit was primarily due to the sale of the Eyewear brands which accounted for approximately \$14,782 of the decrease and by lower sales volumes described in the Results of Operations section.
- Subsequent to quarter end we entered into a purchase agreement for the sale of the legal entities comprising our firearms business, which is part of our Shooting Sports segment and comprises our Firearms reporting unit. See Note 19, *Subsequent Events*, for additional information. The firearms business was classified as held for sale as of June 30,



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2019, resulting in an impairment charge of \$9,429 in the fiscal quarter. See Note 7, *Assets and Liabilities Held for Sale*, for additional information.

### **Outlook**

#### *Outdoor Recreation Industry*

The outdoor recreation and accessories industry represents a large focus area of our business. Examples of the sports and activities we target include archery, camping, cycling, golf, hiking, hunting, snow skiing, target shooting, and wildlife watching. Our consumers often participate in more than one of these activities.

#### *Shooting Sports Industry*

Shooting sports products currently represent slightly over half of our sales. Examples of the shooting sports activities we target include target shooting, hunting, as well as ammunition for local law enforcement, the U.S. government and international markets. The shooting sports industry historically has been a cyclical business and can be impacted by the current political climate, the timing of national elections, and other market factors.

### **Results of Operations**

The following is a discussion and analysis of the financial measures that management believes are the key performance indicators for managing and assessing the results of Vista Outdoor Inc.'s consolidated financial condition and results of operations. The discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and notes thereto.

Sales to Walmart represented 14% of our sales in both the quarters ended June 30, 2019 and July 1, 2018. No other single customer contributed 10% or more of our sales in the quarters ended June 30, 2019 and July 1, 2018.

#### *Net Sales*

	<u>June 30, 2019</u>	<u>July 1, 2018</u>	<u>\$ Change</u>	<u>% Change</u>
Outdoor Products	\$ 221,947	\$ 270,780	\$ (48,833)	(18.0)%
Shooting Sports	237,827	258,056	(20,229)	(7.8)%
Total net sales	<u>\$ 459,774</u>	<u>\$ 528,836</u>	<u>\$ (69,062)</u>	<u>(13.1)%</u>

*Outdoor Products*—The decrease in sales was primarily due to our sale of the Eyewear brands which accounted for \$32,271 of the decrease. In addition, our hunting and shooting accessories, action sports, and hydration solutions businesses had lower sales as a result of lower demand and increased competition.

*Shooting Sports*—The decrease in sales was caused primarily by lower demand in the market for firearms and rimfire ammunition, which was partially offset by increased demand in the market for centerfire ammunition.

#### *Gross Profit*

	<u>June 30, 2019</u>	<u>July 1, 2018</u>	<u>\$ Change</u>	<u>% Change</u>
Outdoor Products	\$ 55,666	\$ 70,950	\$ (15,284)	(21.5)%
Shooting Sports	39,412	42,388	(2,976)	(7.0)%
Total gross profit	<u>\$ 95,078</u>	<u>\$ 113,338</u>	<u>\$ (18,260)</u>	<u>(16.1)%</u>

*Outdoor Products*—The decrease in gross profit was caused primarily by the sale of the Eyewear brands which accounted for approximately \$14,782 of the decrease and lower sales volumes as described above. These decreases were partially offset with savings driven by lower business transformation consulting costs compared to the prior year quarter, operating efficiencies and improved pricing strategies.

*Shooting Sports*—The decrease in gross profit was primarily due to lower sales volume described above, offset by decreases in raw material costs, and lower business transformation consulting costs compared to the prior year quarter.

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### *Operating Expenses*

	<u>June 30, 2019</u>	<u>As a % of Sales</u>	<u>July 1, 2018</u>	<u>As a % of Sales</u>	<u>\$ Change</u>
Research and development	\$ 6,494	1.4%	\$ 6,968	1.3%	\$ (474)
Selling, general, and administrative	83,909	18.3%	101,054	19.1%	(17,145)
Impairment of held-for-sale assets	9,429	2.1%	44,921	8.5%	(35,492)
Total operating expenses	<u>\$ 99,832</u>	<u>21.8%</u>	<u>\$ 152,943</u>	<u>28.9%</u>	<u>\$ (53,111)</u>

Operating expenses decreased \$53,111 primarily due to a decrease in impairment of held-for-sale assets of \$35,492 and a decrease of approximately \$9,389 due to the sale of our Eyewear brands. Also contributing to the decrease were savings from restructuring activities realized in this quarter, as well as reduced business transformation consulting costs year over year.

