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

Form 10-Q

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

For the quarterly period ended July 31, 2011

Commission File No. 001-31552

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.)*
2100 Roosevelt Avenue Springfield, Massachusetts	**01104**
(Address of principal executive offices)	*(Zip Code)*

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

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

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 o

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. (Check one):

Large accelerated filer o	Accelerated filer ☑	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The registrant had 64,611,531 shares of common stock, par value $0.001, outstanding as of September 1, 2011.

SMITH & WESSON HOLDING CORPORATION
Quarterly Report on Form 10-Q
For the Three Months Ended July 31, 2011

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PART I — FINANCIAL INFORMATION

Item 1. ***Financial Statements***

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of:

	July 31, 2011 (Unaudited)	April 30, 2011
	(In thousands, except par value and share data)	
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of $5,823 on July 31, 2011 and $5,821 on April 30, 2011	$ 37,682	$ 58,292
Accounts receivable, net of allowance for doubtful accounts of $1,726 on July 31, 2011 and $2,147 on April 30, 2011	70,013	64,753
Inventories	57,567	51,720
Other current assets	11,046	10,212
Deferred income taxes	14,073	14,073
Income tax receivable	4,126	4,513
Total current assets	194,507	203,563
Property, plant and equipment, net	63,470	62,390
Intangibles, net	8,437	8,692
Other assets	6,558	6,804
	$ 272,972	$ 281,449
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 32,979	$ 40,119
Accrued expenses	20,141	25,356
Accrued payroll	6,504	5,309
Accrued taxes other than income	10,365	11,421
Accrued profit sharing	5,325	4,081
Accrued product/municipal liability	2,410	2,584
Accrued warranty	3,481	3,424
Current portion of notes payable	31,111	30,000
Total current liabilities	112,316	122,294
Deferred income taxes	5,309	5,309
Notes payable, net of current portion	50,000	50,000
Other non-current liabilities	8,955	8,763
Commitments and contingencies (Note 14)	—	—
Total Liabilities	176,580	186,366
Stockholders' equity:		
Preferred stock, $.001 par value, 20,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $.001 par value, 100,000,000 shares authorized, 65,811,531 shares issued and 64,611,531 shares outstanding on July 31, 2011 and 65,710,531 shares issued and 64,510,531 shares outstanding on April 30, 2011	66	66
Additional paid-in capital	186,320	185,802
Accumulated deficit	(83,671)	(84,462)
Accumulated other comprehensive income	73	73
Treasury stock, at cost (1,200,000 common shares)	(6,396)	(6,396)
Total stockholders' equity	96,392	95,083
	$ 272,972	$ 281,449

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

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

	For the Three Months Ended:	
	(In thousands, except per share data)	
	July 31, 2011	July 31, 2010
Net product and services sales:		
Firearm division	$ 91,730	$ 77,763
Security solutions division	7,461	17,121
Total net product and services sales	99,191	94,884
Cost of products and services sold:		
Firearm division	65,213	49,134
Security solutions division	5,840	13,503
Total cost of products and services sold	71,053	62,637
Gross profit	28,138	32,247
Operating expenses:		
Research and development	1,597	1,068
Selling and marketing	8,714	8,822
General and administrative	14,675	15,752
Total operating expenses	24,986	25,642
Income from operations	3,152	6,605
Other income/(expense):		
Other income, net	34	3,013
Interest income	83	146
Interest expense	(1,941)	(1,171)
Total other income/(expense), net	(1,824)	1,988
Income before income taxes	1,328	8,593
Income tax expense	537	2,382
Net income/comprehensive income	$ 791	$ 6,211
Weighted average number of common shares outstanding, basic (Note 12)	64,529	59,940
Net income per share, basic (Note 12)	$ 0.01	$ 0.10
Weighted average number of common and common equivalent shares outstanding, diluted (Note 12)	64,942	67,070
Net income per share, diluted (Note 12)	$ 0.01	$ 0.10

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

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three Months Ended July 31, 2011
(Unaudited)

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
Balance at April 30, 2011	65,711	$ 66	$ 185,802	$ (84,462)	$ 73	1,200	$ (6,396)	$ 95,083
Exercise of employee stock options	100	—	180	—	—	—	—	180
Stock-based compensation	—	—	587	—	—	—	—	587
Book deduction of stock-based compensation in excess of tax deductions	—	—	(249)	—	—	—	—	(249)
Net income	—	—	—	791	—	—	—	791
Balance at July 31, 2011	65,811	$ 66	$ 186,320	$ (83,671)	$ 73	1,200	$ (6,396)	$ 96,392

