

SPORTSMAN'S WAREHOUSE HOLDINGS, INC.

Form 10-Q

November 18, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 29, 2016

OR

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

Commission File Number: 001-36401

SPORTSMAN'S WAREHOUSE HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| Delaware (State or other jurisdiction of incorporation or organization) | 39-1975614 (I.R.S. Employer Identification No.) |
| 7035 South High Tech Drive, Midvale, Utah (Address of principal executive offices) | 84047 (Zip code) |

Registrant's telephone number, including area code: (801) 566-6681

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(do not check if a smaller reporting company) Smaller reporting company

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

As of November 18, 2016, the registrant had 42,245,099 shares of common stock, \$0.01 par value per share, outstanding.

SPORTSMAN'S WAREHOUSE HOLDINGS, INC.

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We operate on a fiscal calendar that, in a given fiscal year, consists of the 52- or 53-week period ending on the Saturday closest to January 31st. Our fiscal third quarters ended October 29, 2016 and October 31, 2015 both consisted of 13 weeks and are referred to herein as the third quarter of fiscal year 2016 and the third quarter of fiscal year 2015, respectively. Fiscal year 2015 contained 52 weeks of operations ended January 30, 2016. Fiscal year 2016 will contain 52 weeks of operations and will end on January 28, 2017.

References throughout this document to “Sportsman’s Warehouse,” “we,” “us,” and “our” refer to Sportsman’s Warehouse Holdings, Inc. and its subsidiaries, and references to “Holdings” refer to Sportsman’s Warehouse Holdings, Inc. excluding its subsidiaries.

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “10-Q”) contains statements that constitute forward-looking statements as that term is defined by the Private Securities Litigation Reform Act of 1995. These statements concern our business, operations and financial performance and condition as well as our plans, objectives and expectations for our business operations and financial performance and condition, which are subject to risks and uncertainties. All statements other than statements of historical fact included in this 10-Q are forward-looking statements. These statements may include words such as “aim,” “anticipate,” “assume,” “believe,” “can have,” “could,” “due,” “estimate,” “expect,” “goal,” “intend,” “li,” “objective,” “plan,” “potential,” “positioned,” “predict,” “should,” “target,” “will,” “would” and other words and terms of similar import. These statements are based on our current expectations and assumptions, which are subject to change. In connection with any discussion of the timing or nature of future operating or financial performance or other events or trends. For example, all statements we make relating to our plans and objectives for future operations, growth or initiatives and strategies are forward-looking statements.

These forward-looking statements are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management’s beliefs and assumptions. We derive many of our forward-looking statements from our own operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution predicting the impact of known factors is very difficult, and we cannot anticipate all factors that could affect our actual results.

All of our forward-looking statements are subject to risks and uncertainties that may cause our actual results to differ materially from our expectations. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to:

- our retail-based business model is impacted by general economic conditions and economic and financial uncertainties may cause a decline in consumer spending;
- our concentration of stores in the Western United States makes us susceptible to adverse conditions in this region, which could affect our sales and cause our operating results to suffer;
- we operate in a highly fragmented and competitive industry and may face increased competition;
- we may not be able to anticipate, identify and respond to changes in consumer demands, including regional preferences, in a timely manner;
- we may not be successful in operating our stores in any existing or new markets into which we expand; and
- current and future government regulations, in particular regulations relating to the sale of firearms and ammunition, may impact the supply and demand for our products and our ability to conduct our business.

The above is not a complete list of factors or events that could cause actual results to differ from our expectations, and we cannot predict all of them. All written and oral forward-looking statements attributable to us, or persons acting on

our behalf, are expressly qualified in their entirety by the cautionary statements disclosed under “Part I. Item 1A. Risk Factors,” appearing in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016 and “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this 10-Q, as such disclosures may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission, including subsequent Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q, and public communications. You should evaluate all forward-looking statements made in this 10-Q and otherwise in the context of these risks and uncertainties.

Potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on any forward-looking statements we make. These forward-looking statements speak only as of the date of this 10-Q and are not guarantees of future performance or developments and involve known and unknown risks, uncertainties and other factors that are in many cases beyond our control. Except as required by law, we undertake no obligation to update or revise any forward-looking statements publicly, whether as a result of new information, future developments or otherwise.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPORTSMAN'S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

Amounts in Thousands, Except Per Share Data

(unaudited)

| | October 29, 2016 | January 30, 2016 |
|--|------------------------|------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,691 | \$ 2,109 |
| Accounts receivable, net | 469 | 469 |
| Merchandise inventories | 304,044 | 217,794 |
| Deferred income taxes, current | — | 3,001 |
| Prepaid expenses and other | 4,725 | 9,337 |
| Total current assets | 311,929 | 232,710 |
| Property and equipment, net | 83,446 | 62,432 |
| Deferred income taxes, noncurrent | 4,902 | 2,263 |
| Definite lived intangibles, net | 2,569 | 3,923 |
| Total assets | \$ 402,846 | \$ 301,328 |
| Liabilities and Stockholders' Equity (Deficit) | | |
| Current liabilities: | | |
| Accounts payable | \$ 71,408 | \$ 46,698 |
| Accrued expenses | 54,168 | 42,480 |
| Income taxes payable | 1,276 | 1,779 |
| Revolving line of credit | 85,313 | 25,263 |
| Current portion of long-term debt, net of discount and debt issuance costs | 983 | 8,683 |
| Current portion of deferred rent | 3,291 | 3,018 |
| Total current liabilities | 216,439 | 127,921 |
| Long-term liabilities: | | |
| Long-term debt, net of discount, debt issuance costs, and current portion | 133,970 | 146,333 |
| Deferred rent, noncurrent | 33,875 | 29,133 |

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| | | |
|---|------------|------------|
| Total long-term liabilities | 167,845 | 175,466 |
| Total liabilities | 384,284 | 303,387 |
| Commitments and contingencies | | |
| Stockholders' equity (deficit): | | |
| Preferred stock, \$.01 par value; 20,000 shares authorized; 0 shares issued and outstanding | — | — |
| Common stock, \$.01 par value; 100,000 shares authorized; 42,245 and 42,004 shares issued and outstanding, respectively | 422 | 420 |
| Additional paid-in capital | 79,249 | 77,757 |
| Accumulated deficit | (61,109) | (80,236) |
| Total stockholders' equity (deficit) | 18,562 | (2,059) |
| Total liabilities and stockholders' equity (deficit) | \$ 402,846 | \$ 301,328 |

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

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SPORTSMAN'S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Amounts in Thousands Except Per Share Data

(unaudited)

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|------------------------|------------------------|-------------------------|------------------------|
| | October 29, 2016 | October 31, 2015 | October 29, 2016 | October 31, 2015 |
| Net sales | \$ 217,161 | \$ 192,122 | \$ 558,580 | \$ 498,215 |
| Cost of goods sold | 142,896 | 125,557 | 369,658 | 330,497 |
| Gross profit | 74,265 | 66,565 | 188,922 | 167,718 |
| Selling, general, and administrative expenses | 53,719 | 47,396 | 149,348 | 130,515 |
| Income from operations | 20,546 | 19,169 | 39,574 | 37,203 |
| Interest expense | (3,402) | (3,659) | (10,132) | (10,567) |
| Income before income taxes | 17,144 | 15,510 | 29,442 | 26,636 |
| Income tax expense | 6,630 | 5,969 | 10,313 | 10,255 |
| Net income | \$ 10,514 | \$ 9,541 | \$ 19,129 | \$ 16,381 |
| Earnings per share: | | | | |
| Basic | \$ 0.25 | \$ 0.23 | \$ 0.45 | \$ 0.39 |
| Diluted | \$ 0.25 | \$ 0.23 | \$ 0.45 | \$ 0.39 |
| Weighted average shares outstanding: | | | | |
| Basic | 42,245 | 42,004 | 42,165 | 41,953 |
| Diluted | 42,558 | 42,362 | 42,465 | 42,286 |

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

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SPORTSMAN'S WAREHOUSE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in Thousands

(unaudited)

| | Thirty-Nine Weeks Ended | |
|---|----------------------------|------------------------|
| | October 29, 2016 | October 31, 2015 |
| Cash flows from operating activities: | | |
| Net income | \$ 19,129 | \$ 16,381 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation of property and equipment | 8,808 | 7,210 |
| Amortization of discount on debt and deferred financing fees | 932 | 552 |
| Amortization of definite lived intangible | 1,354 | 1,354 |
| Net increase in deferred rent | 5,015 | 1,413 |
| Deferred income taxes | 362 | 1,725 |
| Excess tax benefits from stock-based compensation arrangements | (449) | (283) |
| Stock-based compensation | 2,463 | 1,671 |
| Change in operating assets and liabilities: | | |
| Accounts receivable, net | — | 32 |
| Merchandise inventories | (86,250) | (67,973) |
| Prepaid expenses and other | 4,492 | 1,656 |
| Accounts payable | 24,709 | 33,408 |
| Accrued expenses | 4,346 | (1,029) |
| Income taxes payable | (54) | 7,739 |
| Net cash (used in) provided by operating activities | (15,143) | 3,856 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (30,757) | (29,820) |
| Proceeds from sale-leaseback transactions | 2,741 | 7,764 |
| Net cash used in investing activities | (28,016) | (22,056) |
| Cash flows from financing activities: | | |
| Net borrowings on line of credit | 60,050 | 7,777 |
| Increase in book overdraft | 5,535 | 12,566 |
| Issuance of common stock per employee stock purchase plan | 258 | — |
| Excess tax benefits from stock-based compensation arrangements | — | 283 |
| Payment of withholdings on restricted stock units | (1,228) | (1,036) |
| Principal payments on long-term debt | (20,874) | (1,200) |
| Net cash provided by financing activities | 43,741 | 18,390 |
| Net change in cash and cash equivalents | 582 | 190 |
| Cash and cash equivalents at beginning of period | 2,109 | 1,751 |