### *Net Interest Expense*

	<u>June 30, 2019</u>	<u>July 1, 2018</u>	<u>\$ Change</u>	<u>% Change</u>
Interest expense, net	\$ 11,124	\$ 13,472	\$ (2,348)	(17.4)%

The decrease in interest expense was due to a reduction in our average debt balance.

### *Income Tax Provision*

See Note 15, *Income Taxes*, to the unaudited condensed consolidated financial statements in Item 1 of Part I of this report for information regarding income taxes.

	<u>June 30, 2019</u>	<u>Effective Rate</u>	<u>July 1, 2018</u>	<u>Effective Rate</u>
Income tax provision (benefit)	\$ 737	(4.6)%	\$ (729)	1.4%

The decrease in the tax rate from the prior year quarter was primarily caused by increased valuation allowance due to the operating loss incurred during the current quarter and interest expense on uncertain tax positions, offset by the larger prior period impairment of held-for-sale assets for the quarter ended July 1, 2018.

## **Liquidity and Capital Resources**

### **Liquidity**

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 committed credit facilities and access to the public debt and equity markets. We use our cash primarily to fund investments in our existing businesses and for debt payments, acquisitions, and other activities.

Our cash flows from operating, investing and financing activities for the quarters ended June 30, 2019 and July 1, 2018 are summarized as follows:

	<u>June 30, 2019</u>	<u>July 1, 2018</u>
Cash (used for) provided by operating activities	\$ (36,168)	\$ 74,172
Cash used for investing activities	(9,127)	(9,884)
Cash provided by (used for) financing activities	54,765	(23,542)
Effect of foreign exchange rate fluctuations on cash	190	(256)
Net cash flows	<u>\$ 9,660</u>	<u>\$ 40,490</u>

*Operating Activities*—Cash used for operating activities was \$36,168 in the quarter ended June 30, 2019 compared to cash provided of \$74,172 in the prior year period, a change of \$110,340. The change from the prior-year period was primarily a result of unfavorable changes in net working capital balances, timing of interest payments and decreased gross margin. The change in net working capital was driven primarily by increases in net inventories, timing of supplier payments and customer receivables.



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*Investing Activities*—Cash used for investing activities was \$9,127 compared to \$9,884 used in the prior-year period, a change of \$757. The change was driven by a decrease in planned capital expenditures in the current fiscal year.

*Financing Activities*—Cash provided by financing activities was \$54,765 in the current period, compared to cash used for financing activities of \$23,542 in the prior year period, a change of \$78,307. This change was primarily driven by additional borrowings on our Revolving Credit Facility.

### **Capital Resources**

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

Our business experiences a certain level of seasonality, which impacts our cash flow. Due to this seasonality, we expect to use cash during the first half of our fiscal year and generate cash during the second half of the year. 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, under our ABL Revolving Credit Facility, access to debt and equity markets, as well as potential future sources of funding including additional bank financing, will be adequate to fund future growth and to service our currently anticipated long-term debt and pension obligations and make capital expenditures over the next 12 months. 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 or our financial condition and performance.

The allocation of tax liabilities for the period from April 1, 2014 through the date of the Spin-Off as required by the Tax Matters Agreement with Orbital ATK, as discussed further in Note 15, *Income Taxes*, was settled on June 15, 2018. Orbital ATK paid Vista Outdoor \$13,047 to settle this matter, which was reflected as an adjustment to the distribution from us to Orbital ATK at the time of the Spin-off.

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

As of June 30, 2019, our indebtedness consisted of the following:

	<b>June 30, 2019</b>
<b>Credit Agreements:</b>	
ABL Revolving Credit Facility	\$ 280,000
Term Loan	99,676
Junior Term Loan	40,000
Total principal amount of Credit Agreements	419,676
5.875% Senior Notes	350,000
Principal amount of long-term debt	769,676
Less: Unamortized deferred financing costs	(10,029)
Carrying amount of long-term debt	759,647
Less: current portion	(19,335)
Carrying amount of long-term debt, excluding current portion	\$ 740,312

Our total debt (current portion of debt and long-term debt) as a percentage of total capitalization (total debt and stockholders' equity) was 56.4% as of June 30, 2019.

