

United States Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-QSB

Quarterly Report of Small Business Issuers under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended October 31, 2002

Commission File No. 029015

Smith & Wesson Holding Corporation

(Exact name of registrant as specified in its charter)

Nevada

87-0543688

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

14500 North Northsight Boulevard, Suite 116
Scottsdale, Arizona

85260

(Address of principal executive offices)

(Zip Code)

Issuer's telephone number, including area code: (480) 949-9700

The issuer has (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) been subject to such filing requirements for the past 90 days.

Number of shares outstanding of each of the issuer's classes of common equity:

Class

Outstanding as of December 13, 2002

Common stock, \$.001 par value

29,805,430

The issuer is not using the Transitional Small Business Disclosure format.

SMITH & WESSON HOLDING CORPORATION

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10QSB

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PART I: FINANCIAL INFORMATION**ITEM 1: FINANCIAL STATEMENTS****SMITH & WESSON HOLDING CORPORATION****CONSOLIDATED UNAUDITED BALANCE SHEET — OCTOBER 31, 2002**

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 9,859,651
Marketable securities	4,729,412
Accounts receivable, net of allowance for doubtful accounts of \$293,000	12,289,596
Inventories	18,274,431
Other current assets	4,028,959
Income tax receivable	198,334
	<hr/>
Total current assets	49,380,383
	<hr/>
Property, plant and equipment, net	9,123,848
Intangibles, net	3,350,676
Collateralized cash deposits	21,000,000
	<hr/>
	\$ 82,854,907
	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	
Accounts payable and accrued expenses	\$ 20,527,886
Deferred income	1,598,894
Due to Walther USA, LLC, net of investment deficit	32,953
	<hr/>
Total current liabilities	22,159,733
	<hr/>
Notes payable	45,000,000
	<hr/>
Other non-current liabilities	10,735,221
	<hr/>
Commitments and contingencies (Note 5)	—
Stockholders' equity:	
Common stock, \$0.001 par value, 100 million shares authorized 29,750,730 shares issued and outstanding	27,620
Additional paid-in capital	16,590,421
Accumulated deficit	(11,658,088)
	<hr/>
Total stockholders' equity	4,959,953
	<hr/>
	\$ 82,854,907
	<hr/>

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

SMITH & WESSON HOLDING CORPORATION
CONSOLIDATED UNAUDITED STATEMENTS OF INCOME (OPERATIONS)

	Three Months ended		Six Months ended	
	October 31, 2002	October 31, 2001	October 31, 2002	October 31, 2001
Net sales	\$23,470,085	\$19,918,682	\$44,028,847	\$31,154,751
Cost of goods sold	16,668,328	15,843,952	31,867,602	26,668,435
Gross Profit	6,801,757	4,074,730	12,161,245	4,486,316
Operating expenses:				
Research and development	106,344	140,580	301,713	284,257
Selling and marketing	2,445,821	2,172,935	4,724,105	3,629,106
General and administrative	3,757,357	1,758,945	6,511,198	4,479,160
Total operating expenses	6,309,522	4,072,460	11,537,016	8,392,523
Income (Loss) from operations	492,235	2,270	624,229	(3,906,207)
Other income/(expense):				
License income, net	371,138	258,817	646,199	620,913
Interest income	202,160	214,350	412,820	472,357
Interest expense	(800,193)	(2,613,667)	(1,697,006)	(5,570,603)
	(226,895)	(2,140,500)	(637,987)	(4,477,333)
Income (Loss) before income taxes	265,340	(2,138,230)	(13,758)	(8,383,540)
Income taxes	13,732	(1,712,226)	20,874	(1,837,226)
Net Income (Loss)	\$ 251,608	\$ (426,004)	\$ (34,632)	\$ (6,546,314)
Weighted average common equivalent shares outstanding:				
Basic	29,705,499	18,675,942	29,694,556	18,529,192
Diluted	33,676,970	18,675,942	29,694,556	18,529,192
Net Income (Loss) per share:				
Basic	\$ 0.01	\$ (0.02)	\$ (0.00)	\$ (0.35)
Diluted	\$ 0.01	\$ (0.02)	\$ (0.00)	\$ (0.35)

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

SMITH & WESSON HOLDING CORPORATION
CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS

	Six Months ended	
	October 31, 2002	October 31, 2001
Cash flows provided by (used for) operating activities:		
Net loss	\$ (34,632)	\$ (6,546,314)
Adjustments to reconcile net loss to cash provided by (used for) operating activities:		
Amortization and depreciation	544,201	546,549
Income tax benefit	—	(1,819,634)
Stock compensation for services rendered	—	110,900
Interest expense, including debt issue costs and beneficial conversion feature	—	3,600,000
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(360,831)	(3,105,805)
Inventories	1,090,644	5,134,826
Other current assets	(1,959,321)	2,651,246
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(3,534,187)	(1,742,480)
Income taxes	13,732	(31,377)
Deferred income	1,221	11,152
Net cash used for operating activities	<u>(4,239,173)</u>	<u>(1,190,937)</u>
Cash flows provided by (used for) investing activities:		
Net cash and cash equivalents acquired from business combination	—	28,598,168
Proceeds from marketable securities	2,809,862	7,385,000
Payments for patent costs	(59,272)	—
Payments to acquire property and equipment	(2,073,584)	(817,063)
Net cash provided by investing activities	<u>677,006</u>	<u>35,166,105</u>
Cash flows provided by (used for) financing activities:		
Payments on loans and notes payable, related party	(357,425)	
Payments on loans and notes payable, unrelated parties	—	(500,000)
Proceeds from exercise of warrants to acquire common stock	75,842	600,000
Net cash provided by (used for) financing activities	<u>(281,583)</u>	<u>100,000</u>

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

SMITH & WESSON HOLDING CORPORATION
CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS, CONTINUED

	Six Months ended	
	October 31, 2002	October 31, 2001
Net increase (decrease) in cash and cash equivalents	(3,843,750)	34,075,168
Cash and cash equivalents, beginning of period	13,703,401	69,110
Cash and cash equivalents, end of period	<u>\$ 9,859,651</u>	<u>\$34,144,278</u>
Supplemental disclosure of cash flow information:		
Cash paid for -		
Interest, including related party (2001 only)	\$ 1,697,006	\$ 1,501,724
Income taxes	\$ 7,616	\$ —
Supplemental disclosure of non-cash financing and investing activities:		
Issuance of stock for services, including acquisition related	\$ —	\$ 110,900
Shares and warrants issued to raise debt to acquire Smith & Wesson Corp.	\$ —	\$ 5,000,000
Payments on behalf of the Company to acquire Smith & Wesson Corp.	\$ —	\$ 5,000,000
Note issued to Tomkins as consideration to acquire Smith & Wesson Corp.	\$ —	\$10,000,000

SMITH & WESSON HOLDING CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2002 AND 2001

(1) Basis of Presentation:

Organization:

Smith & Wesson Holding Corporation, (the “Company”) was originally incorporated on June 17, 1991 in the State of Nevada as De Oro Mines, Inc.