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| | | |
|--|----------|----------|
| Cash and cash equivalents at end of period | \$ 2,691 | \$ 1,941 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 8,863 | \$ 9,438 |
| Income taxes | 10,664 | 797 |
| Supplemental schedule of noncash investing activities: | | |
| Purchases of property and equipment included in accrued expenses | \$ 1,807 | \$ 755 |

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

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SPORTSMAN'S WAREHOUSE HOLDINGS, INC.

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Amounts reported in thousands, except per share data

(1) Description of Business

Description of Business

Sportsman's Warehouse Holdings, Inc. ("Holdings") and its subsidiaries (collectively, the "Company") operate retail sporting goods stores. As of October 29, 2016, the Company operated 75 stores in 20 states. The Company's stores are aggregated into one single operating and reportable segment.

Basis of Presentation

The condensed consolidated financial statements included herein are unaudited and have been prepared by management of the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The Company's condensed consolidated balance sheet as of January 30, 2016 was derived from the Company's audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and reflect all adjustments that are, in the opinion of management, necessary to summarize fairly our condensed consolidated financial statements for the periods presented. All of these adjustments are of a normal recurring nature. The results of the fiscal quarter ended October 29, 2016 are not necessarily indicative of the results to be obtained for the year ending January 28, 2017. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016 filed with the SEC on March 24, 2016 (the "Fiscal 2015 Form 10-K").

(2) Summary of Significant Accounting Policies

Revision to Consolidated Statements of Income

The Company has historically presented its sales and costs of state fish and game licenses, duck stamps, and state government-mandated firearm background checks in net sales and cost of goods sold under the gross method. Subsequent to filing its Fiscal 2015 Form 10-K, the Company's management determined that the revenue from these transactions should have been presented under the net method, thereby recognizing only the commission received in net sales for acting as the agent under the principal versus agent model. This revision does not have any impact upon gross profit, net income or earnings per share.

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The following table provides a reconciliation of the revision for the 13 weeks and 39 weeks ended October 31, 2015 as reported in the condensed consolidated statement of operations included in the Company's Quarterly Report on Form 10-Q for the third quarter of fiscal year 2015, which was filed with the SEC on November 20, 2015:

| | As Previously Reported | Revision | As Revised |
|--|------------------------------|------------|------------|
| For the thirteen weeks ended October 31, 2015 | | | |
| Net sales | \$ 199,704 | \$ (7,582) | \$ 192,122 |
| Cost of goods sold | 133,139 | (7,582) | 125,557 |
| Gross profit | 66,565 | — | 66,565 |
| | | | |
| | As Previously Reported | Revision | As Revised |
| For the thirty-nine weeks ended October 31, 2015 | | | |
| | | \$ | \$ |
| Net sales | \$ 517,182 | (18,967) | 498,215 |
| Cost of goods sold | 349,464 | (18,967) | 330,497 |
| Gross profit | 167,718 | — | 167,718 |

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The Company assessed the materiality of these changes both on a quantitative and qualitative basis and determined that its current and previously reported consolidated Statements of Income are not materially misstated. This revision had no impact upon gross profit, net income, or earnings per share in any of the fiscal periods.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Holdings and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Reporting Periods

The Company operates on a fiscal calendar that, in a given fiscal year, consists of the 52- or 53-week period ending on the Saturday closest to January 31st. The fiscal third quarters ended October 29, 2016 and October 31, 2015 both consisted of 13 weeks and are referred to herein as the third quarter of fiscal year 2016 and third quarter of fiscal year 2015, respectively. Fiscal year 2015 contained 52 weeks of operations ended January 30, 2016. Fiscal year 2016 will contain 52 weeks of operations and will end on January 28, 2017.

Seasonality

The Company's business is generally seasonal, with a significant portion of total sales occurring during the third and fourth quarters of the fiscal year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain costs are estimated for the full year and allocated to interim periods based on estimates of time expired, benefit received, or activity associated with the interim period.

Segment Reporting

The Company operates solely as a sporting goods retailer whose Chief Operating Decision Maker ("CODM") is the Chief Executive Officer. The CODM reviews financial information presented on a consolidated and individual store and cost center basis, for purposes of allocating resources and evaluating financial performance. The Company's stores offer essentially the same general product mix, and the core customer demographic remains similar chain-wide, as does the Company's process for the procurement and marketing of its product mix. Furthermore, the Company distributes its product mix chain-wide from a single distribution center. Given that the stores have the same economic

characteristics, the individual stores are aggregated into one single operating and reportable segment.

Comprehensive Income

The Company has no components of net income that would require classification as other comprehensive income for the 13 and 39 week periods ended October 29, 2016 and October 31, 2015.

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Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 “Revenue from Contracts with Customers” (Topic 606) (“ASU 2014-09”). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, “Deferral of the Effective Date” (“ASU 2015-14”). ASU 2015-14 simply formalized a one year deferral of the effective date of ASU 2014-09. In March 2016, the FASB issued ASU 2016-08 “Principal versus Agent Considerations – Reporting Revenue Gross versus Net”, amending the principal-versus-agent implementation guidance set forth in ASU 2014-09. In April 2016, the FASB issued ASU 2016-10 “Identifying Performance Obligations and Licensing”, which amends certain aspects of the guidance set forth in the FASB’s new revenue standard related to identifying performance obligations and licensing implementation. As a result of these four standards updates, the Company expects that it will apply the new revenue standard to annual and interim reporting periods beginning after December 15, 2017. In adopting these standard updates, companies may use either a full retrospective or a modified retrospective approach. Management is evaluating the provisions of these standard updates and has not yet selected a transition method nor have they determined what impact the adoption of these standard updates will have on the Company's financial position or results of operations.

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, “Simplifying the Measurement of Inventory” (“ASU 2015-11”). Under ASU 2015-11, inventory will be measured at the “lower of cost and net realizable value” and options that currently exist for “market value” will be eliminated. ASU 2015-11 defines net realizable value as the “estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.” No other changes were made to the current guidance on inventory measurement. ASU 2015-11 is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted and should be applied prospectively. Management is evaluating the provisions of this statement and has not determined what impact the adoption of ASU 2015-11 will have on the Company's financial position or results of operations. Management has determined that the Company will adopt the provision in first quarter in fiscal year 2017.

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, “Leases” (“ASU 2016-02”). The standard amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 will be effective beginning in the first quarter of 2019. Early adoption of ASU 2016-02 is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. Management is currently evaluating the impact of adopting ASU 2016-02 on the Company’s consolidated financial statements, including whether to elect the practical expedients outlined in the new standard.

Recognition of Breakage for Certain Prepaid Stored-Value Products

In March 2016, the FASB issued ASU 2016-04, “Recognition of Breakage for Certain Prepaid Stored-Value Products” (“ASU 2016-04”). ASU 2016-04 entitles a company to derecognize amounts related to expected breakage in proportion to the pattern of rights expected to be exercised by the product holder to the extent that it is probable a significant reversal of the recognized breakage amount will not subsequently occur. ASU 2016-04 is effective for reporting periods beginning after December 15, 2017 and is to be applied retrospectively. Early adoption is permitted. Management believes ASU 2016-02 will have no impact on the Company’s consolidated financial statements.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). The update amends the guidance in Accounting Standard Codification 230, Statement of Cash Flows, and clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practices related to eight specific cash flow issues. The amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years.

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Early adoption is permitted. Management has determined this will have no impact on the Company's consolidated financial statements.

(3) Secondary Offering

On April 18, 2016, 6,000 shares of common stock were sold in a secondary offering by Seidler Equity Partners III, L.P. On April 22, 2016, the underwriters of the secondary offering fully exercised the option granted at the time of the secondary offering to purchase an additional 900 shares of common stock at the secondary offering price of \$11.25 per share, less underwriting discounts and commissions, which consisted solely of shares sold by affiliates of Seidler Equity Partners III, L.P. The Company received no proceeds from the secondary offering or full exercise of the option. Total expenses incurred related to the secondary offering and the exercise of the option were \$143 and are recorded in selling, general, and administrative expenses in the accompanying Statements of Income.

