



Smith & Wesson Holding Corporation Reports Record First Quarter Fiscal 2013 Financial Results

September 6, 2012

- Record Fiscal First Quarter 2013 Net Sales from Continuing Operations of \$136.0 Million, Up 48.3% Year-Over-Year
- Record Fiscal First Quarter 2013 Income from Continuing Operations of \$18.9 Million or \$0.28 per diluted share
 - Record Non-GAAP Adjusted EBITDAS of \$36.1 Million
- Company Raising Full Year Fiscal 2013 Financial Guidance

SPRINGFIELD, Mass., Sept. 6, 2012 /PRNewswire/ -- **Smith & Wesson Holding Corporation** (NASDAQ Global Select: SWHC), a leader in firearm manufacturing and design, today announced record financial results for the fiscal 2013 first quarter ended July 31, 2012.

First Quarter Fiscal 2013 Financial Highlights

- Net sales from continuing operations for the first quarter were a record \$136.0 million, up 48.3% from the first quarter last year. The increase was led by strong sales of the M&P™ product platform.
- Gross profit for the first quarter was \$51.3 million, or 37.7% of net sales, compared with gross profit of \$26.5 million, or 28.9% of net sales, for the comparable quarter last year. Increased sales volume of polymer firearms positively impacted gross profit margin, resulting in an improvement in manufacturing absorption.
- Operating expense for the first quarter declined to \$20.0 million, or 14.7% of net sales, compared with operating expense of \$21.0 million, or 22.9% of net sales, for the first quarter last year. Increased profit sharing and incentive compensation expense was more than offset by a temporary reduction in selling and marketing expenses.
- Net income from continuing operations for the first quarter was a record \$18.9 million, or \$0.28 per diluted share, compared with net income from continuing operations of \$2.3 million, or \$0.04 per diluted share, for the first quarter last year.
- Non-GAAP Adjusted EBITDAS from continuing operations for the first quarter increased to a record \$36.1 million compared with \$12.2 million for the first quarter last year.
- At July 31, 2012, firearm backlog was \$392.4 million, an increase of \$243.6 million, or 163.7%, compared with the end of the first quarter last year, and a decrease of \$46.6 million, or 10.6%, from the most recent sequential quarter.
- Operating cash flow of \$9.3 million and net capital spending of \$6.3 million for the first quarter resulted in free cash flow of \$3.0 million from continuing operations. In addition, during the quarter the company received an initial payment of \$5.5 million in cash relating to the sale of the company's discontinued operations. Cash at the end of the first quarter was \$60.5 million.

James Debney, Smith & Wesson Holding Corporation President and Chief Executive Officer, stated, "In the first quarter, we continued to deliver on our commitment to grow our company and improve profitability by focusing on our core firearm business. Our results demonstrate that commitment, evidenced by record achievements in first quarter sales, net income, and earnings per share. Internal capacity increases, enhanced supply chain integration capabilities, and strong execution by our operations team allowed us to exceed our revenue and earnings guidance by capturing incremental sales. Strong sales growth was fueled by orders for our most popular products. Our newest M&P pistol, the Shield™, continues to be highly favored and sought after by consumers."

Jeffrey D. Buchanan, Executive Vice President and Chief Financial Officer, stated, "Our strong fiscal first quarter financial performance reflects successful execution of our strategic plan. Based on our stronger than anticipated first quarter, current consumer orders for our products, and our ability to pull forward certain capacity expansions, we are increasing our full year fiscal 2013 financial guidance. Also of note, in keeping with our focus on our core firearm business, during the quarter we successfully sold the assets of our discontinued operations for just under \$10.0 million, including proceeds from a two-year licensing agreement."

Financial Outlook for Continuing Operations

The company expects net sales from continuing operations for the second quarter of fiscal 2013 to be between \$130.0 million and \$135.0 million, which would represent year-over-year growth from continuing operations in excess of 40.0%. The typical seasonal reduction in second quarter net sales is expected to be less pronounced than in prior years, reflecting the net result of fewer production days partially offset by increases in manufacturing capacity. The company anticipates GAAP earnings per diluted share from continuing operations of between \$0.19 and \$0.21 for the second quarter of fiscal 2013.