On May 11, 2001, the Company purchased all of the outstanding stock of Smith & Wesson Corp. (“S&W”) for \$15,000,000 from Tomkins Corporation. Smith & Wesson Corp. was incorporated under the laws of the State of Delaware on January 13, 1987. Smith & Wesson Corp. has been in business since 1852, during which period ownership has changed on a few occasions. Prior to incorporation on January 13, 1987, Smith & Wesson Corp. operated as a division of Lear Siegler. On June 9, 1987, Tomkins Corporation (“Tomkins”), a company organized under the laws of the State of Delaware, acquired all the outstanding stock of S&W.

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of Smith & Wesson Holding Corporation and its wholly owned subsidiaries — Smith & Wesson Corp., Smith & Wesson Firearms Training Centre GMBH (Germany), Smith & Wesson Distributing, Inc. (United States) and Smith & Wesson, Inc. (United States). All significant intercompany accounts and transactions have been eliminated in consolidation.

Business Activity:

The Company, through its subsidiary Smith & Wesson Corp. (“S&W”), manufactures firearms and related products and accessories for sale through its distribution network and to public safety and military agencies in the United States and throughout the world. The Company also licenses, under contract, the Smith & Wesson name to qualifying entities for use on various products including but not limited to home security products, knives, golf clubs and bicycles.

The Company has two manufacturing facilities (in Springfield, Massachusetts and Houlton, Maine), both of which are used primarily to manufacture its products. However, the Company also uses its manufacturing capabilities at the Springfield facility to manufacture and process component parts for a number of other companies in a variety of industries.

Use of Estimates in Preparation of Financial Statements:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting periods. Operating results in the future could vary from the amounts derived from management’s estimates and assumptions. In addition, future facts and circumstances could alter management’s estimates with respect to the adequacy of insurance reserves.

Fair Value of Financial Instruments:

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Unless otherwise indicated, the fair values of all reported assets (except for certain marketable securities) and liabilities, which represent financial instruments, none of which are held for trading purposes, approximate the carrying values of such amounts.

Interim Financial Statements:

The accompanying unaudited interim condensed consolidated financial statements of Smith & Wesson Holding Corporation for the respective periods presented reflect all adjustments (consisting of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. These financial statements have been prepared in accordance with the instructions to Form 10-QSB and Article 10 of Regulation SB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's annual audited financial statements for the year ended April 30, 2002. Operating results for the six months ended October 31, 2002 are not necessarily indicative of the results that may be expected for the full fiscal year ending April 30, 2003.

Revenue Recognition:

Revenues from the sale of products are recognized when title to the products are transferred to the customer (product shipment) and only when no further contingencies or material performance obligations are warranted, and thereby have earned the right to receive and retain payments for products shipped and billed. The Company recognizes tooling, forging and engineering support revenues after acceptance by the customer and only when no further contingencies or material performance obligations are warranted, and thereby have earned the right to receive and retain payments for services performed and billed.

Licensing Income:

Royalties from licensing agreements are recognized as earned, only when no further contingencies or material performance obligations are warranted, and thereby have earned the right to receive and retain reasonably assured payments. Minimum royalty payments are invoiced and received over the contractual earnings period on a straight-line quarterly basis, which approximates the economic benefit period.

Deferred Revenues:

Deferred revenues represent deposits and prepayments from customers for products and services for which the revenue is not yet recognizable as the title has not transferred for products shipped or services have not yet been fully performed.

Inventories:

Inventories, consisting primarily of finished firearms components, finished firearms and related products and accessories, are valued at the lower of cost or market using the first-in, first-out (FIFO) method. An allowance for potential non-saleable inventory due to excess stock or obsolescence is provided based upon a detailed review of inventory components, past history and expected future usage.

S&W accounted for its inventory, valued at the lower of cost or market, using the last-in, first-out (LIFO) method until its acquisition by Saf-T-Hammer Corporation on May 11, 2001, when it adopted the accounting policy (FIFO method) of Saf-T-Hammer Corporation. For financial accounting and reporting purposes, the Company accounted for the inventory acquired on May 11, 2001 using the fair value method, which did not have any allowances or reserves. For tax purposes, the LIFO reserve as of May 11, 2001 approximated \$14.8 million, for which a deferred tax liability of approximately \$5.9 million was recorded. Under the Internal Revenue Code, the change in accounting method for its inventory for tax purposes from LIFO to FIFO requires the Company to reverse its LIFO reserve into income over an equal four-year period

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(25% per year). The Company plans to utilize its deferred tax assets, consisting primarily of net operating loss carryforwards and accrued liabilities to offset the LIFO to FIFO adjustment taxable income.

Other Comprehensive Income:

The Statement of Financial Accounting Standards Board No. 130 requires companies to report all components of comprehensive income in their financial statements, including all non-owner transactions and events which impact a company's equity, even if those items do not directly affect net income/(loss). Comprehensive income/(loss) is comprised of net income/(loss), and accordingly, no statement of Comprehensive Income/(Loss) is presented.

Recent Accounting Pronouncements:

In July 2001, the FASB issued SFAS No. 141 "Business Combinations." SFAS No. 141 supersedes Accounting Principles Board ("APB") No. 16 and requires that any business combinations initiated after June 30, 2001 be accounted for as a purchase; therefore, eliminating the pooling-of-interest method defined in APB 16. The statement is effective for any business combination initiated after June 30, 2001 and shall apply to all business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001 or later. The adoption of FASB 141 did not have a material impact to the Company's financial position or results of operations since the Company has not participated in such activities covered under this pronouncement.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangibles." SFAS No. 142 addresses the initial recognition, measurement and amortization of intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) and addresses the amortization provisions for excess cost over fair value of net assets acquired or intangibles acquired in a business combination. The statement is effective for fiscal years beginning after December 15, 2001, and is effective July 1, 2001 for any intangibles acquired in a business combination initiated after June 30, 2001. The adoption of FASB 142, "Goodwill and Other Intangibles" did not have a material impact to the Company's financial position or results of operations.