On September 30, 2015, 6,250 shares of common stock were sold in a secondary offering by certain existing shareholders, including affiliates of Seidler Equity Partners III, L.P. On October 26, 2015, the underwriters of the secondary offering partially exercised the option granted at the time of the secondary offering to purchase an additional 649 shares of common stock at the secondary offering price of \$12.25 per share, less underwriting discounts and commissions, which consisted solely of shares sold by affiliates of Seidler Equity Partners III, L.P. The Company received no proceeds from the secondary offering or partial exercise of the option. Total expenses incurred related to the secondary offering and the exercise of the option were \$727.

(4) Property and Equipment

Property and equipment as of October 29, 2016 and January 30, 2016 were as follows:

| | October 29, 2016 | January 30, 2016 |
|--|------------------------|------------------------|
| Furniture, fixtures, and equipment | \$ 51,467 | \$ 41,833 |
| Leasehold improvements | 60,689 | 45,179 |
| Construction in progress | 10,273 | 5,593 |
| Total property and equipment, gross | 122,429 | 92,605 |
| Less accumulated depreciation and amortization | (38,983) | (30,173) |
| Total property and equipment, net | \$ 83,446 | \$ 62,432 |

(5) Accrued Expenses

Accrued expenses consisted of the following as of October 29, 2016 and January 30, 2016:

| | October 29, 2016 | January 30, 2016 |
|--------------------------------------|------------------------|------------------------|
| Book overdraft | \$ 12,717 | \$ 7,182 |
| Unearned revenue | 14,622 | 14,787 |
| Accrued payroll and related expenses | 10,530 | 8,573 |
| Sales and use tax payable | 5,311 | 2,998 |
| Accrued construction costs | 1,807 | 1,094 |
| Other | 9,181 | 7,846 |
| | \$ 54,168 | \$ 42,480 |

(6) Revolving Line of Credit

The Company has a senior secured revolving credit facility (“Revolving Line of Credit”) with Wells Fargo Bank, National Association (“Wells Fargo”) that provides for borrowings in the aggregate amount of up to \$135,000, subject to a borrowing base calculation.

As of October 29, 2016 and January 30, 2016, the Company had \$94,868 and \$31,202, respectively, in outstanding revolving loans under the Revolving Line of Credit. Amounts outstanding are offset on the condensed consolidated balance sheets by amounts in depository accounts under lock-box arrangements, which were \$9,555 and \$5,939 as of

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October 29, 2016 and January 30, 2016, respectively. As of October 29, 2016, the Company had stand-by commercial letters of credit of \$1,200 under the terms of the Revolving Line of Credit.

The Revolving Line of Credit contains customary affirmative and negative covenants, including covenants that limit the Company's ability to incur, create or assume certain indebtedness, to create, incur or assume certain liens, to make certain investments, to make sales, transfers and dispositions of certain property and to undergo certain fundamental changes, including certain mergers, liquidations and consolidations. The Revolving Line of Credit also requires us to maintain a minimum availability at all times of not less than 10% of the gross borrowing base, and in any event, not less than \$5,000. The Revolving Line of Credit also contains customary events of default. The Revolving Line of Credit matures on December 3, 2019.

As of October 29, 2016 and January 30, 2016, the Revolving Line of Credit had \$335 and \$455, respectively in outstanding deferred financing fees. During the 13 weeks and 39 weeks ended October 29, 2016, the Company recognized \$40 and \$120 respectively, of non-cash interest expense with respect to the amortization of deferred financing fees. During the 13 weeks and 39 weeks ended October 31, 2015, the Company recognized \$32 and \$96, respectively, of non-cash interest expense with respect to the amortization of deferred financing fees.

(7) Long-Term Debt

Long-term debt consisted of the following as of October 29, 2016 and January 30, 2016:

| | October 29, 2016 | January 30, 2016 |
|---|------------------------|------------------------|
| Term loan | \$ 137,127 | \$ 158,000 |
| Less discount | (920) | (1,288) |
| Less debt issuance costs | (1,254) | (1,696) |
| | 134,953 | 155,016 |
| Less current portion, net of discount and debt issuance costs | (983) | (8,683) |
| Long-term portion | \$ 133,970 | \$ 146,333 |

Term Loan

The Company has a \$160,000 senior secured term loan facility ("Term Loan") with a financial institution. The Term Loan was issued at a price of 99% of the aggregate principal amount and has a maturity date of December 3, 2020.

As of October 29, 2016 and January 30, 2016, the Term Loan had an outstanding balance of \$137,127 and \$158,000, respectively. The outstanding amounts as of October 29, 2016 and January 30, 2016 are offset on the consolidated balance sheets by an unamortized discount of \$920 and \$1,288, respectively, and debt issuance costs of \$1,254 and

\$1,696, respectively.

During the 13 weeks and 39 weeks ended October 29, 2016, the Company recognized \$74 and \$369, respectively, of non-cash interest expense with respect to the amortization of the discount. During the 13 weeks and 39 weeks ended October 29, 2016, the Company recognized \$268 and \$442, respectively, of non-cash interest expense with respect to the amortization of the debt issuance costs.

During the 13 weeks and 39 weeks ended October 31, 2015, the Company recognized \$67 and \$200, respectively, of non-cash interest expense with respect to the amortization of the discount. During the 13 weeks and 39 weeks ended October 31, 2015, the Company recognized \$122 and \$368, respectively, of non-cash interest expense with respect to the amortization of the debt issuance costs.

As part of the Term Loan agreement, there are a number of financial and non-financial debt covenants. The financial covenants include a net leverage ratio and an interest coverage ratio to be measured on a trailing twelve month basis.

During the 13 weeks ended October 29, 2016, the Company made a required quarterly payment on the Term Loan of \$400.

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During the 39 weeks ended October 29, 2016, the Company made a mandatory prepayment of \$7,674 on the Term Loan and a voluntary prepayment of \$12,000 on the Term Loan in addition to the required payments totaling \$1,200. As a result of the voluntary prepayment, the Company incurred a prepayment penalty of \$150.

Restricted Net Assets

The provisions of the Term Loan and the Revolving Line of Credit restrict all of the net assets of the Company's consolidated subsidiaries, which constitute all of the net assets on the Company's condensed consolidated balance sheet as of October 29, 2016, from being used to pay any dividends without prior written consent from the financial institutions party to the Company's Term Loan and Revolving Line of Credit.

(8) Income Taxes

The Company recognized income tax expense of \$6,630 and \$5,969 in the 13 weeks ended October 29, 2016 and October 31, 2015, respectively. The Company recognized income tax expense of \$10,313 and \$10,255 in the 39 weeks ended October 29, 2016 and October 31, 2015, respectively. Before discrete items, the 2016 estimated annual effective tax rate is expected to be 38.6%, which is comparable to 38.5% for the full year 2015.

(9) Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted-average number of shares of common stock outstanding, reduced by the number of shares repurchased and held in treasury, during the period. Diluted earnings per share represents basic earnings per share adjusted to include the potentially dilutive effect of outstanding share option awards, nonvested share awards and nonvested share unit awards.

The following table sets forth the computation of basic and diluted earnings per common share:

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|------------------------|------------------------|-------------------------|------------------------|
| | October 29, 2016 | October 31, 2015 | October 29, 2016 | October 31, 2015 |
| Net income | \$ 10,514 | \$ 9,541 | \$ 19,129 | \$ 16,381 |
| Weighted-average shares of common stock outstanding: | | | | |
| Basic | 42,245 | 42,004 | 42,165 | 41,953 |
| Dilutive effect of common stock equivalents | 313 | 358 | 300 | 333 |
| Diluted | 42,558 | 42,362 | 42,465 | 42,286 |
| Basic earnings per share | \$ 0.25 | \$ 0.23 | \$ 0.45 | \$ 0.39 |
| Diluted earnings per share | \$ 0.25 | \$ 0.23 | \$ 0.45 | \$ 0.39 |
| Restricted stock units considered anti-dilutive and excluded in the calculation | — | — | — | — |

(10) Stock-Based Compensation

Stock-Based Compensation

During the 13 weeks ended October 29, 2016 and October 31, 2015, the Company recognized total stock-based compensation expense of \$905 and \$594, respectively. During these same periods, the Company recognized a net tax benefit related to stock-based compensation expense of \$349 and \$229, respectively. During the 39 weeks ended October 29, 2016 and October 31, 2015, the Company recognized total stock-based compensation expense of \$2,463 and \$1,671, respectively. During these same periods, the Company recognized a net tax benefit related to stock-based compensation expense of \$951 and \$643, respectively. Compensation expense related to the Company's stock-based payment awards is recognized in selling, general, and administrative expenses in the consolidated Statements of Income.

Employee Stock Plans

As of October 29, 2016, the number of shares available for awards under the 2013 Performance Incentive Plan (the "2013 Plan") was 1,148. As of October 29, 2016, there were 629 awards outstanding under the 2013 Plan.