Based on the strength of the company's fiscal 2013 first quarter financial performance and current outlook for the year, the company is raising its full year fiscal 2013 financial guidance. The company now anticipates net sales from continuing operations for fiscal 2013 of between \$530.0 million and \$540.0 million, which would represent year-over-year growth from continuing operations of approximately 30.0%. The company anticipates fiscal 2013 GAAP earnings per diluted share from continuing operations of between \$0.85 and \$0.90.

Conference Call and Webcast

The company will host a conference call and webcast today, September 6, 2012, to discuss its first quarter fiscal 2013 financial and operational results. Speakers on the conference call will include James Debney, President and CEO, and Jeffrey D. Buchanan, Executive Vice President and CFO. The conference call may include forward-looking statements. The conference call and webcast will begin at 5:00 p.m. Eastern Time (2:00 p.m. Pacific Time). Those interested in listening to the call via telephone may call directly at 857-350-1604 and reference conference code 97414745. No RSVP is necessary. The conference call audio webcast can also be accessed live and for replay on the company's website at www.smith-wesson.com, under the Investor Relations section. The company will maintain an audio replay of this conference call on its website for a period of time after the call. No other audio replay will be available.

Reconciliation of U.S. GAAP to Non-GAAP Adjusted EBITDAS

In this press release, a non-GAAP financial measure known as "Adjusted EBITDAS" is presented. From time-to-time, the company considers and uses Adjusted EBITDAS as a supplemental measure of operating performance in order to provide the reader with an improved understanding of underlying performance trends. Adjusted EBITDAS excludes the effects of interest expense, income taxes, depreciation of tangible fixed assets, amortization of intangible assets, stock-based employee compensation expense, loss on the sale of discontinued operations, DOJ and SEC investigation costs, and certain other transactions. See the attached "Reconciliation of GAAP Net Income to Non-GAAP Adjusted EBITDAS" for a detailed explanation of the amounts excluded from and included in net income to arrive at Adjusted EBITDAS for the three-month periods ended July 31, 2012 and July 31, 2011. Adjusted or non-GAAP financial measures provide investors and the company with supplemental measures of operating performance and trends that facilitate comparisons between periods before, during, and after certain items that would not otherwise be apparent on a GAAP basis. Adjusted financial measures are not, and should not be viewed as, a substitute for GAAP results. The company's definition of these adjusted financial measures may differ from similarly named measures used by others.

About Smith & Wesson

Smith & Wesson Holding Corporation (NASDAQ Global Select: SWHC) is a U.S.-based leader in firearm manufacturing and design, delivering a broad portfolio of quality firearms, related products, and training to the global military, law enforcement, and consumer markets. The company's brands include Smith & Wesson®, M&P™ and Thompson/Center Arms. Smith & Wesson facilities are located in Massachusetts and Maine. For more information on Smith & Wesson, call (800) 331-0852 or log on to www.smith-wesson.com.

Safe Harbor Statement

Certain statements contained in this press release may be deemed to be forward-looking statements under federal securities laws, and we intend that such forward-looking statements be subject to the safe-harbor created thereby. Such forward-looking statements include raising our full year fiscal 2013 financial guidance; our assessment that the Shield continues to be highly favored and sought after by consumers; our outlook for net sales from continuing operations, year-over-year growth from continuing operations, and GAAP earnings per diluted share from continuing operations for the second quarter of fiscal 2013 and the full 2013 fiscal year; and our belief that the typical seasonal reduction in second quarter net sales will be less pronounced than in prior years. We caution that these statements are qualified by important factors that could cause actual results to differ materially from those reflected by such forward-looking statements. Such factors include the demand for our products; the costs and ultimate conclusion of certain legal matters, including the DOJ and SEC matters; the state of the U.S. economy; general economic conditions, and consumer spending patterns; the potential for increased gun control; speculation surrounding fears of terrorism and crime; our growth opportunities; our anticipated growth; our ability to increase demand for our products in various markets, including consumer, law enforcement, and military channels, domestically and internationally; the position of our hunting products in the consumer discretionary marketplace and distribution channel; our penetration rates in new and existing markets; our strategies; our ability to introduce new products; the success of new products; our ability to expand our markets; the potential for cancellation of orders from our backlog; the effects of the divestiture of our security solutions business on our core firearm business; and other risks detailed from time to time in our reports filed with the SEC, including our Form 10-K Report for the fiscal year ended April 30, 2012.