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

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

	For the Three Months Ended	
	July 31, 2011	**July 31, 2010**
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 791	$ 6,211
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization and depreciation	3,956	3,408
Loss on sale of assets	239	—
Provision for/(recoveries of) losses on accounts receivable	(345)	134
Deferred income taxes	—	329
Stock-based compensation expense	587	568
Change in contingent consideration	—	(2,530)
Excess book deduction of stock-based compensation	(249)	(215)
Changes in operating assets and liabilities:		
Accounts receivable	(4,915)	2,833
Inventories	(5,847)	(11,910)
Other current assets	(834)	(2,269)
Income tax receivable/payable	387	2,426
Accounts payable	(7,140)	(4,938)
Accrued payroll	1,195	(2,728)
Accrued taxes other than income	(1,056)	(842)
Accrued profit sharing	1,244	1,439
Accrued other expenses	(5,215)	(3,233)
Accrued product/municipal liability	(174)	(93)
Accrued warranty	57	(19)
Other assets	1,815	180
Other non-current liabilities	192	(686)
Net cash used in operating activities	(15,312)	(11,935)
Cash flows from investing activities:		
Payments to acquire patents and software	(28)	(245)
Proceeds from sale of property and equipment	153	1
Payments to acquire property and equipment	(5,102)	(2,040)
Net cash used in investing activities	(4,977)	(2,284)
Cash flows from financing activities:		
Proceeds from loans and notes payable	1,532	1,365
Cash paid for debt issue costs	(1,837)	—
Proceeds from energy efficiency incentive programs	225	—
Proceeds from exercise of options to acquire common stock	180	—
Taxes paid related to restricted stock issuance	—	(50)
Payments on loans and notes payable	(421)	(271)
Net cash (used in)/provided by financing activities	(321)	1,044
Net decrease in cash and cash equivalents	(20,610)	(13,175)
Cash and cash equivalents, beginning of period	58,292	39,855
Cash and cash equivalents, end of period	$ 37,682	$ 26,680
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	$ 287	$ 1,649
Income taxes	398	632

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

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended July 31, 2011 and 2010

(1) Basis of Presentation:

The consolidated balance sheet as of July 31, 2011, the consolidated statements of operations and comprehensive income for the three months ended July 31, 2011 and 2010, the consolidated statement of changes in stockholders’ equity for the three months ended July 31, 2011, and the consolidated statements of cash flows for the three months ended July 31, 2011 and 2010 have been prepared by us, without audit. In our opinion, all adjustments, which include only normal recurring adjustments necessary to fairly present the financial position, results of operations, changes in stockholders’ equity, and cash flows at July 31, 2011 and for the periods presented, have been included. All significant intercompany transactions have been eliminated. The consolidated balance sheet as of April 30, 2011 has been derived from our audited financial statements.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended April 30, 2011. The results of operations for the three months ended July 31, 2011 may not be indicative of the results that may be expected for the year ending April 30, 2012 or any other period.

Reclassification

Certain amounts presented in the prior periods’ consolidated financial statements related to the income statement presentation have been reclassified to conform to the current period’s presentation.

(2) Organization:

We are a U.S.-based global provider of products and services for safety, security, protection, and sport. We are one of the world’s leading manufacturers of firearms. We manufacture a wide array of handguns, modern sporting rifles, hunting rifles, black powder firearms, handcuffs, and firearm-related products and accessories for sale to a wide variety of customers, including firearm enthusiasts, collectors, hunters, sportsmen, competitive shooters, individuals desiring home and personal protection, law enforcement and security agencies and officers, and military agencies in the United States and throughout the world. We are one of the largest manufacturers of handguns and handcuffs in the United States, the largest U.S. exporter of handguns, and an active participant in the modern sporting and hunting rifle markets. We are also a leading turnkey provider of perimeter security solutions to protect and control access to key military, government, and corporate facilities. Our perimeter security solutions include technology-rich proprietary products developed and produced by us and supplemented by industry-leading third-party products produced to our specifications, as well as facility analysis, solution design, system engineering and installation, construction management, customer training, and system maintenance. We manufacture our firearm products at our facilities in Springfield, Massachusetts; Houlton, Maine; and Rochester, New Hampshire. We produce and assemble our perimeter security products at our facilities in Franklin, Tennessee. In addition, we pursue opportunities to license our name and trademarks to third parties for use in association with their products and services.

We were incorporated on June 17, 1991 in the state of Nevada.

On May 11, 2001, we acquired all of the outstanding capital stock of Smith & Wesson Corp. (“SWC”) from Tomkins Corporation, an affiliate of U.K.-based Tomkins PLC. SWC and its predecessors have been in business since 1852.

On January 3, 2007, we acquired all of the outstanding capital stock of Thompson Center Holding Corporation (formerly Bear Lake Acquisition Corp.) and its subsidiaries (collectively, “Thompson/Center Arms”), including Thompson/Center Arms Company, Inc. (“TCA”).