See Note 13, *Long-term Debt*, to the unaudited condensed consolidated financial statements in Part I, Item 1 of this report for additional discussion of the 5.875% Notes and the New Credit Facilities.

During fiscal 2019, we refinanced our Amended and Restated Credit Agreement dated April 1, 2016 by entering into new credit facilities (collectively, the “New Credit Facilities”) consisting of (a) a \$450,000 senior secured asset-based revolving credit facility (the “ABL Revolving Credit Facility”), comprised of \$20,000 in first-in, last-out (“FILO”) revolving credit commitments and \$430,000 in non-FILO revolving credit commitments, (b) a \$109,343 senior secured asset-based term loan facility (the “Term Loan”) and (c) a \$40,000 junior secured term loan facility (the “Junior Term Loan”). The FILO

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commitments under the ABL Revolving Credit Facility are subject to reductions of \$1,667 on the first business day of each fiscal quarter beginning on April 1, 2019. The balance of the FILO revolving credit commitment as of June 30, 2019 was \$18,333.

### **Covenants**

*New Credit Facilities*—Our New Credit Facilities impose restrictions on us, including limitations on our ability to pay cash dividends, incur debt or liens, redeem or repurchase Vista Outdoor stock, enter into transactions with affiliates, make investments, merge or consolidate with others or dispose of assets. In addition, the New Credit Facilities contain financial covenants requiring us to (a) maintain Excess Availability under the ABL Revolving Credit Facility of \$45,000 at all times before all amounts owing under the Term Loan Facility and the Junior Term Loan Facility have been paid in full, (b) maintain a Consolidated Fixed Charge Coverage Ratio ("FCCR"), as defined below, of not less than 1.15:1.00 for any fiscal quarter beginning with the fiscal quarter ending on March 31, 2019 until the fiscal quarter ending immediately prior to the date the Term Loan Facility and the Junior Term Loan Facility have been paid in full, and (c) maintain a FCCR of not less than 1.00:1.00 for any fiscal quarter ending after the Term Loan Facility and the Junior Term Loan Facility have been paid in full if Excess Availability falls below certain levels. If we do not comply with the covenants in any of the New Credit Facilities, the lenders may, subject to customary cure rights, require the immediate payment of all amounts outstanding under each of the New Credit Facilities.

The FCCR is Covenant EBITDA ("Earnings Before Interest, Taxes, Depreciation, and Amortization," which includes adjustments for items such as non-recurring or extraordinary items, non-cash charges related to stock-based compensation, and intangible asset impairment charges, as well as adjustments for acquired or divested business units on a *pro forma* basis) less capital expenditures (subject to certain adjustments) for the past four fiscal quarters, divided by fixed charges (which includes debt principal and interest payments paid since October 28, 2018, annualized; plus income tax payments and restricted payments over the past four fiscal quarters). As of June 30, 2019, our FCCR was 1.37.

*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. A failure to comply with the covenants in the indenture could result in an event of default, which could allow the holders of the 5.875% Notes to accelerate the 5.875% Notes. We may not have sufficient liquidity to repay the 5.875% Notes in such circumstances.

The 2018 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 June 30, 2019, 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 sales or otherwise experience the adverse impact of seasonality, we may not be able to comply with such financial covenants.

### **Contractual Obligations and Commitments**

Other than the changes to 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 2019.

### **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.

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We have been identified as a potentially responsible party (“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 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, *Significant Accounting Policies*, 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. Sales to Walmart represented 14% of our sales in both the quarters ended June 30, 2019 and July 1, 2018. No other single customer contributed 10% or more of our sales in the quarters ended June 30, 2019 and July 1, 2018.

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. See Note 4, *Derivative Financial Instruments*, for additional information.

We have a strategic sourcing, pricing and hedging 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, commodity prices and foreign currency exchange rates. The company manages these risks by entering into hedging transactions including interest rate swaps, commodity forward contracts and foreign currency forward contracts through derivative financial instruments that have been authorized pursuant to corporate policies. We do not use derivative financial instruments for trading or other speculative purposes. Additional information regarding the financial instruments is contained in Note 2, *Fair Value of Financial Instruments*, to the unaudited condensed consolidated financial statements in Item 1 of Part I of this report.