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SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (Unaudited)

| | <u>For the Three Months Ended,</u> | |
|--|--|----------------------|
| | <u>July 31, 2012</u> | <u>July 31, 2011</u> |
| | <u>(In thousands, except per share data)</u> | |
| Net sales | \$ 135,995 | \$ 91,730 |
| Cost of sales | <u>84,702</u> | <u>65,213</u> |
| Gross profit | <u>51,293</u> | <u>26,517</u> |
| Operating expenses: | | |
| Research and development | 1,143 | 1,338 |
| Selling and marketing | 6,828 | 8,125 |
| General and administrative | <u>12,026</u> | <u>11,520</u> |
| Total operating expenses | <u>19,997</u> | <u>20,983</u> |
| Operating income from continuing operations | <u>31,296</u> | <u>5,534</u> |
| Other income/(expense): | | |
| Other income/(expense), net | - | 34 |
| Interest income | 368 | 403 |
| Interest expense | <u>(1,987)</u> | <u>(1,941)</u> |
| Total other income/(expense), net | <u>(1,619)</u> | <u>(1,504)</u> |
| Income from continuing operations before income taxes | 29,677 | 4,030 |
| Income tax expense | <u>10,807</u> | <u>1,753</u> |
| Income from continuing operations | 18,870 | 2,277 |
| Discontinued operations: | | |
| Loss from operations of discontinued security solutions division | (1,682) | (2,702) |
| Income tax benefit | <u>(599)</u> | <u>(1,216)</u> |
| Loss from discontinued operations | <u>(1,083)</u> | <u>(1,486)</u> |
| Net income/comprehensive income | <u>\$ 17,787</u> | <u>\$ 791</u> |
| Net income per share: | | |
| Basic - continuing operations | <u>\$ 0.29</u> | <u>\$ 0.04</u> |
| Basic - net income | <u>\$ 0.27</u> | <u>\$ 0.01</u> |
| Diluted - continuing operations | <u>\$ 0.28</u> | <u>\$ 0.04</u> |
| Diluted - net income | <u>\$ 0.27</u> | <u>\$ 0.01</u> |
| Weighted average number of common shares outstanding: | | |
| Basic | 65,352 | 64,529 |
| Diluted | 66,798 | 64,942 |

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of:

| | <u>July 31, 2012</u> | <u>April 30, 2012</u> |
|---|---|-----------------------|
| | (In thousands, except par value and share data) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents, including restricted cash of \$3,336 on July 31, 2012 and \$3,334 on April 30, 2012 | \$ 60,543 | \$ 56,717 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,174 on July 31, 2012 and \$1,058 on April 30, 2012 | 53,289 | 48,313 |
| Inventories | 62,827 | 55,296 |
| Other current assets | 9,410 | 4,139 |
| Assets held for sale | 1,047 | 13,490 |
| Deferred income taxes | 12,759 | 12,759 |
| Total current assets | <u>199,875</u> | <u>190,714</u> |
| Property, plant and equipment, net | 63,190 | 60,528 |
| Intangibles, net | 4,374 | 4,532 |
| Other assets | 5,496 | 5,900 |
| | <u>\$ 272,935</u> | <u>\$ 261,674</u> |