On July 20, 2009, we acquired all of the outstanding capital stock of Smith & Wesson Security Solutions (“SWSS”). The former stockholders of SWSS had the right to earn up to 4,080,000 additional shares of our common stock if SWSS achieved certain EBITDAS targets, as defined, in calendar years 2009 and 2010. These shares were recorded as a contingent liability in accordance with the *Business Combinations Topic,* Accounting Standards Codification (“ASC”) 805-20-25-20. Based on our stock price as of July 31, 2010 compared with our stock price on April 30, 2010, we recorded $2.5 million in income associated with the reduction in the valuation of the contingent liability. The established EBITDAS targets were not met for calendar year 2009 and, on August 19, 2010, we entered into a waiver and amendment to the merger agreement to waive the achievement of the EBITDAS target for the 2010 calendar year as a condition to the issuance of the 4,080,000 earn-out shares, and instead agreed to issue the 4,080,000 shares to the former stockholders of SWSS on March 18, 2011. Effective August 19, 2010, this liability was adjusted to the fair value of $15.2 million (based on the closing price of $3.72 per share as of such date) and reclassified to equity.

SWSS, based in Franklin, Tennessee, provides turnkey security solutions to protect and control access to key military, government, and corporate facilities. Our acquisition of SWSS was designed to leverage SWSS' business, product line, and broad customer base to expand into new markets in the security solutions industry.

(3) Significant Accounting Policies:

Revenue Recognition — For our firearm products, we recognize revenue when the following four basic criteria have been met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been provided; (3) the fee is fixed or determinable; and (4) collection is reasonably assured. For our security solutions products and services, we recognize revenue from fixed-price contracts using the percentage-of-completion method, measured by the percentage of costs incurred to date to our total expected costs for each contract.

Product sales account for a substantial portion of our firearm revenue. We recognize revenue from firearm product sales when the earnings process is complete and the risks and rewards of ownership have transferred to the customer, which is generally upon shipment. We also provide tooling, forging, heat treating, finishing, plating, and engineering support services to customers. We recognize this revenue when the services are accepted by the customer, when no further contingencies or material performance obligations exist, and when collectability is reasonably assured, thereby earning us the right to receive and retain payments for services performed and billed.

We determine percentage-of-completion by comparing the cost incurred to date to the estimated total cost required to complete the project. We consider costs incurred to date to be the most reliable, available measure of progress on these projects. We make adjustments to estimates to complete in the periods in which facts resulting in a change become known. When the estimate indicates that a loss will be incurred, we record the loss in the period in which it is identified. When reliable estimates cannot be made, we recognize revenue upon completion. Significant judgment is involved in the estimation process for each contract. Different assumptions could yield materially different results. Delays in the installation process could negatively affect operations in a given period by increasing volatility in revenue recognition. Recognition of revenue in conformity with accounting principles generally accepted in the United States requires us to make judgments that affect the timing and amount of reported revenue.

We recognize trademark licensing revenue for individual licensees on a quarterly basis based on historical experience and expected cash receipts from licensees. This revenue consists of minimum royalties and/or a percentage of a licensee's sales on licensed products. Under our current licensing agreements, this revenue is payable on a calendar quarter basis. We recognize non-refundable license fees received upon the initial signing of license agreements as revenue when no future obligation is required on our part. As a result of a combination of uncertain factors regarding existing licensees, including current and past payment performance, market acceptance of the licensee's product, and insufficient historical experience, we believe that reasonable assurance of collectability does not exist based on the results and past payment performance of licensees in general. Therefore, we do not recognize minimum royalty payments upon contract signing, but instead record royalty revenue monthly when the minimum royalty can be reasonably estimated for that month and payment is assured.

Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial statement dates and the reported amounts of revenue and expenses during the reporting periods. Our significant estimates include gross margin and percentage of completion on in-process security solutions projects, accruals for warranty, product liability, workers' compensation, environmental liability, excess and obsolete inventory, forfeiture rates on stock-based awards, asset impairments, and medical claims payable. Actual results could differ from those estimates.

Accounting for Acquisitions — Our accounting for acquisitions involves significant judgments and estimates, including the fair value of certain forms of consideration; the fair value of acquired intangible assets, which involve projections of future revenue and cash flows, the fair value of other acquired assets and assumed liabilities, including potential contingencies; and the useful lives and, as applicable, the reporting unit of the assets. Our financial position or results of operations may be materially impacted by changes in our initial assumptions and estimates relating to prior or future acquisitions. Additionally, we determine the fair value of the reporting unit, for purposes of the first step in our annual goodwill impairment test, based on an income approach. If prior or future acquisitions are not accretive to our results of operations as expected or our market value declines dramatically, we may be required to complete the second step, which requires significant judgments and estimates and which may result in material impairment charges in the period in which they are determined (see *Valuation of Long-lived Tangible and Intangible Assets and Goodwill* below).