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Employee Stock Purchase Plan

The Company also has an Employee Stock Purchase Plan ("ESPP") that was approved by shareholders in fiscal year 2015, under which 800 shares of common stock have been authorized. Shares are issued under the ESPP twice yearly at the end of each offering period. As of October 29, 2016, approximately 34 shares of common stock have been issued under the ESPP. These shares were issued at discounted price of \$6.85 per share.

Nonvested Restricted Stock Awards

During the 13 weeks ended October 29, 2016, the Company did not issue any nonvested restricted stock awards to employees. During the 39 weeks ended October 29, 2016, the Company issued 162 nonvested restricted stock awards to employees at a weighted average grant date fair value of \$11.25 per share. The nonvested stock awards issued to employees vest over three years, with one third vesting on each grant date anniversary.

The following table sets forth the rollforward of outstanding nonvested stock awards (per share amounts are not in thousands):

| | Shares | Weighted average grant-date fair value |
|-----------------------------|--------|---|
| Balance at January 30, 2016 | — | \$ — |
| Grants | 162 | 11.25 |
| Forfeitures | — | — |
| Vested | — | — |
| Balance at October 29, 2016 | 162 | \$ 11.25 |

Nonvested Performance-Based Stock Awards

During the 13 weeks ended October 29, 2016, the Company did not issue any nonvested performance-based stock awards to employees. During the 39 weeks ended October 29, 2016, the Company issued 159 nonvested performance-based stock awards to employees at a weighted average grant date fair value of \$11.25 per share. The nonvested performance-based stock awards issued to employees vest over three years with one third vesting on each grant date anniversary. The number of shares issued is contingent on management achieving a fiscal year 2016 performance target for same store sales and return on invested capital for new stores. If minimum threshold performance targets are not achieved, no shares will be vested. The maximum number of shares subject to the award is 159 as reported above, and the "target" number of shares subject to the award is 106, which is two-thirds of the maximum number. Following the end of the performance period (fiscal year 2016), the number of shares eligible to vest, based on actual performance, will be fixed and vesting will then be subject to each employee's continued

employment over the remaining service period. The issued shares represent management's estimate of the most likely outcome of the performance conditions to be achieved for the performance period. If management's assessment of the most likely outcome of the levels of performance conditions to be achieved changes, the number of issued shares will be revised accordingly.

The following table sets forth the rollforward of outstanding nonvested performance-based stock awards (per share amounts are not in thousands):

| | Shares | Weighted average grant-date fair value |
|-----------------------------|--------|---|
| Balance at January 30, 2016 | — | \$ — |
| Grants | 159 | 11.25 |
| Forfeitures | — | — |
| Vested | — | — |
| Balance at October 29, 2016 | 159 | \$ 11.25 |

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Nonvested Stock Unit Awards

During the 13 weeks ended October 29, 2016, the Company did not issue any nonvested stock unit awards. During the 39 weeks ended October 29, 2016, the Company issued 29 nonvested stock units to independent members of the Board of Directors at a value of \$9.81 per share. These nonvested stock units vest over 12 months with one twelfth vesting each month from the grant date.

During the 13 weeks ended October 31, 2015, the Company issued 24 nonvested stock units to independent members of the Board of Directors at a value of \$11.70 per share. These nonvested stock units vest over 12 months with one twelfth vesting each month from the grant date. During the 39 weeks ended October 31, 2015, the Company issued 28 nonvested stock units to employees or independent members of the Board of Directors at an average value of \$11.28 per share. The nonvested stock units issued to employees vest over four years with one fourth vesting on each grant date anniversary. The nonvested stock units issued to independent members of the Board of Directors vest over 12 months with one twelfth vesting each month from the grant date.

The Company had no net share settlements in the 13 weeks and 39 weeks ended October 29, 2016 and October 31, 2015, respectively.

The following table sets forth the rollforward of outstanding nonvested stock units (per share amounts are not in thousands):

| | Shares | Weighted average grant-date fair value |
|-----------------------------|--------|---|
| Balance at January 30, 2016 | 599 | \$ 7.15 |
| Grants | 29 | 9.81 |
| Forfeitures | 5 | 7.05 |
| Vested | 313 | 7.32 |
| Balance at October 29, 2016 | 310 | \$ 7.23 |
| | | |
| | Shares | Weighted average grant-date fair value |
| Balance at January 31, 2015 | 888 | \$ 7.06 |
| Grants | 28 | 11.28 |
| Forfeitures | 4 | 7.06 |
| Vested | 302 | 7.18 |
| Balance at October 31, 2015 | 610 | \$ 7.19 |

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(11) Commitments and Contingencies

Operating Leases

The Company leases its retail store, office space and warehouse locations under non-cancelable operating leases. Rent expense under these leases totaled \$11,312 and \$10,357 for the 13 weeks ended October 29, 2016 and October 31, 2015, respectively. Rent expense under these leases totaled \$32,847 and \$29,981 for the 39 weeks ended October 29, 2016 and October 31, 2015, respectively.

Legal Matters

The Company is involved in various legal matters generally incidental to its business. After discussion with legal counsel, management is not aware of any matters for which the likelihood of a loss is probable and reasonably estimable and which could have a material impact on its consolidated financial condition, liquidity, or results of operations.

On March 12, 2014, the Company was added as a defendant to a pending consolidated action filed in the United States District Court, Western District of Washington, captioned as Lacey Market Place Associates II, LLC, et al. v. United Farmers of Alberta Co-Operative Limited, et al., Case No. 2:13-cv-00383-JLR against United Farmers of Alberta Co-Operative Limited (the seller of Wholesale Sports), Wholesale Sports, Alamo Group, LLC and Donald F. Gaube and spouse. The amended complaint was filed by the landlords of two stores that the Company did not assume in the Company's purchase of assets from Wholesale Sports. Such stores were formerly operated by Wholesale Sports in Skagit and Thurston Counties in Washington. The amended complaint alleged breach of lease, breach of collateral assignment, misrepresentation, intentional interference with contract, piercing the corporate veil and violation of Washington's Fraudulent Transfer Act. The Company was named as a co-defendant with respect to the intentional interference with contract and fraudulent conveyance claims. The amended complaint sought against the Company and all defendants unspecified money damages, declaratory relief and attorneys' fees and costs. On January 28, 2015, the court in the Lacey Marketplace action granted in part and denied in part the Company's motion for summary judgment and dismissed the intentional interference claim against the Company, but declined to dismiss the fraudulent transfer claim.

Trial in the Lacey Marketplace action began March 2, 2015 and concluded March 6, 2015. On March 9, 2015, the jury in the trial assessed \$11,887 against the defendants to the action, including the Company. The Company reviewed the decision and accrued \$4,000 in its results for the fiscal year ended January 31, 2015 related to this matter. The Company strongly disagreed with the jury's verdict and filed post-trial motions seeking to have the verdict set aside. On July 30, 2015, the court granted the Company's motion for judgment as a matter of law. Both United Farmers of Alberta Co-Operative Limited, a co-defendant, and the plaintiff have appealed the court's summary judgment ruling against the tortious interference claim, and the July 30, 2015 ruling setting aside the jury verdict, to the appellate court and the appeal is currently in process. Based on the court's most recent judgment in favor of the Company, the Company determined that the likelihood of loss in this case is not probable, and, as such, the Company reversed the previous accrual of \$4,000 in its results for the fiscal year ended January 30, 2016. The reversal of the \$4,000 accrual

was recorded in selling, general, and administrative expenses during the 13 weeks ended August 1, 2015.

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

The discussion below contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those which are discussed in "Part I. Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016. Also see "Statement Regarding Forward-Looking Statements" preceding Part I in this 10-Q.

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in this 10-Q.

Overview

We are a high-growth outdoor sporting goods retailer focused on meeting the everyday needs of the seasoned outdoor veteran, the first-time participant and every enthusiast in between. Our mission is to provide a one-stop shopping experience that equips our customers with the right quality, brand name hunting, shooting, fishing and camping gear to maximize their enjoyment of the outdoors.

Our business was founded in 1986 as a single retail store in Midvale, Utah. Today, we operate 75 stores in 20 states, totaling approximately 3.2 million gross square feet. During fiscal year 2016 to date, we have increased our gross square footage by 13.1% through the opening of eleven stores in the following locations:

- Slidell, Louisiana on February 27, 2016;
- South Jordan, Utah on March 19, 2016;
- Rohnert Park, California on April 2, 2016;
- Juneau, Alaska on June 18, 2016;
- Prescott, Arizona on July 16, 2016;
- Roseburg, Oregon on July 23, 2016;
- Las Cruces, New Mexico on August 6, 2016; and
- Gillette, Wyoming on August 13, 2016
- Rock Springs, Wyoming on August 27, 2016
- Avondale, Arizona on September 15, 2016
- Fairfield, California on September 15, 2016

Individual stores are aggregated into one operating and reportable segment.

How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of performance and financial measures. The key measures for determining how our business is performing are net sales, same store sales, gross margin, selling, general, and administrative expenses, income from operations and Adjusted EBITDA.