| | | |
|---|-------------------|-------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 25,322 | \$ 28,618 |
| Accrued expenses | 17,865 | 20,685 |
| Accrued payroll | 8,007 | 9,002 |
| Accrued income taxes | 8,148 | 291 |
| Accrued taxes other than income | 4,002 | 4,270 |
| Accrued profit sharing | 10,215 | 8,040 |
| Accrued product/municipal liability | 1,429 | 1,397 |
| Accrued warranty | 5,218 | 5,349 |
| Liabilities held for sale | — | 5,693 |
| Current portion of notes payable | 1,271 | — |
| Total current liabilities | <u>81,477</u> | <u>83,345</u> |
| Deferred income taxes | 4,537 | 4,537 |
| Notes payable, net of current portion | 43,556 | 50,000 |
| Other non-current liabilities | 11,221 | 10,948 |
| Total liabilities | <u>140,791</u> | <u>148,830</u> |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$.001 par value, 20,000,000 shares authorized, no shares issued or outstanding | — | — |
| Common stock, \$.001 par value, 100,000,000 shares authorized, 66,608,175 shares issued and 65,408,175 shares outstanding on July 31, 2012 and 66,512,097 shares issued and 65,312,097 shares outstanding on April 30, 2012 | 67 | 67 |
| Additional paid-in capital | 190,892 | 189,379 |
| Accumulated deficit | (52,492) | (70,279) |
| Accumulated other comprehensive income | 73 | 73 |
| Treasury stock, at cost (1,200,000 common shares) | (6,396) | (6,396) |
| Total stockholders' equity | <u>132,144</u> | <u>112,844</u> |
| | <u>\$ 272,935</u> | <u>\$ 261,674</u> |

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | <u>For the Three Months Ended</u> | |
|---|-----------------------------------|----------------------|
| | <u>July 31, 2012</u> | <u>July 31, 2011</u> |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 17,787 | \$ 791 |
| Adjustments to reconcile net income to net cash provided by/(used in) operating activities: | | |
| Amortization and depreciation | 3,985 | 3,629 |
| Loss on sale of discontinued operations, including \$45 of stock-based compensation expense | 798 | — |
| (Gain)/loss on sale of assets | (14) | 199 |
| Provision for/(recoveries of) losses on accounts receivable | 75 | (360) |
| Change in disposal group assets and liabilities | (1,112) | (29) |
| Stock-based compensation expense | 853 | 587 |
| Excess book deduction of stock-based compensation | — | (249) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (5,051) | (5,991) |
| Inventories | (7,531) | (5,887) |
| Other current assets | (2,447) | (1,235) |
| Income tax receivable/payable | 7,857 | 387 |
| Accounts payable | (3,296) | (6,335) |
| Accrued payroll | (1,600) | 1,195 |
| Accrued taxes other than income | (268) | (1,056) |
| Accrued profit sharing | 2,175 | 1,244 |
| Accrued other expenses | (3,430) | (2,493) |
| Accrued product/municipal liability | 32 | (174) |
| Accrued warranty | (131) | 52 |
| Other assets | 174 | (23) |
| Other non-current liabilities | 423 | 192 |
| Net cash provided by/(used in) operating activities | <u>9,279</u> | <u>(15,556)</u> |
| Cash flows from investing activities: | | |

| | | |
|---|-----------|-----------|
| Proceeds from sale of discontinued operations | 5,500 | — |
| Receipts from note receivable | 18 | — |
| Payments to acquire patents and software | — | (4) |
| Proceeds from sale of property and equipment | 14 | 1 |
| Payments to acquire property and equipment | (6,278) | (4,730) |
| Net cash used in investing activities | (746) | (4,733) |
| Cash flows from financing activities: | | |
| Proceeds from loans and notes payable | 1,753 | 1,532 |
| Cash paid for debt issue costs | — | (1,837) |
| Proceeds from energy efficiency incentive programs | — | 225 |
| Payments on capital lease obligation | (150) | — |
| Payments on loans and notes payable | (6,925) | (421) |
| Proceeds from exercise of options to acquire common stock | 527 | 180 |
| Excess tax benefit of stock-based compensation | 88 | — |
| Net cash used in financing activities | (4,707) | (321) |
| Net increase/(decrease) in cash and cash equivalents | 3,826 | (20,610) |
| Cash and cash equivalents, beginning of period | 56,717 | 58,292 |
| Cash and cash equivalents, end of period | \$ 60,543 | \$ 37,682 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for: | | |
| Interest | \$ 2,974 | \$ 4,109 |
| Income taxes | 2,397 | 398 |