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended July 31, 2011 and 2010

Segment Information — Information regarding our segments is presented in Note 17.

Valuation of Long-lived Tangible and Intangible Assets and Goodwill — We have significant long-lived tangible and intangible assets, which are susceptible to valuation adjustments as a result of changes in various factors or conditions. The most significant long-lived tangible and intangible assets are fixed assets, developed technology, patents, trademarks, and tradenames. We amortize all finite-lived intangible assets either on a straight-line basis or based upon patterns in which we expect to utilize the economic benefits of such assets. With the exception of goodwill and intangible assets with indefinite lives, we initially determine the values of intangible assets by a risk-adjusted, discounted cash flow approach. We assess the potential impairment of identifiable intangible assets and fixed assets whenever events or changes in circumstances indicate that the carrying values may not be recoverable and at least annually. Factors we consider important, which could trigger an impairment of such assets, include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner or use of the assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period; and
- a decline in our market capitalization below net book value.

Future adverse changes in these or other unforeseeable factors could result in an impairment charge that would materially impact future results of operations and financial position in the reporting period identified.

We test goodwill and intangible assets with indefinite lives for impairment on an annual basis as of the end of our third fiscal quarter and between annual tests if indicators of potential impairment exist. The impairment test compares the fair value of the reporting unit to its carrying amount, including goodwill and intangible assets with indefinite lives, to assess whether impairment is present. We have reviewed the provisions of ASC 280-10 with respect to the criteria necessary to evaluate the number of reporting units that exist. Based on our review of the *Segment Reporting Topic*, ASC 280-10-50, we have determined that we operate in three reporting units: one for our Springfield, Massachusetts and Houlton, Maine facilities; a second for our Rochester, New Hampshire facility; and a third for SWSS. We have determined that we operate in two segments: one for our firearm companies and a second for our security solutions subsidiary, SWSS. As of July 31, 2011, we had no goodwill recorded on our books.

We periodically review long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of those assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded carrying value for the asset. If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis. No impairment charges were taken during the three months ended July 31, 2011 and 2010 based on the review of long-lived assets. See Note 6 — *Intangible Assets*.

We utilize an income approach, with discounted cash flows, to estimate the fair value of each reporting unit. We selected this method because we believe that it most appropriately measures our income producing assets. We considered using the market approach and the cost approach, but concluded that they were not appropriate in valuing our reporting units given the lack of relevant and available market comparisons. The income approach is based on the projected cash flows that are discounted to their present value using discount rates that consider the timing and risk of the forecasted cash flows. We believe that this approach is appropriate because it provides a fair value estimate based upon a reporting unit's expected long-term operating cash performance. This approach also mitigates the impact of the cyclical trends that occur in our industries. Fair value is estimated using internally developed forecasts and assumptions. The discount rate used is the average estimated value of a market participant's cost of capital and debt, derived using customary market metrics. Other significant assumptions include terminal value margin rates, future capital expenditures, and changes in future working capital requirements. We also compare and reconcile our overall fair value to our market capitalization. While there are inherent uncertainties related to the assumptions used and to our application of these assumptions to this analysis, we believe that the income approach provides a reasonable estimate of the fair value of our reporting units. The foregoing assumptions were consistent with our long-term performance, with limited exceptions. We believe that our future investments for capital expenditures as a percent of revenue will decline in future years due to our improved utilization resulting from lean initiatives, and we believe that days sales outstanding will decline with any increase in revenues. We also have assumed that through this economic downturn, our markets have not contracted for the long term; however, it may be a number of years before they fully recover. These assumptions could deviate materially from actual results.

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended July 31, 2011 and 2010

Significant judgments and estimates are involved in determining the useful lives of our long-lived assets, determining what reporting units exist, and assessing when events or circumstances would require an interim impairment analysis of goodwill or other long-lived assets to be performed. Changes in our organization or our management reporting structure, as well as other events and circumstances, including technological advances, increased competition, and changing economic or market conditions, could result in (a) shorter estimated useful lives, (b) additional reporting units, which may require alternative methods of estimating fair values or greater disaggregation or aggregation in our analysis by reporting unit, and (c) other changes in previous assumptions or estimates. A change in the weighted average cost of capital, for example, could materially change the valuation and, if increased, could cause an impairment. In turn, this could have an additional impact on our consolidated financial statements through accelerated amortization and impairment charges.