In October 2001, the FASB recently issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires companies to record the fair value of a liability for asset retirement obligations in the period in which they are incurred. The statement applies to a company's legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, and development or through the normal operation of a long-lived asset. When a liability is initially recorded, the company would capitalize the cost, thereby increasing the carrying amount of the related asset. The capitalized asset retirement cost is depreciated over the life of the respective asset while the liability is accreted to its present value. Upon settlement of the liability, the obligation is settled at its recorded amount or the company incurs a gain or loss. The statement is effective for fiscal years beginning after June 30, 2002. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Statement 144 addresses the accounting and reporting for the impairment or disposal of long-lived assets. The statement provides a single accounting model for long-lived assets to be disposed of. New criteria must be met to classify the asset as an asset held-for-sale. This statement also focuses on reporting the effects of a disposal of a segment of a business. This statement is effective for fiscal years beginning after December 15, 2001. The adoption of FASB 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" did not have a material impact to the Company's financial position or results of operations.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund

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Requirements” and FASB Statement No. 44, “Accounting for Intangible Assets of Motor Carriers”. This Statement amends FASB Statement No. 13, “Accounting for Leases”, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The Company does not expect the adoption to have a material impact to the Company’s financial position or results of operations.

In June 2002, the FASB issued Statement No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.” This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (“EITF”) Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not expect the adoption to have a material impact to the Company’s financial position or results of operations.

(2) Bank Line of Credit:

Bank Letters of Credit Facility

During August 2001, the Company’s subsidiary, S&W (“Borrower”) entered into an agreement for a general business purpose line of credit facility. Pursuant to the terms of this agreement, S&W may borrow up to \$8 million for letters of credit. The outstanding balance accrues interest at the prime rate (4.75% on October 31, 2002), and is due on demand. If the Company borrows or issues any letters of credit against this line, the Borrower will automatically pledge, assign, transfer and grant to the lender, a continuing lien and security interest in all of the Borrower’s liquid assets maintained with the lender. As of October 31, 2002, the Company had open letters of credit aggregating approximately \$5.9 million.

Bank Loan

During March 2002, the Company entered into a specific purpose loan agreement with its bank. The outstanding balance accrues interest at a rate of 5.85% per annum, and is collateralized by liquid assets of the Company, up to the face aggregate amount of the obligation. Interest is payable monthly and the principal is payable in monthly payments of \$166,060 starting April 28, 2004, and is due in full by March 28, 2014.

(3) Inventories:

A summary is as follows:

Raw materials	\$ 1,160,162
Work in process	1,665,378
Finished parts	7,007,944
Finished goods	8,440,947
	<hr/>
	\$18,274,431

(4) Stockholders’ Equity:

The Company sold 67,117 common stock shares pursuant to its Employee Stock Purchase Plan for \$75,842 during the three months ended October 31, 2002.

The Company granted 290,000 options to purchase 290,000 shares of the Company’s common stock to certain key employees and non-employee directors at an exercise price of \$1.18 per share. Additionally, the Company granted 300,000 options to purchase 300,000 shares of the Company’s common stock to a key employee at an exercise price of \$1.39 per share. The exercise price of all options is determined by the final closing price for the stock as of the day the options are granted. The Company accounts for Stock

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Options pursuant to APB 25 and accordingly, since the fair value of the underlying common stock equaled the exercise price at the grant date, no compensation expense has been recognized.

(5) Litigation:

The Company's subsidiary, S&W, together with other firearms manufacturers and certain related organizations, is a co-defendant in various legal proceedings involving product liability claims and is aware of other product liability claims including allegations of defective product design, manufacturing, negligent marketing and/or distribution of firearms leading to personal injury(s) including wrongful death. The lawsuits and claims are based principally on the theory of "strict liability" but also may be based on negligence, breach of warranty and other legal theories. In many of the lawsuits, punitive damages, as well as compensatory damages, are demanded. Aggregate claimed amounts presently exceed product liability accruals and, if applicable, insurance coverage. Management believes that, in every case, the allegations of defective product design are unfounded, and that the accident and any results therefrom were due to negligence or misuse of the firearm by the claimant or a third party and that there should be no recovery against S&W.

In addition, the Company is also co-defendant in various legal proceedings brought by certain cities, municipalities and counties, against numerous firearms manufacturers, distributors and dealers seeking to recover damages allegedly arising out of the misuse of firearms by third parties in shootings. The complaints by municipalities seek damages, among other things, for the costs of medical care, police and emergency services, public health services, and the maintenance of courts, prisons, and other services. In certain instances, the plaintiffs seek to recover for decreases in property values and loss of business within the city due to increased criminal violence. In addition, nuisance abatement and/or injunctive relief is sought to change the design, manufacture, marketing and distribution practices of the various defendants. These suits allege, among other claims, strict liability or negligence in the design of products, public nuisance, negligent entrustment, negligent distribution, deceptive or fraudulent advertising, violation of consumer protection statutes and conspiracy or concert of action theories.

The Company's management monitors the status of known claims and the product liability accrual, which includes amounts for asserted and unasserted claims. While it is difficult to forecast the outcome of these claims, in the opinion of management, after consultation with litigation counsel, it is uncertain whether the outcome of these claims will have a material adverse effect on the results of operations or financial condition of the Company, as management believes that it has provided adequate reserves.

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

Results of Operations for the Three and Six months Ended Oct. 31, 2002 Compared to the Three and Six months Ended Oct. 31, 2001

Revenues: Net sales for the three and six months ended Oct. 31, 2002 were \$23,470,085 and \$44,028,847, respectively. This represents an increase of 17.8% over net sales of \$19,918,682 for the three month period ended Oct. 31, 2001; and an increase of 41.3% over net sales of \$31,154,751 for the six month period ended Oct. 31, 2001.

Net sales of firearms and related products increased by \$2,177,342, or 13.5% for the three months ended Oct. 31, 2002 to \$18,343,481 from \$16,166,139 for the same three months ended Oct. 31, 2001. Net sales of firearms and related products increased by \$10,251,474, or 42.0% for the six months ended Oct. 31, 2002 to \$34,633,967 from \$24,382,493 for the same six months ended Oct. 31, 2001. This increase in net sales of firearms is due to increased demand for all handgun product lines, both domestically and internationally. For the current six month period, revolver sales accounted for 35.3% of the sales increase and Walther firearms accounted for another 50.0%.

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Gross Profit: For the three and six months ended Oct. 31, 2002, gross profit was \$6,801,757 and \$12,161,245, respectively, representing increases of \$2,727,027 or 66.9% and \$7,674,929 or 171.1% over the same periods in 2001.