Net Sales and Same Store Sales

Our net sales are primarily received from revenue generated in our stores and also include sales generated through our e-commerce platform. When measuring revenue generated from our stores, we review our same store sales as well as the performance of our stores that have not operated for a sufficient amount of time to be included in same store sales. We include net sales from a store in same store sales on the first day of the 13th full fiscal month following the store's opening or acquisition by us. We exclude net sales from e-commerce from our calculation of same store sales.

Our prior period amounts of net sales have been revised to reflect a revision of revenue presentation for sales of state fish and game licenses, duck stamps, and state government-mandated firearm background checks. See Note 2 to the

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notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for a description of these items and a reconciliation of the revision for the 13 weeks and 39 weeks ended October 31, 2015 as reported in the condensed consolidated statement of operations included in the Company's Quarterly Report on Form 10-Q for the third quarter of fiscal year 2015, which was filed with the SEC on November 20, 2015.

We assessed the materiality of these changes both on a quantitative and qualitative basis and determined that our current and previously reported consolidated Statements of Income are not materially misstated. This revision had no impact upon our gross profit, net income, or earnings per share in any of the fiscal periods.

Measuring the change in year-over-year same store sales allows us to evaluate how our retail store base is performing. Various factors affect same store sales, including:

- changes or anticipated changes to regulations related to some of the products we sell;
- consumer preferences, buying trends and overall economic trends;
- our ability to identify and respond effectively to local and regional trends and customer preferences;
- our ability to provide quality customer service that will increase our conversion of shoppers into paying customers;
- competition in the regional market of a store;
- atypical weather;
- changes in our product mix; and
- changes in pricing and average ticket sales.

Opening new stores is also an important part of our growth strategy. As of the date of this filing, since the beginning of fiscal year 2010, we have opened 40 stores, including the eleven new stores we have opened in fiscal year 2016. For the next several years, we intend to grow our store base at a rate of greater than 10 percent annually. As part of our growth strategy, we also re-acquired 10 stores in fiscal year 2013 that were previously operated under our Sportsman's Warehouse banner.

For our new locations, we measure our investment by reviewing the new store's four-wall Adjusted EBITDA margin and pre-tax return on invested capital ("ROIC"). We target a minimum 10% four-wall Adjusted EBITDA margin and a minimum ROIC of 50% excluding initial inventory costs (or 20% including initial inventory cost) for the first full twelve months of operations for a new store. The 29 new stores that we have opened since 2010 and that have been open for a full twelve months (excluding the 10 acquired stores) have achieved an average four-wall Adjusted EBITDA margin of 13.5% and an average ROIC of 81.7% excluding initial inventory cost (and 30.1% including initial inventory cost) during their first full twelve months of operations. Four-wall Adjusted EBITDA means, for any period, a particular store's Adjusted EBITDA, excluding any allocations of corporate selling, general, and administrative expenses allocated to that store. Four-wall Adjusted EBITDA margin means, for any period, a store's four-wall Adjusted EBITDA divided by that store's net sales. For a definition of Adjusted EBITDA and Adjusted EBITDA margin and a reconciliation of net income to Adjusted EBITDA, see "—Non-GAAP Measures." ROIC means a store's four-wall Adjusted EBITDA for a given period divided by our initial cash investment in the store. We calculate ROIC both including and excluding the initial inventory cost.

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We also have been scaling our e-commerce platform and increasing sales through our website, www.sportsmanswarehouse.com.

We believe the key drivers to increasing our total net sales will be:

- increasing our total gross square footage by opening new stores and improving the utilization of the existing selling square footage of our existing stores through various fixture strategies;
- continuing to increase and improve same store sales in our existing markets;
- increasing customer visits to our stores and improving our conversion rate through focused marketing efforts and continually high standards of customer service;
- increasing the average ticket sale per customer; and
- expanding our e-commerce platform.

Gross Margin

Gross profit is our net sales less cost of goods sold. Gross margin measures our gross profit as a percentage of net sales. Our cost of goods sold primarily consists of merchandise acquisition costs, including freight-in costs, shipping costs, payment term discounts received from the vendor and vendor allowances and rebates associated directly with merchandise and shipping costs related to e-commerce sales. Prior period amounts of net sales and cost of goods sold have been revised to reflect a revision of revenue presentation for sales of state fish and game licenses, duck stamps, and state government-mandated firearm background checks. See “-How We Assess the Performance of Our Business-Net Sales and Same Store Sales” and Note 2 to the notes to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for a description of these items and the impact of the revisions on our financial statements for the prior periods.

We believe the key drivers to improving our gross margin are increasing the product mix to higher margin products, particularly clothing and footwear, improving buying opportunities with our vendor partners and coordinating pricing strategies among our stores and our merchandising department. Our ability to properly manage our inventory can also impact our gross margin. Successful inventory management ensures we have sufficient high margin products in stock at all times to meet customer demand, while overstocking of items could lead to markdowns in order to help a product sell. We believe that the overall growth of our business will allow us to generally maintain or increase our gross margins, because increased merchandise volumes will enable us to maintain our strong relationships with our vendors.

Selling, General, and Administrative Expenses

We closely manage our selling, general, and administrative expenses. Our selling, general, and administrative expenses are comprised of payroll, rent and occupancy, depreciation and amortization, acquisition expenses, pre-opening expenses and other operating expenses, including share-based compensation expense and litigation accrual. Pre-opening expenses include expenses incurred in the preparation and opening of a new store location, such as payroll, travel and supplies, but do not include the cost of the initial inventory or capital expenditures required to open a location.

Our selling, general, and administrative expenses are primarily influenced by the volume of net sales of our locations, except for our corporate payroll, rent and occupancy and depreciation and amortization, which are generally fixed in nature. We control our selling, general, and administrative expenses through a budgeting and reporting process that allows our personnel to adjust our expenses as trends in net sales activity are identified.

We expect that our selling, general, and administrative expenses will increase in future periods due to our continuing growth.

Income from Operations

Income from operations is gross profit less selling, general, and administrative expenses. We use income from operations as an indicator of the productivity of our business and our ability to manage selling, general, and administrative expenses.

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Adjusted EBITDA

We define Adjusted EBITDA as net income plus interest expense, income tax expense, depreciation and amortization, stock-based compensation expense, pre-opening expenses, secondary offering expenses, and other gains, losses and expenses that we do not believe are indicative of our ongoing expenses. In evaluating our business, we use Adjusted EBITDA and Adjusted EBITDA margin as an additional measurement tool for purposes of business decision-making, including evaluating store performance, developing budgets and managing expenditures. See “—Non-GAAP Measures.”

Results of Operations

All financial results and other information set forth below reflect revisions made to net sales and cost of goods sold to reflect a revision of revenue presentation for sales of state fish and game licenses, duck stamps, and state government-mandated firearm background checks. We historically presented our sales of state fish and game licenses, duck stamps, and state government-mandated firearm background checks in net sales and cost of goods sold under the gross method. The revenue from these transactions have been revised to be presented under the net method, thereby recognizing only the commission received in net sales for acting as the agent under the principal versus agent model. This revision had no impact on gross profit, net income or earnings per share. See Note 2 to the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for the impact of the revisions on our financial statements for the prior periods.

The following table summarizes key components of our results of operations as a percentage of net sales for the periods indicated (prior year numbers have been revised):

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|--|----------------------|---------------------|-------------------------|---------------------|
| | October 29, 2016 | October 31, 2015 | October 29, 2016 | October 31, 2015 |
| Percentage of net sales: | | | | |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 65.8 | 65.4 | 66.2 | 66.3 |
| Gross profit | 34.2 | 34.6 | 33.8 | 33.7 |
| Selling, general and administrative expenses | 24.7 | 24.7 | 26.7 | 26.2 |
| Income from operations | 9.5 | 9.9 | 7.1 | 7.5 |
| Interest expense | 1.5 | 1.8 | 1.8 | 2.1 |
| Income before income taxes | 8.0 | 8.1 | 5.3 | 5.4 |
| Income tax expense | 3.1 | 3.1 | 1.8 | 2.1 |
| Net income | 4.9% | 5.0% | 3.5% | 3.3% |
| Adjusted EBITDA | 12.0% | 12.6% | 10.0% | 9.4% |

The following table shows our sales during the periods presented by department (prior year numbers have been revised):

Thirteen Weeks Ended

| | | Thirty-Nine Weeks Ended | | | |
|------------|---|-------------------------|------------------|------------------|------------------|
| | | October 28, 2016 | October 31, 2015 | October 28, 2016 | October 31, 2015 |
| Department | Product Offerings | | | | |
| Camping | Backpacks, camp essentials, canoes and kayaks, coolers, outdoor cooking equipment, sleeping bags, tents and tools | 14.6% | 14.9% | 15.7% | 16.0% |
| Clothing | Camouflage, jackets, hats, outerwear, sportswear, technical gear and work wear | 9.6% | 9.5% | 7.6% | 8.1% |
| Fishing | Bait, electronics, fishing rods, flotation items, fly fishing, lines, lures, reels, tackle and small boats | 8.0% | 8.1% | 11.5% | 11.5% |
| Footwear | Hiking boots, socks, sport sandals, technical footwear, trail shoes, casual shoes, waders and work boots | 6.9% | 7.1% | 6.7% | 7.0% |