(4) Notes Payable:

Credit Facilities — Pursuant to a credit agreement, dated November 30, 2007, we, as guarantor, along with certain of our direct and indirect subsidiaries, including SWC and TCA, as borrowers, refinanced our existing credit facility to, among other things, increase our acquisition line of credit to $70.0 million and consolidate and increase our revolving lines of credit to $40.0 million. In May 2008, we utilized proceeds from our 2008 stock offering to repay the $28.0 million outstanding balance on the acquisition line and terminated the acquisition line. Pursuant to an amendment of the credit agreement dated January 31, 2008, TD Bank, N.A. (“TD Bank”) became the sole lender and successor administrative agent under our credit facility. This amendment also documented the termination of the acquisition line of credit, increased our fiscal 2009 second and third quarter leverage ratio to 3.25:1, and released the security interest on our intellectual property. Pursuant to a second amendment of the credit agreement dated March 12, 2009, we modified our leverage ratio to 3.25:1 for quarters ending after April 30, 2010. Pursuant to a third amendment of the credit agreement dated July 20, 2009, we added SWSS as a co-borrower and pledged the assets associated with that business as security for the obligations under the credit facility. On December 1, 2009, we paid in full our two term loans with $4.8 million cash from operations. Pursuant to a fourth amendment of the credit agreement dated December 3, 2009, we increased our revolving line of credit to $60.0 million and extended the agreement to November 30, 2013. Pursuant to an amended and restated credit agreement dated December 7, 2010, we increased our revolving line of credit to $120.0 million, removed the accounts receivable and inventory borrowing base limitations, and extended the agreement to December 7, 2014.

The credit facility provides for availability until December 7, 2014 for working capital needs. The revolving line of credit bears interest at a variable rate equal to LIBOR or prime plus an applicable margin based on our leverage ratio, at our election. As of April 30, 2011, there were no borrowings outstanding. Had there been borrowings, they would have borne an interest rate of 5.0% per annum.

As security for the credit facility, TD Bank has a first priority lien on all of our personal property and real estate assets.

We may prepay, in whole or in part, any of the loans that have interest rates determined by reference to the prime rate, with interest accrued to the date of the prepayment on the amount prepaid, without any penalty or premium. Loans with a fixed rate of interest determined by reference to the LIBOR interest rate may be prepaid provided that we reimburse TD Bank for any costs associated with (i) our making payments on dates other than those specified in the credit agreement, or (ii) our borrowing or converting a LIBOR loan on a date other than the borrowing or conversion dates specified in the credit agreement. We received a waiver of the 2% prepayment penalty associated with our repayment of the acquisition line of credit, as described above.

Convertible Notes — On December 15, 2006, we issued an aggregate of $80.0 million of 4% senior convertible notes (the “Convertible Notes”) maturing on December 15, 2026 to qualified institutional buyers pursuant to the terms and conditions of a securities purchase agreement and indenture. We used the net proceeds from the Convertible Notes, together with $28.0 million from our acquisition line of credit, to fund our acquisition of Thompson/Center Arms. As noted below, we have exchanged a total of $50.0 million of the Convertible Notes for $50.0 million of the Senior Notes (as defined below).

The Convertible Notes bear interest at a rate of 4% per annum payable on June 15 and December 15 of each year.

Holders of the Convertible Notes may require us to repurchase all or part of their Convertible Notes on December 15, 2011, December 15, 2016, or December 15, 2021 and in the event of a fundamental change in our company, as defined in the indenture governing the Convertible Notes. We have classified the $30.0 million of outstanding Convertible Notes as short term-debt on our balance sheet as of July 31, 2011 because the holders will have the right to require us to repurchase their Convertible Notes in December 2011.

The Convertible Notes were convertible into shares of our common stock, initially at a conversion rate of 81.0636 shares per $1 principal amount, or a total of 6,485,084 shares, which was equivalent to an initial conversion price of $12.336 per share.

**SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended July 31, 2011 and 2010**

As of July 31, 2011, taking into account the exchange agreements defined below, the remaining outstanding Convertible Notes are convertible into a total of 2,431,906 shares of common stock. The Convertible Notes may be converted at any time. Until December 15, 2011, we may redeem all or a portion of the Convertible Notes at the redemption price of 100% of the principal amount of the Convertible Notes plus accrued and unpaid interest only if the closing price of our common stock exceeds 150% of the then applicable conversion price of the Convertible Notes for no fewer than 20 trading days in any period of 30 consecutive trading days. After December 15, 2011, we may redeem all or a portion of the Convertible Notes.