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
RECONCILIATION OF GAAP NET INCOME TO NON-GAAP ADJUSTED EBITDAS (Unaudited)

| | For the Three Months Ended July 31, 2012: | | | For the Three Months Ended July 31, 2011: | | |
|--|---|--------------|------------|---|-------------|-----------|
| | GAAP | Adjustments | Adjusted | GAAP | Adjustments | Adjusted |
| Net sales | \$ 135,995 | \$ — | \$ 135,995 | \$ 91,730 | \$ — | \$ 91,730 |
| Cost of sales | 84,702 | (3,369) (1) | 81,333 | 65,213 | (3,971) (9) | 61,242 |
| Gross profit | 51,293 | 3,369 | 54,662 | 26,517 | 3,971 | 30,488 |
| Operating expenses: | | | | | | |
| Research and development | 1,143 | (28) (1) | 1,115 | 1,338 | (59) (9) | 1,279 |
| Selling and marketing | 6,828 | (62) (1) | 6,766 | 8,125 | (84) (9) | 8,041 |
| General and administrative | 12,026 | (1,339) (2) | 10,687 | 11,520 | (2,477) (3) | 9,043 |
| Total operating expenses | 19,997 | (1,429) | 18,568 | 20,983 | (2,620) | 18,363 |
| Operating income from continuing operations | 31,296 | 4,798 | 36,094 | 5,534 | 6,591 | 12,125 |
| Other income/(expense): | | | | | | |
| Other income/(expense), net | — | — | — | 34 | — | 34 |
| Interest income | 368 | (317) (6) | 51 | 403 | (320) (6) | 83 |
| Interest expense | (1,987) | 1,987 (4) | — | (1,941) | 1,941 (4) | — |
| Total other income/(expense), net | (1,619) | 1,670 | 51 | (1,504) | 1,621 | 117 |
| Income from continuing operations before income taxes | 29,677 | 6,468 | 36,145 | 4,030 | 8,212 | 12,242 |
| Income tax expense | 10,807 | (10,807) (5) | — | 1,753 | (1,753) (5) | — |
| Income from continuing operations | 18,870 | 17,275 | 36,145 | 2,277 | 9,965 | 12,242 |
| Discontinued operations: | | | | | | |
| Loss from operations of discontinued security solutions division | (1,682) | 1,161 (7) | (521) | (2,702) | 723 (8) | (1,979) |
| Income tax benefit | (599) | 599 (5) | — | (1,216) | 1,216 (5) | — |
| Loss on discontinued operations | (1,083) | 562 | (521) | (1,486) | (493) | (1,979) |
| Net income/comprehensive income | \$ 17,787 | \$ 17,837 | \$ 35,624 | \$ 791 | \$ 9,472 | \$ 10,263 |

(1) To exclude depreciation and amortization.

(2) To exclude depreciation, amortization, stock-based compensation expense, and DOJ/SEC costs and related profit sharing impacts of DOJ/SEC.

(3) To exclude depreciation, amortization, stock-based compensation expense, plant consolidation costs, and DOJ/SEC costs and related profit sharing impacts of DOJ/SEC.

(4) To exclude interest expense.

(5) To exclude income tax expense.

(6) To exclude intercompany interest income.

(7) To exclude loss on sale of discontinued operations, interest expense, and stock-based compensation expense.

(8) To exclude depreciation, amortization, interest expense, and stock-based compensation expense.

(9) To exclude depreciation, amortization, and plant consolidation costs.

SOURCE Smith & Wesson Holding Corporation