Gross profit as a percentage of net sales (“gross profit margin”) for the three months ended Oct. 31, 2002 improved to 29.0% representing an improvement of 41.5% on the gross profit margin of 20.5% for the same period ended Oct. 31, 2001. Gross profit margin for the six months ended Oct. 31, 2002 improved to 27.6% representing an improvement of 91.7% on the gross profit margin 14.4% for the same period ended Oct. 31, 2001. For the three and six months ended Oct. 31, 2002, the improvement in gross profit margin is primarily the result of 1) higher sales volume with favorable production volume variance which accounted for 25.8% and 57.4%, respectively, of the improved gross profit margin and 2) the result of one-time purchase accounting adjustments to inventory that occurred. These adjustments totaled \$1,030,018 and \$2,876,638, and account for 15.7% and 34.4%, respectively, of the gross profit margin improvement, in the three and six months ended Oct. 31, 2002.

Operating Expenses: Total operating expenses for the three and six months ended Oct. 31, 2002 were \$6,309,522 and \$11,537,016, respectively, compared to \$4,072,460 and \$8,392,523, respectively, for the same periods ended Oct. 31, 2001. The rise in operating expenses is due to the costs associated with the Company’s increased sales revenues and continuing effort to increase domestic and international market share of firearms, as well as increased general and administrative costs supporting the Company’s efforts to develop “authorized user only handgun” or “smart gun” technology, introduce advanced law enforcement technology, expand its licensing presence and provide for S&W’s profit sharing program. For the three and six months ended Oct. 31, 2002, selling and marketing expenses increased \$272,886 and \$1,094,999, respectively; and, general and administrative expenses increased \$1,998,412 and \$2,032,038.

Interest Expense: Interest expense, net of interest income, for the three and six months ended Oct. 31, 2002 was \$598,033 and \$1,284,186, respectively, as compared to \$2,399,317 and \$5,098,246, respectively, for the same periods ended Oct. 31, 2001. This decrease is primarily due to the refinancing of its \$10.0 million and \$5.0 million notes, which existed at Oct. 31, 2001, with a \$15.0 million long term loan bearing a lower interest rate from Banknorth, N.A. Additionally, during the six months ended Oct. 31, 2001, the Company incurred non-cash financing costs with the issuance of common shares and warrants of \$5.0 million, which was amortized over the original life (1 year) of the \$5.0 million note, resulting in an interest expense of \$1.5 million and \$3.6 million, respectively, for the three and six months ended Oct. 31, 2001. Interest expense for the current period arose primarily from the note to Banknorth, N.A. and S&W’s \$30.0 million long term note to Tomkins. Both notes are more fully described under Liquidity and Capital Resources.

Other Income: Licensing income, net of licensing expense, for the three and six months ended Oct. 31, 2002 was \$371,138 and \$646,199, respectively, as compared to \$258,817 and \$620,913, respectively, for the same periods ended Oct. 31, 2001. The Company derives licensing income by allowing qualifying entities to place the Smith & Wesson name on various consumer and/or commercial products. Licensed products bearing the Smith & Wesson name must fit the Company’s growth strategy and maintain its quality standards. Currently, licensed products include, but are not limited to, home security products, knives, golf clubs and bicycles. During the current three month period, the Company has signed exclusive licensing agreements for specific home security products, golf clubs, and bicycles; and, continues to focus efforts on the growth of additional licensed products.

Income Taxes: For the three and six months ended Oct. 31, 2002, there is an estimated tax expense of \$13,732 and \$20,874, respectively, as compared to an estimated tax benefit of \$1,712,226 and \$1,837,226 for the same period ended Oct. 31, 2001. This tax expense is attributable to state taxes on profits of S&W, on an unconsolidated basis, for certain states.

Net Income/Loss: Net income for the three months ended Oct. 31, 2002 was \$251,608 or basic and diluted net income per share of \$0.01 compared to a net loss of \$426,004 or basic and diluted net loss per share of \$0.02 for the same period ended Oct. 31, 2001. Net loss for the six months ended Oct. 31, 2002 was

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\$34,632 or basic and diluted net loss per share of \$0.00 compared to a net loss of \$6,546,314 or basic and diluted net loss per share of \$0.35 for the same period ended Oct. 31, 2001.

Liquidity and Capital Resources

The Company had cash, cash equivalents and short-term investments of \$35.6 million at Oct. 31, 2002. Of this amount, approximately \$21.0 million was held as collateral for the line of credit and long-term note with Banknorth, N.A. as described below. A majority of the cash and cash equivalents of the Company are held by S&W. The Company's use of cash held by S&W is subject to certain covenants and restrictions imposed by the terms of the S&W acquisition and its lenders. These restrictions include limitations on the use of cash, dividends paid to the Company by S&W and S&W's ability to incur or guaranty indebtedness.

The Company used \$4.3 million of net cash for operating activities during the six months ended Oct. 31, 2002 compared to cash used for operating activities of \$1.2 million during the same period ended Oct. 31, 2001. The \$1.2 million of cash used for operating activities for the six months ended Oct. 31, 2001 is net of a \$5.1 million repayment on secured deposits related to the acquisition of S&W. The Company continues to focus on inventory reduction as evidenced by the \$1.1 million decrease in the six months ended Oct. 31, 2002. The increase in accounts payable and accrued expenses reflects higher insurance and legal expenses as well as an increase in the annual contribution to the S&W profit sharing fund.

Net cash provided by investing activities was \$0.7 million for the six months ended Oct. 31, 2002 compared to cash provided by investing activities of \$35.2 million for the same period ended Oct. 31, 2001. Substantially all of the cash provided by investing activities in the prior year related to the acquisition of S&W. Net cash provided by investing activities in the current period primarily relates to the maturing of marketable securities partially reduced by costs to acquire new equipment and pursue new patents. Net cash provided by investing activities is now held as cash and marketable securities. The Company maintains its cash in money market and bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Net cash used for financing activities was \$281,583 during the six months ended Oct. 31, 2002 compared to cash provided by financing activities of \$100,000 during the same period ended Oct. 31, 2001. Cash used for financing activities in the current year arose from the repayment of a \$357,425 related party note payable partially offset by \$75,842 cash provided by the sale of common stock through the Company's Employee Stock Purchase Program. The Company does not anticipate a need for external financing in FY2003.

As of Oct. 31, 2002, the Company had total long-term debt of \$45.0 million; \$15.0 million due from the Company to Banknorth, N.A., and \$30.0 million due from S&W to Tomkins Corporation. S&W also has an available line of credit up to \$8.0 million with Banknorth used for stand-by and commercial letters of credit and working capital. Terms of the line of credit include interest at the lender's prime rate (currently 4.75%); and require S&W to repay the outstanding balance at any time upon demand and provide cash collateral to the extent that this credit line is used. There were no borrowings under the line of credit as of Oct. 31, 2002, however, S&W had open letters of credit approximating \$5.9 million.