The Convertible Notes are our general unsecured obligations, ranking senior in right of payment to our subordinated indebtedness and ranking pari passu with all other unsecured and unsubordinated indebtedness. Until such time that the closing price of our common stock exceeds 200% of the then applicable conversion price of the Convertible Notes for at least 30 trading days in any period of 40 consecutive trading days, we agreed not to incur any additional indebtedness in excess of the greater of (1) $60.0 million available under our credit facility, and (2) three times LTM EBITDA (as defined in the indenture governing the Convertible Notes) at the time such additional debt is incurred and including any amounts outstanding under our credit facility.

We evaluated the conversion features of the Convertible Notes and determined that no beneficial conversion feature existed and that there are no features of the instruments requiring bifurcation.

Senior Notes — On January 14, 2011, we issued an aggregate of $23.1 million of 9.5% senior notes due 2016 (“Senior Notes”) to two investors in exchange for $23.1 million of the Convertible Notes pursuant to the terms and conditions of an exchange agreement and indenture (the “Senior Notes Indenture”). On February 10, 2011 and March 3, 2011, we issued an aggregate of $16.8 million and $10.1 million, respectively, of Senior Notes to additional investors in exchange for $16.8 million and $10.1 million, respectively, of the Convertible Notes pursuant to the terms and conditions of additional exchange agreements and the Senior Notes Indenture. As a result, we exchanged a total of $50.0 million of the Convertible Notes for $50.0 million of Senior Notes.

The Senior Notes bear interest at a rate of 9.5% per annum payable on June 15 and December 15 of each year.

At any time prior to January 14, 2014, we may, at our option, (a) redeem all or a portion of the Senior Notes at a redemption price of 100% of the principal amount of the Senior Notes, plus an applicable premium, plus accrued and unpaid interest as of the redemption date, or (b) redeem up to 35% of the aggregate principal amount of the Senior Notes with the net cash proceeds of one or more equity offerings at a redemption price of 104.75% of the principal amount of the Senior Notes, plus accrued and unpaid interest as of the redemption date; provided that in the case of clause (b) above, at least 65% of the aggregate original principal amount of the Senior Notes remains outstanding and the redemption occurs within 60 days after the closing of the equity offering. On and after January 14, 2014, we may, at our option, redeem all or a portion of the Senior Notes at a redemption price of (1) 104.75% of the principal amount of the Senior Notes to be redeemed, if redeemed during the 12-month period beginning on January 14, 2014; or (2) 100% of the principal amount of the Senior Notes to be redeemed, if redeemed during the 12-month period beginning on January 14, 2015, plus, in either case, accrued and unpaid interest on the Senior Notes as of the applicable redemption date. Subject to certain restrictions and conditions, we may be required to make an offer to repurchase the Senior Notes from the holders of the Senior Notes in connection with a change of control or disposition of assets. If not redeemed by us or repaid pursuant to the holders’ right to require repurchase, the Senior Notes mature on January 14, 2016.

The Senior Notes are general unsecured obligations of our company. The Senior Notes Indenture contains certain affirmative and negative covenants, including limitations on restricted payments, limitations on indebtedness, limitations on the sale of assets, and limitations on liens.

The limitation on indebtedness in the Senior Notes Indenture is only applicable at such time that the consolidated coverage ratio (as set forth in the Senior Notes Indenture) for us and our restricted subsidiaries is less than 2.00 to 1.00. In general, as set forth in the Senior Notes Indenture, the consolidated coverage ratio is determined by comparing our prior four quarters’ consolidated EBITDA (earnings before interest, taxes, depreciation, and amortization) to our consolidated interest expense.

The credit agreement with TD Bank contains financial covenants relating to maintaining maximum leverage and minimum debt service coverage. The indenture governing the Convertible Notes contains a financial covenant relating to maximum additional indebtedness. The Senior Notes Indenture contains a financial covenant relating to times interest earned. We were in compliance with these debt covenants as of July 31, 2011.

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(5) Inventories:

The following sets forth a summary of inventories, stated at the lower of cost or market, as of July 31, 2011 and April 30, 2011 (in thousands):

	July 31, 2011 (Unaudited)	April 30, 2011
Finished goods	$ 18,939	$ 15,409
Finished parts	20,670	18,845
Work in process	8,174	8,091
Raw material	9,784	9,375
Total inventories	$ 57,567	$ 51,720

(6) Intangible Assets:

Intangible assets consisted of the following as of July 31, 2011 and April 30, 2011 (in thousands):

	July 31, 2011 (Unaudited)	April 30, 2011
Developed technology	$ 3,120	$ 3,120
Customer relationships	100	100
Patents, trademarks, and tradenames	7,063	7,036
Software	542	542
	10,825	10,798
Less: Accumulated amortization	(2,388)	(2,106)
Total intangible assets, net	$ 8,437	$ 8,692

(7) Accrued Expenses:

Accrued expenses consisted of the following as of July 31, 2011 and April 30, 2011 (in thousands):