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| | | | | | |
|-------------------------------------|---|--------|--------|--------|--------|
| Hunting and Shooting | Ammunition, archery items, ATV accessories, blinds and tree stands, decoys, firearms, reloading equipment and shooting gear | 50.7% | 49.4% | 50.0% | 48.2% |
| Optics, Electronics and Accessories | Gift items, GPS devices, knives, lighting, optics (e.g. binoculars) and two-way radios | 10.6% | 11.3% | 8.8% | 9.4% |
| Other | License and BCI revenue, net of revenue discounts | -0.5% | -0.4% | -0.3% | -0.3% |
| Total | | 100.0% | 100.0% | 100.0% | 100.0% |

13 Weeks Ended October 29, 2016 Compared to 13 Weeks Ended October 31, 2015

Net Sales. Net sales increased by \$25.1 million, or 13.0%, to \$217.2 million in the 13 weeks ended October 29, 2016 compared to \$192.1 million in the corresponding period of fiscal year 2015. Net sales increased primarily due to sales from new store openings that have been open for less than 12 months and were, therefore, not included in same store sales. Stores that were opened in fiscal year 2016 in the 13 weeks ended October 29, 2016 contributed \$19.5 million to this increase. Stores that were opened in fiscal year 2015 and that have been open for less than 12 months and were, therefore, not included in our same store sales, contributed to \$1.2 million of this increase. These increases were supplemented by an increase in same store sales for the period of 2.1% compared to the corresponding period of fiscal year 2015.

Each of our departments recognized an increase in net sales in the third quarter of fiscal year 2016 compared to the third quarter of fiscal year 2015. Specifically, our hunting and shooting, fishing, footwear, clothing, camping and optics, electronics and accessories departments increased \$15.0 million, \$1.7 million, \$1.4 million, \$2.6 million, \$2.8 million and \$1.2 million, respectively, during the third quarter of fiscal year 2016 compared to the corresponding period of fiscal year 2015.

With respect to same store sales, during the 13 weeks ended October 29, 2016, our hunting and shooting, clothing, footwear, and fishing departments had increases of 5.0%, 5.2%, 2.4%, and 1.8%, respectively, compared to the corresponding period of fiscal year 2015. Within hunting and shooting, firearms and ammunition increased by 10.4% and 7.4%, respectively, during the 13 weeks ended October 29, 2016 compared to the corresponding period of fiscal year 2015. We experienced an increased demand for firearms and ammunition due in part to the public perception during this period that federal or state legislation might be enacted with the pending change in presidency that would potentially make it more difficult to purchase certain firearms and ammunition, as well as increased demand relating to the fall hunting season. These increases were partially offset by decreases in our optics, electronics, and accessories, and camping departments of 3.8%, and 0.3%, respectively. As of October 29, 2016, we had 64 stores included in our same store sales calculation.

Net sales from our e-commerce business increased by \$0.4 million, or 21.7%, to \$2.2 million in the 13 weeks ended October 29, 2016 compared to \$1.8 million in the corresponding period of fiscal year 2015.

Gross Profit. Gross profit increased by \$7.7 million, or 11.6%, to \$74.3 million for the 13 weeks ended October 29, 2016 from \$66.6 million for the corresponding period of fiscal year 2015. As a percentage of net sales, gross profit decreased by 40 basis points to 34.2% for the 13 weeks ended October 29, 2016 from 34.6% in the corresponding period of fiscal year 2015. The decrease in gross margin was due to the increase in sales of lower margin products, primarily firearms and ammunition.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased by \$6.3 million, or 13.3%, to \$53.7 million for the 13 weeks ended October 29, 2016 from \$47.4 million for the corresponding period of fiscal year 2015. As a percentage of net sales, selling, general, and administrative expenses remained the same at 24.7% of net sales in the third quarter of fiscal year 2016 and 2015. The dollar increase resulted primarily from an increase in the number of stores in operation over the corresponding period of the prior year. Specifically, we incurred additional payroll, rent, depreciation and amortization, other operating expenses, and pre-opening expenses of \$3.5 million, \$0.9 million, \$0.7 million, \$0.8 million, and \$0.4 million, respectively.

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Interest Expense. Interest expense decreased by \$0.3 million, or 7.0%, to \$3.4 million in the 13 weeks ended October 29, 2016 from \$3.7 million for the corresponding period of fiscal year 2015. Interest expense decreased primarily as a result of \$19.7 million in prepayments on our term loan during the first quarter of fiscal year 2016. These prepayments shifted a balance of \$19.7 million from our term loan to our line of credit, which has a lower interest rate than the term loan.

Income Taxes. We recognized income tax expense of \$6.6 million and \$6.0 million in the 13 weeks ended October 29, 2016 and October 31, 2015, respectively. Before discrete items, the 2016 estimated annual effective tax rate is expected to be 38.6%, which is comparable to 38.5% for the full year 2015.

39 Weeks Ended October 29, 2016 Compared to 39 Weeks Ended October 31, 2015

Net Sales. Net sales increased by \$60.4 million, or 12.1%, to \$558.6 million in the 39 weeks ended October 29, 2016 compared to \$498.2 million in the corresponding period of fiscal year 2015. Net sales increased primarily due to sales from our new store openings that have been open for less than 12 months and were, therefore, not included in our same store sales. Stores that were opened in fiscal year 2016 contributed \$31.8 million. Stores that were opened in fiscal year 2015 and have been open for less than 12 months contributed \$22.2 million. These increases were supplemented by an increase in same store sales for the period of 1.1% compared to the corresponding period of fiscal year 2015.

Each of our departments recognized an increase in net sales in the first three quarters of fiscal year 2016 compared to the first three quarters of fiscal year 2015. Specifically, we experienced increased sales for products in our hunting and shooting, fishing, camping, footwear, clothing and optics, electronics and accessories departments, which increased \$38.7 million, \$6.8 million, \$7.3 million, \$2.4 million, \$2.3 million and \$1.8 million, respectively, during the first three quarters of fiscal year 2016 compared to the corresponding period of fiscal year 2015.

With respect to same store sales, during the 39 weeks ended October 29, 2016, the hunting and shooting and fishing departments had increases of 4.3% and 1.8%, respectively. Within hunting and shooting, firearms and ammunition increased by 12.8% and 4.3%, respectively, during the 39 weeks ended October 29, 2016 compared to the corresponding period of fiscal year 2015. We experienced an increased demand for firearms and ammunition due in part to the public perception during this period that federal or state legislation might be enacted with the pending change in presidency that would potentially make it more difficult to purchase certain firearms and ammunition. These increase were partially offset by decreases in the clothing, optics, electronics and accessories, footwear, and camping departments of 3.0%, 5.7%, 1.2%, and 0.9%, respectively, compared to the corresponding period of fiscal year 2015. As of October 29, 2016, we had 64 stores included in our same store sales calculation.

Net sales from our e-commerce business increased by \$0.8 million, or 17.5%, to \$5.5 million in the 39 weeks ended October 29, 2016 compared to \$4.6 million in the corresponding period of fiscal year 2015.

Gross Profit. Gross profit increased by \$21.2 million, or 12.6%, to \$188.9 million for the 39 weeks ended October 29, 2016 from \$167.7 million for the corresponding period of fiscal year 2015. As a percentage of net sales, gross profit increased by 10 basis points to 33.8% for the 39 weeks ended October 29, 2016 from 33.7% in the corresponding period of fiscal year 2015. The increase in gross profit during the first three quarters of the year was due to increased vendor incentives received when compared to the corresponding period of fiscal year 2015.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased by \$18.8 million, or 14.4%, to \$149.3 million for the 39 weeks ended October 29, 2016 from \$130.5 million for the corresponding period of fiscal year 2015. Selling, general, and administrative expenses were 26.7% of net sales in the three quarters of fiscal year 2016 and 26.2% of net sales in the corresponding period of fiscal year 2015. In fiscal year 2015, we reversed the \$4.0 million accrual related to the Lacey Marketplace litigation matter because the court granted our motion for judgment as a matter of law. See Note 11 to our condensed consolidated financial statements. Excluding the litigation accrual reversal, selling, general, and administrative expenses increased by \$14.8 million, or 11.3%, to \$149.3 million for the 39 weeks ended October 29, 2016 from \$134.5 million for the corresponding period of fiscal year 2015. Also excluding the litigation accrual reversal, selling, general, and administrative expenses were 26.8% of net sales in the three quarters of fiscal year 2016 and 27.0% of net sales in the corresponding period of fiscal year 2015. This dollar increase resulted primarily from an increase in the number of stores in operation over the corresponding period of the prior year. Specifically, we incurred additional payroll, rent, depreciation and amortization, other operating expenses, and pre-opening expenses of \$8.2 million, \$2.9 million, \$1.6 million, \$5.3 million, and \$0.8 million, respectively

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Interest Expense. Interest expense decreased by \$0.4 million, or 4.1%, to \$10.1 million in the 39 weeks ended October 29, 2016 from \$10.5 million for the corresponding period of fiscal year 2015. Interest expense decreased primarily as a result of \$19.7 million in prepayments on our term loan during the first quarter of fiscal year 2016. These prepayments shifted a balance of \$19.7 million from our term loan to our line of credit, which has a lower interest rate than the term loan. This decrease was partially offset by a \$0.2 million prepayment penalty incurred in the first quarter of fiscal year 2016.