The Company obtained a \$15.0 million long-term loan from Banknorth in April 2002 to repay short-term debt related to the S&W acquisition. This note accrues interest at a fixed rate of 5.85% and has a 12 year term which commenced on March 28, 2002. The note is amortized over a 10 year period, requires monthly interest-only payments until March 28, 2004, and monthly principal and interest payments thereafter for the life of the loan. The loan is fully collateralized by S&W marketable securities and/or cash.

The remaining \$30.0 million debt relates to an existing obligation by S&W to Tomkins and was guaranteed by the Company as a part of the acquisition agreement. The note accrues interest at a fixed rate of 9.0% and has a term of 10 years which commenced on May 11, 2001. It is unsecured, may be prepaid in part or in whole at any time, and is amortized over a 10 year period. The note requires monthly interest-only payments until May 11, 2004, and monthly principal and interest payments thereafter for the life of the loan. Although the loan is unsecured, it does contain covenants restricting the Company's use of S&W cash

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and other assets, limits the amount of dividends that may be paid to the Company to \$1.8 million per year (other than for the year ended April 30, 2002), and requires immediate repayment if there is a change in ownership of S&W or a change in control of the Company.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, financing operations, and contingencies and various litigations. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of the Company's financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources, primarily allowance for doubtful accounts receivables, accruals for operating activities, environmental remediation costs, product liability and related legal fees, and the classification and realization of net operating loss and tax credit carryforwards between current and long-term assets. These accounting policies are described at relevant sections in this discussion and analysis and in the notes to the consolidated financial statements included in our Annual Report on Form 10-KSB for the fiscal year ended April 30, 2002.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This report on Form 10-QSB contains “forward-looking statements” within the meaning of Sections 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and the Company intends that such forward-looking statements be subject to the safe harbors created thereby. The Company is hereby providing cautionary statements identifying important factors that could cause the Company’s actual results to differ materially from those projected in forward-looking statements of the Company herein. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions, future events or performances (often, but not always through the use of words or phrases such as “will result,” “expects to,” “will continue,” “anticipates,” “plans,” “intends,” “estimated,” “projects,” and “outlook”) are not historical facts and may be forward-looking and, accordingly, such statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in the forward-looking statements. Such “forward-looking statements” are subject to risks and uncertainties set forth from time to time in the Company’s SEC reports and are generally set forth below and particularly discussed in the Company’s Form 10-KSB for the year ended April 30, 2002.

Risk Factors

- We are subject to sales cycles driven by national events (such as 9/11/2001) which can cause dramatic increases or decreases in demand for our products and have no ability to predict or control those cycles.
- We are subject to seasonal fluctuations in demand and, based on historical trends, believe that the quarter ended July 31 is our weakest quarter.
- We are defending many lawsuits brought by various cities and counties arising out of the design, manufacture, marketing and distribution of our handguns. While we are vigorously defending these lawsuits and believe they are without merit and further believe our insurance is adequate in light of judgments entered against the industry to date, there is no assurance that a jury may not render a judgment against us in excess of insurance coverage limits.
- If forced to comply with a settlement with HUD restricting our design, manufacturing, marketing and distribution of firearm products, we could be substantially impaired from competing with manufacturers who sell competing products. We believe the HUD Settlement is not legally binding but can provide no assurance that a court would not rule otherwise.
- We have substantial repayment obligations related to the purchase of our wholly-owned subsidiary, Smith & Wesson Corp. for which we are developing a viable sales model to generate sufficient cash flow to make the payments required. Various covenants prohibit us from making payments directly from our subsidiary, Smith & Wesson Corp.
- Our two significant notes contain covenants limiting our discretion with respect to various business matters.
- Costs of insurance for all firearms manufacturers continue to increase and we in particular have been impacted by those increases.
- We are still seeking to overcome adverse publicity from past settlement agreements.
- Some of our competitors’ cost structures are more advantageous than ours.
- We operate in a highly regulated business at the international, national, state and local levels and there is no assurance that regulation may not increase having a material adverse effect on our business, including not only regulation related to firearm production itself but also related to environmental laws in a manufacturing context in general.

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- We are currently engaged in remedial investigation and cleanup activities at certain sites and cannot be sure that we have identified all existing contamination or will not cause contamination in the future making our reserves of \$4.1 million inadequate.
- Demand for our products is subject to the popularity of our product line, acceptance of new product designs, ongoing quality control and adequate supply of Walther products from our German trading partner.

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities exchange Act of 1934, as amended (the "Exchange Act")) as of a date within 90 days of the filing of this quarterly report (the "Evaluation Date"), have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Exchange Act and the rules and regulations promulgated thereunder.

(b) Changes in Internal Controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the Evaluation Date.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The nature of the legal proceedings against the Company is discussed in Note 5 to the consolidated financial statements included in this Report on Form 10-QSB, which is incorporated herein by reference. The Company has previously reported all cases instituted against it through September 10, 2002, and the results of those cases where terminated, in its Form 10-KSB and Form 10-QSB reports previously filed with the Securities and Exchange Commission (the "SEC"), to which reference is here made.

No new cases were instituted against the Company or its wholly-owned subsidiary Smith & Wesson Corp. ("S&W") during the three months ended October 31, 2002.

The following describes (i) one dismissed case, and (ii) material updates to previously reported pending cases since the filing of the most recent Form 10-QSB.

Cases Dismissed or Resolved

The following previously reported case has been dismissed:

Mayor James H. Sills, Jr., et al. v. Smith & Wesson Corp., et al., in the Superior Court of the State of Delaware in and for New Castle County. On December 3, 2002, the court granted defendants' motion for summary judgment on the issue of damages. Plaintiffs' notice of appeal is due on January 2, 2003. Plaintiffs have not indicated whether they will appeal.

Pending Cases

The following describes material updates to cases previously reported by the Company.

City of Chicago and County of Cook v. Beretta U.S.A. Corp., et al., in the Circuit Court of Cook County, Illinois. On November 4, 2002, the Appellate Court of Illinois issued an opinion reversing the trial court's decision granting defendants' motion to dismiss plaintiffs' public nuisance claim and remanding the case

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back to the trial court. On November 25, 2002, defendants' petition for leave to appeal was filed with the Illinois Supreme Court. On the same day, however, Defendant Sports Authority filed a petition for rehearing in the appellate court, which divested the supreme court of jurisdiction over the case. As such, the petition for rehearing will have to be resolved before the supreme court may consider the petition for leave to appeal.

Dennis W. Archer, Mayor of the City of Detroit, et al. v. Arms Technology, Inc., et al., in the Circuit Court for the County of Wayne in Michigan. On November 19, 2002, oral argument was held before the Michigan Court of Appeals. No decision has issued to date.