	July 31, 2011 (Unaudited)	April 30, 2011
Accrued rebates and promotions	$ 2,036	$ 1,731
Accrued professional fees	3,446	4,585
Accrued employee benefits	2,627	2,690
Accrued distributor incentives	2,488	6,301
Accrued environmental	85	107
Interest payable	750	1,575
Accrued workers' compensation	665	593
Accrued utilities	490	579
Deferred revenue	1,287	1,855
Accrued commissions	1,511	1,383
Accrued severance/restructuring costs (Note 11)	1,550	1,252
Pension liability	114	111
Accrued other	3,092	2,594
Total accrued expenses	$ 20,141	$ 25,356

(8) Advertising Costs:

We expense advertising costs, primarily consisting of magazine advertisements, printed materials, and television advertisements, as incurred. For the three months ended July 31, 2011 and 2010, advertising expense was approximately $3.1 million and $3.4 million, respectively.

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(9) Warranty Reserve:

We generally provide a lifetime warranty to the original purchaser of our new firearm products and provide warranties for up to two years on the materials and workmanship in our security solutions projects, which includes products purchased by us from third-party manufacturers. We provide for estimated warranty obligations in the period in which we recognize the related revenue. We quantify and record an estimate for warranty-related costs based on our actual historical claims experience and current repair costs. We make adjustments to accruals as warranty claims data and historical experience warrant. Should we experience actual claims and repair costs that are higher than the estimated claims and repair costs used to calculate the provision, our operating results for the period or periods in which such returns or additional costs materialize would be adversely impacted. Warranty expense for the three months ended July 31, 2011 and 2010 was $974,000 and $620,000, respectively.

The following sets forth the change in accrued warranty, a portion of which is recorded as a non-current liability, in the three months ended July 31, 2011 and 2010 (in thousands):

	July 31, 2011 (Unaudited)	July 31, 2010 (Unaudited)
Beginning Balance	$ 4,213	$ 4,587
Warranties issued and adjustments to provisions	974	620
Warranty claims	(933)	(652)
Ending Balance	$ 4,254	$ 4,555

(10) Self-Insurance Reserves:

As of July 31, 2011 and April 30, 2011, we had reserves for workers’ compensation, product liability, municipal liability, and medical/dental costs totaling $9.6 million and $9.5 million, respectively, of which $4.8 million and $4.6 million, respectively, have been classified as non-current and included in other non-current liabilities and $2.4 million and $2.3 million, respectively, have been included in accrued expenses, and $2.4 million and $2.6 million, respectively, have been included in accrued product/municipal liability on the accompanying consolidated balance sheets. In addition, $221,000 of excess workers’ compensation receivable has been classified as other assets. While we believe these reserves to be adequate, it is possible that the ultimate liabilities will exceed such estimates. Amounts charged to expense were $4.1 million and $2.8 million for the three months ended July 31, 2011 and 2010, respectively.

It is our policy to provide an estimate for loss as a result of expected adverse findings or legal settlements on product liability, municipal liability, workers’ compensation, and other matters when such losses are probable and are reasonably estimable. It is also our policy to accrue for reasonably estimable legal costs associated with defending such litigation. While such estimates involve a range of possible costs, we determine, in consultation with litigation counsel, the most likely cost within such range on a case-by-case basis. We also record receivables from insurance carriers relating to these matters when their collection is probable. As of July 31, 2011 and 2010, we had accrued reserves for product and municipal litigation liabilities of $5.4 million and $5.5 million, respectively (of which $3.0 million and $2.9 million, respectively, were non-current), consisting entirely of expected legal defense costs. In addition, at each of July 31, 2011 and April 30, 2011, we had recorded receivables from insurance carriers related to these liabilities of $2.1 million, of which $2.0 million has been classified as other assets and the remaining $25,000 has been classified as other current assets.

(11) Plant Consolidation:

On December 8, 2010, we implemented a restructuring plan in our firearm division to move production of our hunting product line to our Springfield, Massachusetts facility and to close our Rochester, New Hampshire facility. The closure of our Rochester, New Hampshire facility will result in the termination or relocation of all employees of such facility and an increase in the number of employees in our Springfield, Massachusetts facility by approximately 225 full-time equivalents. We will incur major capital expenditures relating to moving equipment and processes from Rochester, New Hampshire to Springfield, Massachusetts, improving production efficiencies, tooling for new product offerings, and various projects designed to increase capacity and upgrade manufacturing technology. We expect to complete this restructuring plan by November 2011.