Income Taxes. We recognized income tax expense of \$10.3 million and \$10.3 million in the 39 weeks ended October 29, 2016 and October 31, 2015, respectively. Before discrete items, the 2016 estimated annual effective tax rate is expected to be 38.6%, which is comparable to 38.5% for the full year 2015.

Seasonality

Due to holiday buying patterns and the openings of hunting season across the country, net sales are typically higher in the third and fourth fiscal quarters than in the first and second fiscal quarters. We also incur additional expenses in the third and fourth fiscal quarters due to higher volume and increased staffing in our stores. We anticipate our net sales will continue to reflect this seasonal pattern.

The timing of our new retail store openings also may have an impact on our quarterly results. First, we incur certain one-time expenses related to opening each new retail store, all of which are expensed as they are incurred. Second, most store expenses generally vary proportionately with net sales, but there is also a fixed cost component, which includes occupancy costs. These fixed costs typically result in lower store profitability during the initial period after a new retail store opens. Due to both of these factors, new retail store openings may result in a temporary decline in operating profit, in dollars and/or as a percentage of net sales.

Weather conditions affect outdoor activities and the demand for related clothing and equipment. Customers' demand for our products, and, therefore, our net sales, can be significantly impacted by weather patterns on a local, regional and national basis.

Liquidity and Capital Resources

Our primary capital requirements are for seasonal working capital needs and capital expenditures related to opening new stores. Our sources of liquidity to meet these needs have primarily been borrowings under our revolving credit facility, operating cash flows and short and long-term debt financings from banks and financial institutions. We believe that our cash on hand, cash generated by operating activities and funds available under our revolving credit facility will be sufficient to finance our operating activities for at least the next twelve months.

For the 39 weeks ended October 29, 2016, we incurred approximately \$29.8 million in capital expenditures. We expect total capital expenditures between \$35.0 million and \$40.0 million for fiscal year 2016. We intend to fund

these initiatives with our operating cash flows and funds available under our revolving credit facility. Other investment opportunities, such as potential strategic acquisitions or store expansion rates in excess of those presently planned, may require additional funding.

Cash flows from operating, investing and financing activities are shown in the following table:

| | Thirty-Nine Weeks Ended | |
|--|----------------------------|------------------------|
| | October 29, 2016 | October 31, 2015 |
| | (in thousands) | |
| Cash flows from operating activities | \$ (15,143) | \$ 3,856 |
| Cash flows from investing activities | (28,016) | (22,056) |
| Cash flows from financing activities | 43,741 | 18,390 |
| Cash and cash equivalents at end of period | 2,691 | 1,941 |

Net cash used in operating activities was \$15.1 million for the 39 weeks ended October 29, 2016, compared to net cash provided by operations of \$3.9 million for the corresponding period of fiscal year 2015, a change of approximately

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\$19.0 million. Our cash flows from operating activities decreased primarily due to inventory purchases relating to the 11 new stores opened in 2016 as well as inventory purchases for the upcoming 2016 holiday season.

Net cash used in investing activities was \$28.0 million for the 39 weeks ended October 29, 2016 compared to \$22.1 million for the corresponding period of fiscal year 2015. The change in our cash flows from investing activities is primarily a result of opening two additional stores in fiscal year 2016 compared to the number of stores opened in fiscal year 2015.

Net cash provided by financing activities was \$43.7 million for the 39 weeks ended October 29, 2016, compared to \$18.4 million for the corresponding period of fiscal year 2015. The increase in net cash provided by financing activities was primarily due to higher net borrowings on the line of credit of \$60.1 million during the three quarters of fiscal year 2016 compared to the corresponding period of fiscal year 2015. Net borrowings on the line of credit increased during the three quarters of 2016 in order to fund the \$19.7 million in prepayments on our term loan during the first quarter of fiscal year 2016 as well as borrowings to fund our working capital needs that are required to meet our growth during the remainder of the period.

Our outstanding debt consists of our senior secured revolving line of credit and our senior secured term loan.

Senior Secured Revolving Credit Facility. We have a senior secured revolving credit facility with Wells Fargo that provides for borrowings in the aggregate amount of up to \$135.0 million, subject to a borrowing base calculation. As of October 29, 2016, \$25.4 million was available for borrowing and \$85.3 million was outstanding under the revolving credit facility. The revolving credit facility matures on December 3, 2019.

Each of the subsidiaries of Holdings is a borrower under the revolving credit facility, and all obligations under the revolving credit facility are guaranteed by Holdings. All of our obligations under the revolving credit facility are secured by a lien on substantially all of Holdings' tangible and intangible assets and the tangible and intangible assets of all of our subsidiaries, including a pledge of all capital stock of each of our subsidiaries. The lien securing the obligations under the revolving credit facility is a first priority lien as to certain liquid assets, including cash, accounts receivable, deposit accounts and inventory. In addition, the credit agreement contains provisions that enable Wells Fargo to require us to maintain a lock-box for the collection of all receipts.

Borrowings under the revolving credit facility bear interest based on either, at our option, the base rate or LIBOR, in each case plus an applicable margin. The base rate is the higher of (1) Wells Fargo's prime rate, (2) the federal funds rate (as defined in the credit agreement) plus 0.50% and (3) the one-month LIBOR (as defined in the credit agreement) plus 1.00%. The applicable margin for loans under the revolving credit facility, which varies based on the average daily availability, ranges from 0.50% to 1.00% per year for base rate loans and from 1.50% to 2.00% per year for LIBOR loans. The weighted average interest rate on the amount outstanding under the revolving credit facility as of

October 29, 2016 was 2.38%.

Interest on base rate loans is payable monthly in arrears and interest on LIBOR loans is payable based on the LIBOR interest period selected by us, which can be 30, 60 or 90 days. All amounts that are not paid when due under our revolving credit facility will accrue interest at the rate otherwise applicable plus 2.00% until such amounts are paid in full.

We may be required to make mandatory prepayments under the revolving credit facility in the event of a disposition of certain property or assets, in the event of receipt of certain insurance or condemnation proceeds, upon the issuance of certain debt or equity securities, upon the incurrence of certain indebtedness for borrowed money or upon the receipt of certain payments not received in the ordinary course of business.

The revolving credit facility contains customary affirmative and negative covenants, including covenants that limit our ability to incur, create or assume certain indebtedness, to create, incur or assume certain liens, to make certain investments, to make sales, transfers and dispositions of certain property and to undergo certain fundamental changes, including certain mergers, liquidations and consolidations. The revolving credit facility also requires us to maintain a minimum availability at all times of not less than 10% of the gross borrowing base, and in any event, not less than \$5.0 million. The revolving credit facility also contains customary events of default. As of October 29, 2016, we were in compliance with all covenants under the revolving credit facility.

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Senior Secured Term Loan. We have a \$160.0 million senior secured term loan facility with a financial institution. The term loan was issued at a price of 99% of the aggregate principal amount and has a maturity date of December 3, 2020. The term loan requires quarterly principal payments of \$0.4 million payable on the last business day of each fiscal quarter continuing up to and including October 30, 2020. A final installment payment consisting of the remaining unpaid balance is due on December 3, 2020. As of October 29, 2016, there was \$137.1 million outstanding under the term loan.

All of Sportsman's Warehouse, Inc.'s obligations under the term loan are guaranteed by Holdings, Minnesota Merchandising Corporation, a wholly owned subsidiary of Holdings, and each of Sportsman's Warehouse, Inc.'s subsidiaries.

The term loan is secured by a lien on substantially all of the tangible and intangible assets of Sportsman's Warehouse, Inc. The lien securing the obligations under the term loan is a first priority lien as to certain non-liquid assets, including equipment, intellectual property, proceeds of assets sales and other personal property.

Sportsman's Warehouse, Inc. may be required to make mandatory prepayments on the term loan in the event of, among other things, certain asset sales, the receipt of payment in respect of certain insurance claims or upon the issuance or incurrence of certain indebtedness. Sportsman's Warehouse, Inc. may also be required to make mandatory prepayments based on any excess cash flows as defined in the term loan agreement.

The term loan bears interest at a rate per annum equal to the one-, two-, three-, or six-month LIBOR (or, the nine- or 12-month LIBOR), as defined in the term loan agreement, at our election, which cannot be less than 1.25%, plus an applicable margin of 6.00%.