City of Gary, Indiana, by its Mayor, Scott L. King v. Smith & Wesson Corp., et al., in Lake Superior Court, Indiana. On September 20, 2002, the Indiana Court of Appeals issued an opinion affirming the trial court's dismissal of plaintiff's claims against the manufacturer defendants. The court reversed and remanded the decision of the trial court as to certain dealer defendants against whom plaintiff alleged specific violations of firearms laws. On October 21, 2002, plaintiff filed a Petition to Transfer to the Indiana Supreme Court. No decision has issued on the petition to date.

Mayor James Sharpe, and the City of Newark, New Jersey v. Arcadia Machine & Tool, et al., in the Superior Court of New Jersey in Essex County, New Jersey. Oral argument on defendants' application for interlocutory appeal is scheduled before the Superior Court of New Jersey, Appellate Division on December 9, 2002.

City of St. Louis, Missouri v. Henry J. Cernicek, et al., in the Circuit Court of the City of St. Louis, Missouri. Briefing on defendants' renewed motion to dismiss was completed on November 1, 2002. A hearing on the renewed motion is scheduled for January 24, 2003.

Edward H. McNamara, Wayne County Executive, et al. v. Arms Technology, Inc., et al., in the Circuit Court for the County of Wayne in Michigan. On November 19, 2002, oral argument was held before the Michigan Court of Appeals. No decision has issued to date.

Anthony Ceriale, Special Administrator of the Estate of Michael Ceriale, Deceased v. Smith & Wesson Corp., et al., in the Circuit Court of Cook County, Illinois. On October 2, 2002, the Illinois Supreme Court granted the Petition for Leave to Appeal filed by Smith & Wesson and Bryco Arms. Their opening brief is due on December 11, 2002. This case remains consolidated with the Smith and Young cases described in Form 10-KSB for purposes of appeal only.

The National Association for the Advancement of Colored People, et al. v. American Arms, Inc., et al., in the United States District Court for the Eastern District of New York. (This case consolidates National Association for the Advancement of Colored People, et al. v. American Arms, Inc. with National Association for the Advancement of Colored People, et al. v. AccuSport Corporation, et al.). On December 10, 2002, Defendants' Motion for Summary Judgment for Lack of Standing was denied. On October 9, 2002, defendants filed a Petition for Writ of Mandamus on the issue of standing with the United States Court of Appeals for the Second Circuit. No ruling has been issued on defendants' petition to date. Trial is scheduled to begin on March 24, 2003.

Tenedora Tuma, S.A. v. Smith & Wesson Corp., in the Civil and Commercial Court of the First District of the Court of First Instance of the National District, Santo Domingo, Dominican Republic. Briefing on the merits of the case was completed in the trial court in November. No decision or judgment on the merits of the case has been issued by the judge to date.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.33 Executive Employment Agreement of Roy Cuny

(b) Report on Form 8-K:

The Company filed a Current Report on Form 8-K on September 16, 2002, relating to the CEO's and CFO's Certifications Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: December 16, 2002

SMITH & WESSON HOLDING CORPORATION, a
Nevada corporation

By: /s/ Mitchell A. Saltz

Mitchell A. Saltz, CEO, Director

CERTIFICATIONS

I, Mitchell A. Saltz, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Smith & Wesson Holding Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 16, 2002

/s/ Mitchell A. Saltz

Mitchell A. Saltz
Chief Executive Officer
(Principal Executive Officer)

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I, Damian A. Larson, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Smith & Wesson Holding Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 16, 2002

/s/ Damian A. Larson

Damian A. Larson
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit No	Description
10.33	Executive Employment Agreement of Roy Cuny

EXECUTIVE
EMPLOYMENT AGREEMENT
R. CUNY

This Employment Agreement, is made and entered into as of October 22, 2002, between SMITH & WESSON HOLDING CORPORATION, a Nevada corporation (the "Company"), and ROY CUNY, an individual ("Employee").

In consideration of the covenants and agreements set forth herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. DEFINITIONS. For purposes of this Agreement, the following terms shall have the meanings indicated:

1.1 Company means Smith & Wesson Holding Corporation or any successor entity.

1.2 Company Board means the Company Board of Directors or the Board of Directors of any successor entity of Company.

1.3 Effective Date means the date first set forth above.

1.4 Termination for Cause means the termination of employment of Employee by the Company's Chief Operating Officer and/or Chief Executive Officer because of Employee's personal dishonesty, substantial and intentional failure to perform reasonably designated duties, willful misconduct, material breach of fiduciary duty involving personal profit, willful violation of any material law, rule or regulation resulting in a detriment to the Company or reflecting upon the Company's integrity (other than minor traffic infractions or similar minor offenses) or a material breach by Employee of any term of this Agreement. With respect to all such grounds except for those involving personal dishonesty or violation of criminal or securities law, Employee shall be provided ten (10) days written notice thereof and a reasonable opportunity to cure such breach. Only upon the failure to cure such breach within ten (10) days after receipt of such written notice from the Company specifying the nature of such breach, or the failure to pay compensation to the Company deemed reasonable by the Company if the breach cannot be cured, may Employee be terminated for cause.

1.5 Total and Permanent Disability means an injury or illness of Employee that prevents him from performing his customary duties and which is expected to be of long continued and indefinite duration and that has caused Employee's absence from service for at least sixty (60) days.

2. EMPLOYMENT. The Company hereby employs Employee and Employee accepts employment on the terms and conditions set forth herein.

2.1 Term. The term of this Agreement shall commence on the date hereof and shall end on the Expiration Date unless terminated in accordance with the provisions of Section 3 hereof. The "Expiration Date" shall initially be the first anniversary of the Effective Date, provided that unless either the Company or Employee elects otherwise at least ninety (90) days prior to any applicable Expiration Date, the Expiration Date shall be extended automatically for an additional two (2) years.

2.2 Duties and Responsibilities. Employee shall initially serve as the Vice President of Operations of the Company and be responsible for such duties as may be prescribed to him from time to time by the Company Board, the Chief Executive Officer of the Company and/or the Chief Operating Officer of the Company. Such duties may include, without limitation, overseeing the Company's subsidiary Smith & Wesson Corp. ("S&W"), maximizing the efficiency of its operations, reviewing the performance and compensation of all its personnel, and attending meetings from time to time at the headquarters of the Company as may be called by its officers and the Company Board. Employee shall initially be located at the principal place of business of S&W in Springfield, Massachusetts. Employee shall have such title with at least as much status, authority and responsibility as his initial position as may be designated by the Company Board from time to time.

