

SMITH & WESSON HOLDING CORP

Form 10-Q

March 19, 2007

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

**Form 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934  
For the quarterly period ended January 31, 2007**

**Commission File No. 001-31552**

**Smith & Wesson Holding Corporation**  
*(Exact name of registrant as specified in its charter)*

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

**87-0543688**  
*(I.R.S. Employer  
Identification No.)*

**2100 Roosevelt Avenue  
Springfield, Massachusetts**  
*(Address of principal executive offices)*

**01104**  
*(Zip Code)*

**(800) 331-0852**  
**(Registrant's telephone number, including area code)**

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

The registrant had 39,698,760 common shares, par value \$0.001, outstanding as of March 14, 2007.



**SMITH & WESSON HOLDING CORPORATION**

**Quarterly Report on Form 10-Q  
For the Quarterly Period Ended January 31, 2007**

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Table of Contents**PART I: FINANCIAL INFORMATION****Item 1: Consolidated Financial Statements****SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****As of:**

|   | <b>January 31, 2007<br/>(Unaudited)</b> | <b>April 30, 2006</b> |
|---|---|-----------------------|
| <b>ASSETS</b>   |   |                       |
| Current assets:   |   |                       |
| Cash and cash equivalents   | \$ 1,851,637                            | \$ 731,306            |
| Accounts receivable, net of allowance for doubtful accounts of \$246,966 on January 31, 2007 and \$75,000 on April 30, 2006 | 37,152,316                              | 27,350,150            |
| Inventories, net  | 34,033,548                              | 19,101,507            |
| Other current assets  | 4,319,442                               | 2,567,564             |
| Deferred income taxes   | 3,346,684                               | 3,346,684             |
| Income tax receivable   | 2,581,286                               | 66,077                |
| Total current assets  | 83,284,913                              | 53,163,288            |
| Property, plant and equipment, net  | 39,612,624                              | 28,181,864            |
| Intangibles, net  | 69,412,604                              | 406,988               |
| Goodwill  | 41,750,684                              |                       |
| Notes receivable  |   | 1,000,000             |
| Deferred income taxes   | 7,358,194                               | 7,358,194             |
| Other assets  | 10,065,978                              | 4,587,301             |
|   | \$ 251,484,997                          | \$ 94,697,635         |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |   |                       |
| Current liabilities:  |   |                       |
| Accounts payable  | \$ 15,561,139                           | \$ 13,560,027         |
| Accrued other expenses  | 9,437,742                               | 3,451,950             |
| Accrued payroll   | 5,842,204                               | 5,740,191             |
| Accrued income taxes  | 352,826                                 |                       |
| Accrued taxes other than income   | 1,189,954                               | 818,517               |
| Accrued profit sharing  | 3,849,526                               | 2,450,394             |
| Accrued workers compensation  | 400,868                                 | 368,080               |
| Accrued product liability   | 2,699,444                               | 2,353,616             |
| Accrued warranty  | 1,608,892                               | 1,256,507             |
| Deferred revenue  | 64,929                                  | 4,836                 |

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|   |                |               |
|---|----------------|---------------|
| Current portion of notes payable  | 1,773,526      | 1,690,584     |
| Total current liabilities   | 42,781,050     | 31,694,702    |
| Deferred income taxes   | 25,890,523     |               |
| Notes payable, net of current portion   | 122,880,167    | 14,337,817    |
| Other non-current liabilities   | 7,568,494      | 7,332,368     |
| 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, 39,698,760 shares on January 31, 2007 and 39,310,543 shares on April 30, 2006 issued | 40,899         | 39,311        |
| Additional paid-in capital  | 42,928,281     | 33,277,474    |
| Retained earnings   | 15,791,583     | 8,015,963     |
| Treasury stock, at cost (1,200,000 shares on January 31, 2007)  | (6,396,000)    |               |
| Total stockholders' equity  | 52,364,763     | 41,332,748    |
|   | \$ 251,484,997 | \$ 94,697,635 |

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

**Table of Contents****SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

|   | <b>Three Months Ended</b>   |                             | <b>Nine Months Ended</b>    |                             |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <b>January 31,<br/>2007</b> | <b>January 31,<br/>2006</b> | <b>January 31,<br/>2007</b> | <b>January 31,<br/>2006</b> |
| Net product and services sales  | \$ 53,877,676               | \$ 38,635,764               | \$ 152,266,586              | \$ 106,022,454              |
| License revenue   | 488,947                     | 418,462                     | 1,485,367                   | 1,700,652                   |
| Cost of products and services sold  | 37,370,706                  | 27,777,988                  | 104,007,751                 | 76,222,532                  |
| Cost of license revenue   |                             | 3,222                       | 15,492                      | 83,867                      |
| Gross profit  | 16,995,917                  | 11,273,016                  | 49,728,710                  | 31,416,707                  |
| Operating expenses:   |                             |                             |                             |                             |
| Research and development  | 306,172                     | 73,816                      | 836,440                     | 215,682                     |
| Selling and marketing   | 6,059,236                   | 4,143,553                   | 15,344,369                  | 11,864,313                  |
| General and administrative  | 7,011,963                   | 5,177,335                   | 18,701,983                  | 14,491,382                  |
| Environmental expense (credits)   |                             |                             |                             | (3,087,810)                 |
| Total operating expenses  | 13,377,371                  | 9,394,704                   | 34,882,792                  | 23,483,567                  |
| Income from operations  | 3,618,546                   | 1,878,312                   | 14,845,918                  | 7,933,140                   |
| Other income/(expense):   |                             |                             |                             |                             |
| Other income/(expense)  | (424,848)                   | 239,880                     | (754,159)                   | 461,557                     |
| Interest income   | 131,126                     | 26,091                      | 200,432                     | 84,246                      |
| Interest expense  | (1,052,846)                 | (389,498)                   | (1,771,066)                 | (1,301,117)                 |
| Total other expense   | (1,346,568)                 | (123,527)                   | (2,324,793)                 | (755,314)                   |
| Income before income taxes  | 2,271,978                   | 1,754,785                   | 12,521,125                  | 7,177,826                   |
| Income tax expense  | 720,638                     | 632,491                     | 4,745,505                   | 2,675,892                   |
| Net income  | \$ 1,551,340                | \$ 1,122,294                | \$ 7,775,620                | \$ 4,501,934                |
| Weighted average number of<br>common and common equivalent<br>shares outstanding, basic   | 39,648,063                  | 39,206,647                  | 39,633,534                  | 35,727,717                  |
| Net income per share, basic   | \$ 0.04                     | \$ 0.03                     | \$ 0.20                     | \$ 0.13                     |
| Weighted average number of<br>common and common equivalent<br>shares outstanding, diluted | 41,273,921                  | 39,893,706                  | 41,410,899                  | 39,485,115                  |