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 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. Our objective in managing the exposure to changes in interest rates is to limit the impact of such changes on earnings and cash flow.

Lead used for raw material components in our ammunition manufacturing process in the normal course of our operations is subject to price volatility. Depending on market conditions, we may enter into forward contracts in order to reduce the impact of commodity price fluctuations. Potential increases in our cost of inventory purchased, would be substantially offset by a corresponding increase in the value of related hedging instruments.

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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), and the Canadian dollar, could cause fluctuations in the reported results of our businesses' operations that could negatively affect our results of operations.

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. There have been no material changes to the market risks disclosed in our Annual Report on Form 10-K for fiscal 2019.

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

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

As of June 30, 2019, 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 June 30, 2019, 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. 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.

We 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 our 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.

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

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business, 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, 2019 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. There have been no material changes to the Risk Factors disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2019.

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

Not applicable.

### **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

<u>Exhibit Number</u>	<u>Description of Exhibit (and document from which incorporated by reference, if applicable)</u>
<a href="#">2.1*</a>	<a href="#">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).</a>
<a href="#">2.2*+</a>	<a href="#">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).</a>
<a href="#">2.5*+</a>	<a href="#">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).</a>
<a href="#">2.6*+</a>	<a href="#">Stock Purchase Agreement, dated as of July 5, 2019, by and among Vista Outdoor Operations LLC, Caliber Company, Long Range Acquisition LLC, and Vista Outdoor Inc. (Exhibit 2.1 to Vista Outdoor Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 8, 2019).</a>
<a href="#">3.1*</a>	<a href="#">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).</a>
<a href="#">3.2*</a>	<a href="#">Certificate of Amendment to Vista Outdoor Inc. Amended and Restated Certificate of Incorporation (Exhibit 3.1 to Vista Outdoor Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 10, 2018).</a>
<a href="#">3.3*</a>	<a href="#">Vista Outdoor Inc. Amended and Restated Bylaws (Exhibit 3.2 to Vista Outdoor Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 10, 2018).</a>
<a href="#">4.1*</a>	<a href="#">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).</a>
<a href="#">4.2*</a>	<a href="#">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).</a>
<a href="#">4.3*</a>	<a href="#">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).</a>
<a href="#">4.4*</a>	<a href="#">Form of 5.875% Senior Note due 2023 (included as Exhibit A to the Supplemental Indenture filed as 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).</a>
<a href="#">4.5*</a>	<a href="#">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).</a>
<a href="#">4.6*</a>	<a href="#">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 (Exhibit 4.6 to Vista Outdoor Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on February 9, 2017).</a>
<a href="#">31.1</a>	<a href="#">Certification of Principal Executive Officer.</a>
<a href="#">31.2</a>	<a href="#">Certification of Principal Financial Officer.</a>
<a href="#">32</a>	<a href="#">Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	XBRL Instance Document- the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, formatted in Inline XBRL.

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\* Incorporated by reference.

+ 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.

# Indicates a management contract or compensatory plan or arrangement.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 8, 2019

By: VISTA OUTDOOR INC.  
/s/ Miguel A. Lopez

Name: Miguel A. Lopez

Title: *Senior Vice President and Chief Financial Officer*

(On behalf of the Registrant and as principal financial officer)

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**Section 2: EX-31.1 (EXHIBIT 31.1)**

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher T. Metz, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019

By: /s/ Christopher T. Metz

Name: Christopher T. Metz

Title: *Chief Executive Officer*

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## Section 3: EX-31.2 (EXHIBIT 31.2)

**Exhibit 31.2**

### **CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Miguel A. Lopez, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably

likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019

By: /s/ Miguel A. Lopez  
Name: Miguel A. Lopez  
Title: *Senior Vice President and Chief Financial Officer*

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## Section 4: EX-32 (EXHIBIT 32)

**Exhibit 32**

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

We, Christopher T. Metz, Chief Executive Officer, and Miguel A. Lopez, 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 June 30, 2019 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: August 8, 2019

By: /s/ Christopher T. Metz  
Name: Christopher T. Metz  
Title: *Chief Executive Officer*

By: /s/ Miguel A. Lopez  
Name: Miguel A. Lopez  
Title: *Senior Vice President and Chief Financial Officer*

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