2.3 Compensation. During the term of this Agreement and so long as Employee's employment has not been subject to Termination for Cause, he shall be entitled to the salary and other employment benefits provided in this Section 2.3. Employee shall be entitled to an annual salary of \$200,000.00 payable pursuant to the Company's employment compensation policy as may exist from time to time. Employee shall be entitled to prompt reimbursement for business expenses on such basis as may be in effect from time to time. Employee shall also be entitled to such fringe benefits and receive such performance bonus(es) as may be agreed to from time to time in writing by Employee and the Company.

2.4 Additional Consideration. Upon the execution of this Agreement, Employee shall be entitled to receive stock options pursuant to the Company's Stock Option Plan to purchase 300,000 shares of Common Stock of the Company, which options shall have an exercise price equal to the market price as of the Effective Date and vest in three equal annual installments beginning on the first anniversary of the Effective Date.

3. TERMINATION. Employee's employment under this Agreement shall terminate upon the occurrence of any one of the following events:

3.1 Total and Permanent Disability. In the event that Employee suffers Total and Permanent Disability, the Company may terminate Employee's

employment, but shall be obligated to continue Employee's then regular salary and continue his benefits hereunder for six months. Employee agrees, in the event of any dispute under this Section, to submit to a physical examination by a licensed physician selected by the Company, the cost of such examination to be paid by the Company, and the decision as to Employee's disability shall be conclusive and binding upon the Company and Employee. Nothing contained herein shall be construed to affect Employee's rights under any disability insurance or similar policy, whether maintained by the Company, Employee or another party.

3.2 Death. This Agreement shall terminate upon the death of the Employee and no further liability to Employee or to Employee's estate hereunder shall remain. Nothing contained herein shall be construed to affect Employee's rights under any life insurance or similar policy, whether maintained by the Company, or another party.

3.3 Termination for Cause. The Company may terminate Employee's employment for cause. The Company shall have no further obligation to pay salary or benefits hereunder after the date of any Termination for Cause.

3.4 Termination Without Cause. In the event the Company terminates Employee's employment "without cause", the Company shall continue to be liable to compensate Employee as set forth in this Section 3.4 for the twelve month period following such termination. Such compensation shall consist solely of (a) salary in an amount equal to Employee's then-existing base salary multiplied by 1.5, plus (b) such fringe benefits as are in place at the time of termination. Employee shall receive no bonus compensation during such twelve month period except for such bonus(es) which pertain to a period prior to such termination and have been accrued but are not due and payable until after such date.

3.5 Good Reason Termination by Employee. The Employee may terminate employment hereunder for "Good Reason" by delivering to the Company (1) a Preliminary Notice of Good Reason (as defined below), and (2) not earlier than thirty (30) days from the delivery of such Preliminary Notice, a Notice of Termination. For purposes of this Agreement, "Good Reason" means (i) the failure to continue the Employee as Vice President of Operations of the Company or in another capacity contemplated by Section 2 hereof; (ii) the assignment to the Employee of any duties materially inconsistent with the Employee's positions, duties, authority, and responsibilities as set forth in Section 2 hereof; (iii) a reduction in or a material delay in payment of the Employee's total cash compensation and benefits from those required to be provided in accordance with the provisions of this Agreement; (iv) the Company, the Board or any person controlling the Company requires the Employee to be based outside of the United States, other than on travel reasonably required to carry out the Employee's obligations under the Agreement; or (v) the failure of the Company to obtain the assumption in writing of its obligation to perform this Agreement by any successor to all or substantially all of the assets of the Company within 15 days after a merger,

consolidation, sale or similar transaction; provided, however, that "Good Reason" shall not include (1) acts not taken in bad faith which are cured by the Company in all respects not later than thirty (30) days from the date of receipt by the Company of a written notice from the Employee identifying in reasonable detail the act or acts constituting "Good Reason" (a "Preliminary Notice of Good Reason") or (2) acts taken by the Company by reason of the Employee's physical or mental infirmity which impairs the Employee's ability to substantially perform his duties under this Agreement. Notwithstanding the foregoing, in no event shall any new bonus arrangement be deemed to be a Good Reason. A Preliminary Notice of Good Reason shall not, by itself, constitute a Notice of Termination.

4. COVENANT NOT TO COMPETE AND CONFIDENTIALITY.

4.1 Covenant Not to Compete. Employee shall not engage in any business or perform any service, directly or indirectly, or have any interest, whether as a proprietor, partner, employee, investor, principal, agent, consultant, director or officer, in any enterprise which manufactures guns or gun accessories for commercial purposes in the United States or which is in substantial competition with the business of the Company (i) during the term of his employment, and (ii) for twenty-four months after the termination of this Agreement. Nothing in this Section 4 shall be deemed to prohibit Employee from purchasing less than one percent (1%) of the outstanding shares of any corporation whose shares are traded on a national exchange and which, at the time of purchase, is not engaged in competition with the Company. If any court shall determine that the duration or geographical limit of the foregoing restriction is unenforceable, it is the intention of the parties that the foregoing restriction shall not be terminated but shall be deemed amended to the extent required to render it valid and enforceable, such amendment to apply only with respect to the operation of this Section 4 in the jurisdiction of the court that has made the adjudication.

4.2 Confidential Information. Employee acknowledges that he has and will have access to trade secrets and confidential business information of the Company throughout the term of this Agreement and that any such trade secret or confidential information, regardless of whether Employee alone or with others developed any such trade secret or confidential information, shall be and shall remain the property of the Company. During the term of this Agreement and after termination of employment, Employee shall not, either voluntarily or involuntarily, on either his own account, as a member of a firm, or on behalf of another employer or otherwise, directly or indirectly use or reveal to any person, partnership, corporation or association any trade secret or confidential information of the Company, its subsidiaries, or their affiliates. Such trade secrets shall include, but shall not be limited to, business plans, marketing plans or programs, financial information, forecasts, compensation arrangements, contracts (whether leases, financing arrangements, or other contracts) customer lists, and business opportunities. The term "trade secrets" shall not include information generally available to the public or a governmental agency except such term "trade secrets" shall include information provided to the Securities and Exchange Commission or other governmental

agency on a confidential basis. Employee will not make available to any person, partnership, limited liability company, corporation or association, or retain after termination of employment, any Company or S&W policy manuals, contracts or other written materials.

4.3 Noninterference with Employees. During the term of Employee's employment, and for a period of twelve (12) months thereafter, Employee shall not, in any manner, directly or indirectly, solicit or assist others to solicit, or employ, hire or otherwise engage or collaborate with persons who are then-employees of the Company or its subsidiaries who were employees at any time during the then-prior three (3) month period, save and except such employees, if any, with whom Employee had a pre-existing business relationship as of the Effective Date. Without limitation as to duration, Employee shall not interfere with the employment relationships between the Company, its subsidiaries and their respective employees and shall not use or disclose employee lists or data in violation of Section 4.2 above.