|                               |    |      |    |      |    |      |    |      |
|-------------------------------|----|------|----|------|----|------|----|------|
| Net income per share, diluted | \$ | 0.04 | \$ | 0.02 | \$ | 0.19 | \$ | 0.11 |
|-------------------------------|----|------|----|------|----|------|----|------|

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



Table of Contents**SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****(Unaudited)****For the Nine Months Ended January 31, 2007**

|   | <b>Preferred<br/>Stock<br/>Shares</b> | <b>Preferred<br/>Stock<br/>Amount</b> | <b>Common Stock<br/>Shares</b> | <b>Common Stock<br/>Amount</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Treasury<br/>Stock</b> | <b>Total<br/>Stockholders'<br/>Equity</b> |
|---|---------------------------------------|---------------------------------------|--------------------------------|--------------------------------|---|------------------------------|---------------------------|---|
| Balance at April 30, 2006   |                                       | \$                                    | 39,310,543                     | \$ 39,311                      | \$ 33,277,474                             | \$ 8,015,963                 | \$                        | \$ 41,332,748                             |
| Exercise of employee stock<br>options   |                                       |                                       | 334,308                        | 334                            | 540,225                                   |                              |                           | 540,559                                   |
| Exercise of warrants, net of<br>issuance cost                                   |                                       |                                       | 1,200,000                      | 1,200                          | 6,011,035                                 |                              |                           | 6,012,235                                 |
| Shares issued under<br>employee Stock Purchase<br>plan                          |                                       |                                       | 53,909                         | 54                             | 282,429                                   |                              |                           | 282,483                                   |
| Stock-based compensation  |                                       |                                       |                                |                                | 1,963,717                                 |                              |                           | 1,963,717                                 |
| Treasury stock buy-back   |                                       |                                       | (1,200,000)                    |                                |   |                              | (6,396,000)               | (6,396,000)                               |
| Tax benefit from<br>stock-based compensation<br>in excess of book<br>reductions |                                       |                                       |                                |                                | 853,401                                   |                              |                           | 853,401                                   |
| Net income for the nine<br>months ended January 31,<br>2007                     |                                       |                                       |                                |                                |   | 7,775,620                    |                           | 7,775,620                                 |
| Balance at January 31,<br>2007  |                                       | \$                                    | 39,698,760                     | \$ 40,899                      | \$ 42,928,281                             | \$ 15,791,583                | \$ (6,396,000)            | \$ 52,364,763                             |

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

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**SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

**For the Nine Months Ended:**

|  | <b>January 31, 2007</b> | <b>January 31, 2006</b> |
|--|-------------------------|-------------------------|
| Cash flows from operating activities:  |                         |                         |
| Net income   | \$ 7,775,620            | \$ 4,501,934            |
| Adjustments to reconcile net income to cash provided by (used for) operating activities: |                         |                         |
| Amortization and depreciation  | 4,288,725               | 2,960,393               |
| Loss (gain) on disposal of assets  | (7,454)                 | 48,220                  |
| Deferred taxes   |                         | 2,515,142               |
| Provision for losses on accounts receivable  | 22,500                  | 14,700                  |
| Valuation adjustment of derivative financial instruments                                 |                         | (166,800)               |
| Stock-based compensation expense   | 1,963,717               | 1,931,289               |
| Changes in operating assets and liabilities, net of effects from acquisition:            |                         |                         |
| Accounts receivable  | (2,118,677)             | (866,887)               |
| Inventories  | (3,406,253)             | (883,573)               |
| Other current assets   | (155,665)               | (467,937)               |
| Income tax receivable  | (916,454)               | (439,228)               |
| Accounts payable   | (992,628)               | (2,891,350)             |
| Accrued other expenses   | 782,015                 | 41,800                  |
| Accrued payroll  | (89,695)                | 885,007                 |
| Accrued income taxes   | 352,826                 | 32,388                  |
| Accrued taxes other than income  | 192,362                 | 110,980                 |
| Accrued profit sharing   | 599,132                 | (1,237,268)             |
| Accrued workers' compensation  | 32,788                  | (107,889)               |
| Accrued product liability  | (60,000)                | 225,004                 |
| Accrued warranty   | 118,471                 | (213,090)               |
| Deferred revenue   | 60,093                  | (10,810)                |
| Net cash provided by operating activities  | 8,441,423               | 5,982,025               |
| Cash flows from investing activities:  |                         |                         |