The term loan contains customary affirmative and negative covenants, including covenants that limit our ability to incur, create or assume certain indebtedness, to incur or assume certain liens, to purchase, hold or acquire certain investments, to declare or make certain dividends and distributions and to engage in certain mergers, consolidations and asset sales. The term loan also requires us to comply with specified financial covenants, including a minimum interest coverage ratio and a maximum total net leverage ratio. The term loan also contains customary events of default. As of October 29, 2016, we were in compliance with all covenants under the term loan.

Critical Accounting Policies

Our financial statements are prepared in accordance with GAAP. In connection with the preparation of the financial statements, we are required to make assumptions, make estimates and apply judgment that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that we believe to be relevant at the time the condensed consolidated financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP.

However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Other than the early adoption of ASU 2015-03, ASU 2015-15, ASU 2015-17, and ASU 2016-09 as described in “Significant Accounting Policies” section in Note 2 to our condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the quarter ended April 30, 2016 and filed with the SEC on May 25, 2016, there have been no significant changes to our critical accounting policies as described in our Fiscal 2015 Form 10-K.

Off Balance Sheet Arrangements

We are not party to any off balance sheet arrangements.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that may require future cash payments for long-term debt, operating lease obligations, letters of credit or other purchase obligations. As a result of the regularly scheduled principal and interest payments on our term loan made on April 29, 2016, July 29, 2016, and October 28, 2016 as well as a mandatory prepayment and voluntary prepayments on our term loan made on April 1,

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2016, the total payments to be made with respect to our long-term debt obligations was reduced from \$210.3 million as of January 30, 2016 to \$177.5 million as of October 29, 2016, of which approximately \$2.9 million is payable during the remainder of fiscal year 2016. However, during the same period, we have increased our net borrowings under our revolving credit facility by \$60.0 million from \$25.3 million as of January 30, 2016 to \$85.3 million as of October 29, 2016. All other changes to our contractual obligations during the 39 weeks weeks ended October 29, 2016 were completed in the normal course of business and are not considered material.

Non-GAAP Measures

In evaluating our business, we use Adjusted EBITDA and Adjusted EBITDA margin as supplemental measures of our operating performance. We define Adjusted EBITDA as net income plus interest expense, income tax expense, depreciation and amortization, stock-based compensation expense, pre-opening expenses, secondary offering expenses, and other gains, losses and expenses that we do not believe are indicative of our ongoing expenses. In addition, Adjusted EBITDA excludes pre-opening expenses because we do not believe these expenses are indicative of the underlying operating performance of our stores. The amount and timing of pre-opening expenses are dependent on, among other things, the size of new stores opened and the number of new stores opened during any given period. Adjusted EBITDA margin means, for any period, the Adjusted EBITDA for that period divided by the net sales for that period. We consider Adjusted EBITDA and Adjusted EBITDA margin important supplemental measures of our operating performance and believe they are frequently used by analysts, investors and other interested parties in the evaluation of companies in our industry. Other companies in our industry, however, may calculate Adjusted EBITDA and Adjusted EBITDA margin differently than we do. Management also uses Adjusted EBITDA and Adjusted EBITDA margin as additional measurement tools for purposes of business decision-making, including evaluating store performance, developing budgets and managing expenditures.

Adjusted EBITDA is not defined under GAAP and is not a measure of operating income, operating performance or liquidity presented in accordance with GAAP. Adjusted EBITDA has limitations as an analytical tool, and when assessing our operating performance, you should not consider Adjusted EBITDA in isolation or as a substitute for net income or other condensed consolidated statement of operations data prepared in accordance with GAAP. Some of these limitations include, but are not limited to:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA may be defined differently by other companies, and, therefore, it may not be directly comparable to the results of other companies in our industry;
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; and
- Adjusted EBITDA does not reflect income taxes or the cash requirements for any tax payments.

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The following table presents a reconciliation of net income, the most directly comparable financial measure presented in accordance with GAAP, to Adjusted EBITDA for the 13 weeks and 39 weeks ended October 29, 2016 and October 31, 2015.

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|--------------------------------------|-------------------------|------------------------|----------------------------|------------------------|
| | October 29, 2016 | October 31, 2015 | October 29, 2016 | October 31, 2015 |
| | (dollars in thousands) | | | |
| Net income | \$ 10,514 | \$ 9,541 | \$ 19,129 | \$ 16,381 |
| Interest expense | 3,402 | 3,659 | 10,132 | 10,567 |
| Income tax expense | 6,630 | 5,969 | 10,313 | 10,255 |
| Depreciation and amortization | 3,696 | 3,033 | 10,162 | 8,564 |
| Stock-based compensation expense (1) | 906 | 594 | 2,463 | 1,671 |
| Pre-opening expenses (2) | 985 | 606 | 3,509 | 2,697 |
| Secondary offering expenses (3) | — | 727 | 143 | 727 |
| Litigation accrual (reversal) (4) | — | — | — | (4,000) |
| Adjusted EBITDA | \$ 26,133 | \$ 24,129 | \$ 55,851 | \$ 46,862 |
| Adjusted EBITDA margin | 12.0% | 12.6% | 10.0% | 9.4% |

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- (1) Stock-based compensation expense represents non-cash expenses related to equity instruments granted to employees under our 2013 Performance Incentive Plan and Employee Stock Purchase Plan.
- (2) Pre-opening expenses include expenses incurred in the preparation and opening of a new store location, such as payroll, travel and supplies, but do not include the cost of the initial inventory or capital expenditures required to open a location.
- (3) Expenses paid by us in connection with a secondary offering of our common stock by affiliates of Seidler Equity Partners III, L.P.
- (4) Based on the court's most recent judgment in our favor regarding the Lacey Marketplace litigation, we determined that the likelihood of loss in this case is not probable, and, as such, we reversed the previous accrual of \$4.0 million in our results for the 13 weeks and 39 weeks ended October 31, 2015. See Note 11 to our condensed consolidated financial statements.

Recent Accounting Pronouncements

For description of recent accounting pronouncements, see Note 2 to our condensed consolidated financial statements. Under the Jumpstart Our Business Startup Act, "emerging growth companies" ("EGCs"), we can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards, and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not EGCs.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal exposure to market risk relates to changes in interest rates. Our revolving credit facility and term loan carry floating interest rates that are tied to LIBOR, the federal funds rate and the prime rate, and, therefore, our income and cash flows will be exposed to changes in interest rates to the extent that we do not have effective hedging arrangements in place. We historically have not used interest rate swap agreements to hedge the variable cash flows associated with the interest on our credit facilities. At October 29, 2016, the weighted average interest rate on our borrowings under our revolving credit facility was 2.38%. Based on a sensitivity analysis at October 29, 2016, assuming the amount outstanding under our revolving credit facility would be outstanding for a full year, a 100 basis point increase in interest rates would increase our annual interest expense by approximately \$0.9 million. As long as LIBOR is less than 1.25%, the interest rates on our \$160.0 million term loan will be fixed at 7.25%. Since we entered into the term loan facility on December 3, 2014, LIBOR has not exceeded 1.25%. We do not use derivative financial instruments for speculative or trading purposes. However, this does not preclude our adoption of specific hedging strategies in the future.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this report, management, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon and as of the date of the evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of October 29, 2016 to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the 13 weeks ended October 29, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There were no material developments during the quarterly period ended October 29, 2016 with respect to our litigation in the Lacey Marketplace action described in Part I, Item 3 of our Fiscal 2015 Form 10-K. See Note 11, “Commitments and Contingencies” to our condensed consolidated financial statements for additional information.

We are also subject to various legal proceedings and claims, including employment claims, wage and hour claims, intellectual property claims, contractual and commercial disputes and other matters that arise in the ordinary course of our business. While the outcome of these and other claims cannot be predicted with certainty, we do not believe that the likelihood of a loss for any of these matters individually or in the aggregate is probable or reasonably estimable such that they will have a material adverse effect on our business, results of operations or financial condition.

ITEM 1A. RISK FACTORS

Our business faces significant risks and uncertainties. Certain important factors may have a material adverse effect on our business prospects, financial condition and results of operations, and you should carefully consider them. There have been no material changes in our assessment of our risk factors from those set forth in our Fiscal 2015 Form 10-K.

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ITEM 6. EXHIBITS

| Exhibit Number | Description |
|-------------------|---|
| 3.1 | Amended and Restated Certificate of Incorporation of Sportsman's Warehouse Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on June 11, 2014). |
| 3.2 | Amended and Restated Bylaws of Sportsman's Warehouse Holdings, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on June 11, 2014). |
| 31.1* | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance Document. |
| 101.SCH* | XBRL Taxonomy Extension Schema Document. |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document. |

* Filed herewith.

** Furnished herewith

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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.

SPORTSMAN'S WAREHOUSE HOLDINGS,
INC.

Date: November 18, 2016 By: /s/ John V. Schaefer
John V. Schaefer
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 18, 2016 By: /s/ Kevan P. Talbot
Kevan P. Talbot
Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)