4.4 Noninterference with Customers. During the term of Employee's employment, and for a period of twelve (12) months thereafter, Employee agrees not to solicit or assist others to solicit, in any manner, directly or indirectly (as defined below), for the purpose of providing products or services similar or related to those provided by the Company, persons who are current or prospective customers of the Company. Without limitation as to duration, Employee shall not interfere with any present or prospective business relationships between the Company and current or prospective customers.

4.5 Reasonableness of Limitations. EMPLOYEE ACKNOWLEDGES HAVING CAREFULLY READ AND CONSIDERED THE PROVISIONS OF THIS AGREEMENT AND AGREES THAT THE RESTRICTIONS AND OTHER OBLIGATIONS SET FORTH IN THIS AGREEMENT, INCLUDING THE DURATION AND SCOPE OF THE RESTRICTIONS ON COMPETITION, ARE FAIR AND REASONABLE. Employee acknowledges that the Company offers unique and specialized products and services that have been developed as a result of a substantial investment of time and money, that Employee will be an important employee with access to highly confidential and valuable proprietary information and materials, and that the restrictions and other obligations set forth in this Agreement are reasonable and necessary to protect the good will, proprietary rights, confidential information and other legitimate business interests of the Company. Employee acknowledges that this Agreement will not preclude or unreasonably impair Employee's ability to obtain other employment or otherwise earn a living after termination of employment with the Company, and understands that it may be necessary to relocate temporarily if Employee desires to continue to exercise, during the restricted period, the same skills provided to the Company. Employee acknowledges and agrees that the employment and compensation and other consideration that Employee will receive while employed pursuant to this Agreement is appropriate and sufficient consideration for Employee to agree to the restrictions and other obligations set forth in this Agreement. Employee acknowledges

and agrees that the restrictions and other obligations, including the acknowledgments and agreements set forth in this section, are material to the Company and that the consideration given by the Company and received by Employee under this Agreement is given by the Company in reliance on the full enforceability of this Agreement.

4.6 Nondisparagement. During the term of Employee's employment and after termination of Employee's employment, Employee and Company agree to refrain from making any disparaging statements about each other.

4.7 Injunctive Relief. Employee acknowledges that the restrictions contained in this Section 4 are a reasonable and necessary protection of the immediate interests of the Company and that any violation of these restrictions would cause substantial injury to the Company. In the event of a breach or threatened breach by Employee of these restrictions, each of the Company shall be entitled to apply to any court of competent jurisdiction for an injunction restraining Employee from such breach or threatened breach; provided, however, that the right to apply for an injunction shall not be construed as prohibiting either the Company from pursuing any other available remedies for such breach or threatened breach.

4.8 Definition of the Company. For purposes of this Section 4 only, "Company" shall mean the Company, S&W and their respective subsidiaries and affiliates.

5. BINDING EFFECT; ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of Employee, the Company and their respective heirs, executors, administrators, successors and assigns; provided, however, that Employee may not assign his rights hereunder without the prior written consent of the Company and may not assign his obligations hereunder. The Company may assign either its rights or obligations hereunder to any of its subsidiaries or affiliated corporation or to any successor to substantially all of the assets or business of the Company.

6. AMENDMENTS. This Agreement may not be amended, modified or supplemented in any respect except by a subsequent written agreement executed by the Company and Employee.

7. MISCELLANEOUS.

7.1 Entire Agreement. This Agreement rescinds and supersedes any other agreement, whether oral or written, relating to Employee's employment by the Company and contains the entire understanding between the parties relative to the employment of Employee, there being no terms, conditions, warranties, or representations other than those contained or referred to herein, and no amendment hereto shall be valid unless made in writing and signed by both of the parties hereto.

7.2 Governing Law; Venue. This Agreement shall be interpreted and construed in accordance with the laws of the State of Arizona as applied to residents of Arizona without regard to conflicts of law principles. Any suit, action or other proceeding brought by Employee which stems from or relates to the subject matter of this Agreement shall be limited solely to an action brought in either U.S. District Court in Phoenix, Arizona or Maricopa County (Arizona) Superior Court.

7.3 Severability. In the event that any provisions herein shall be legally unenforceable, the remaining provisions nevertheless shall be carried into effect.

7.4 Attorneys' Fees. In the event of any litigation between the parties hereto arising out of the terms, conditions and obligations expressed in this Agreement, the prevailing party in such litigation shall be entitled to recover reasonable attorneys' fees incurred in connection therewith.

7.5 Notices. All notices required or permitted to be given hereunder shall be deemed given if in writing and delivered personally or sent by telex, telegram, telecopy, or forwarded by prepaid registered or certified mail (return receipt requested) to the party or parties at the following addresses (or at such other addresses as shall be specified by like notices), and any notice, however given, shall be effective when received:

To Employee:

Roy Cuny
4716 Lakeside Drive
Colleyville, TX 76034

To Company:

Smith & Wesson Holding Corporation
14500 N. Northsight Boulevard, Suite 116
Scottsdale, AZ 85260

7.6 Waiver. The waiver by any party of a breach of any provision of this Agreement by the other shall not operate or be construed as a waiver of any subsequent breach of the same provision or any other provision of this Agreement.

7.7 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

7.8 Headings. The subject headings to the sections in this Agreement are included for purposes of convenience only and shall not affect the construction or interpretation of any of its provisions.

7.9 Construction. Each party has had the opportunity to set forth in this Agreement all matters related to the subject hereof. The Company and Employee acknowledge the binding legal effect of this Agreement, that this Agreement has been negotiated by the parties hereto and that each party has, to the extent desired, sought legal counsel related to the terms, conditions and effect of this Agreement.

7.10 Assistance in Litigation. Employee shall upon reasonable notice, furnish such information and reasonable assistance to the Company as it may reasonably require in connection with any litigation in which it is, or may become, a party either during or after employment. Employee will be entitled to, and will receive, reasonable compensation for his time and expenses, including attorneys' fees, for such assistance if no longer employed by Company when providing such assistance.

7.11 Limited Effect of Waiver. Should the Company or Employee waive breach of any provision of this Agreement by the other, that waiver will not operate or be construed as a waiver of further breach by such party.

7.12 No Contrary Binding Obligations. Employee represents and warrants to the Company that he is not bound by any contract, obligation or other agreement that will adversely affect his ability to perform his duties hereunder. Employee shall indemnify and hold harmless the Company and its affiliates from any breach of such representation and warranty.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first hereinabove written.

COMPANY:

SMITH & WESSON HOLDING CORPORATION,
a Nevada corporation

By: /s/ Colton R. Melby

Its: President

EMPLOYEE:

/s/ Roy Cuny

Roy Cuny