For the three months ended July 31, 2011, we recorded $1.6 million in expenses related to facilities and employee severance, including $1.2 million of restructuring expenses in costs of goods sold, excluding the impact of reduced productivity and efficiencies in our Rochester, New Hampshire facility, and $362,000 in operating expenses. We expect to record an additional $2.2 million in expenses during the remainder of fiscal 2012, including an additional $2.0 million of restructuring expenses in costs of goods sold, excluding the impact of reduced productivity and efficiencies in our Rochester, New Hampshire facility, and $178,000 in operating expenses. Once completed, the total amount incurred in connection with our restructuring plan is expected to be $6.4 million, with $2.6 million for employee severance and relocation expenses and $3.8 million for facilities-related expenses.

The following table summarizes the restructuring liabilities accrued for and changes in those amounts at July 31, 2011 for the plan discussed above (in thousands):

	Employee Severance and Termination Benefits	Facilities-Related Costs
Balance at April 30, 2011	$ 1,252	$ 409
Costs incurred during the period	529	1,057
Costs paid or settled during the period	(231)	(1,371)
Balance at July 31, 2011	$ 1,550	$ 95

On December 21, 2010, under the Economic Development Incentive Program of the Commonwealth of Massachusetts, we were awarded a refundable economic incentive tax credit ("ITC") by the Economic Assistance Coordinating Council in conjunction with our plan discussed above. The ITC is calculated as 40% of qualified capital expenditures placed in service and allows for a refundable tax credit from the Commonwealth of Massachusetts of up to $4.4 million during the fiscal year ending April 30, 2011. As of July 31, 2011, we have recorded the maximum $4.4 million of ITC as a contra asset account included in property, plant, and equipment.

(12) Stockholders' Equity:

Common Stock

During the three months ended July 31, 2011, we issued 100,000 shares of common stock having a market value of $354,000 to a former employee upon the exercise of options granted to him while employed at our company. The purchase price of these shares was $180,000.

Earnings per Share

The following table provides a reconciliation of the income amounts and weighted average number of common and common equivalent shares used to determine basic and diluted earnings per share for the three months ended July 31, 2011 and 2010 (in thousands, except per share data):

	For the Three Months Ended July 31,					
	2011			2010		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings	$ 791	64,529	$ 0.01	$ 6,211	59,940	$ 0.10
Effect of dilutive stock options and warrants	—	413	—	—	645	—
Effect of assumed conversion of convertible debt	—	—	—	506	6,485	—
Diluted earnings	$ 791	64,942	$ 0.01	$ 6,717	67,070	$ 0.10

For the three months ended July 31, 2011, 2,431,906 shares of common stock issuable upon conversion of the Convertible Notes and 1,160,132 shares of common stock issuable upon the exercise of stock options and the delivery of restricted stock units ("RSUs") were excluded from the computation of diluted earnings per share because the effect would be antidilutive. For the three months ended July 31, 2010, 938,417 shares of common stock issuable upon the exercise of stock options and the delivery of RSUs were excluded from the computation of diluted earnings per share because the effect would be antidilutive.

Stock Option and Employee Stock Purchase Plans

We have two stock option plans (the "SOPs"): the 2001 Stock Option Plan and the 2004 Incentive Stock Plan. New grants under the 2001 Stock Option Plan have not been made since the approval of the 2004 Incentive Stock Plan at our September 13, 2004 annual meeting of stockholders. All new grants covering all participants are issued under the 2004 Incentive Stock Plan.

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The 2004 Incentive Stock Plan authorizes the issuance of the lesser of (1) 15% of the shares of our common stock outstanding from time to time, or (2) 10,000,000 shares of our common stock. The plan permits the grant of options to acquire common stock, restricted common stock and deferred stock, RSUs, stock appreciation rights, and dividend equivalents. Our board of directors, or a committee established by our board, administers the SOPs, selects recipients to whom awards are granted, and determines the grants to be awarded. Options granted under the SOPs are exercisable at a price determined by our board or committee at the time of grant, but in no event less than fair market value of our common stock on the date granted. Grants of options may be made to employees and directors without regard to any performance measures. All options issued pursuant to the SOPs are nontransferable and subject to forfeiture.

Unless terminated earlier by our board of directors, the 2004 Incentive Stock Plan will terminate on the earlier of (1) ten years from the date of the later to occur of (i) the original date the plan was approved by our board of directors or our stockholders, whichever is earlier, or (ii) the date an increase in the number of shares reserved for issuance under the plan is approved by our board of directors (so long as such increase is also approved by our stockholders), and (2) such time as no shares of common stock remain available for issuance under the plan and our company has no further rights or obligations with respect to outstanding awards under the plan. The date of grant of an award is deemed to be the date upon which our board of directors or board committee authorizes the granting of such award. Generally, awards vest over a period of three years and are exercisable for a period of ten years. The plan also permits the grant of awards to non-employees, which the board has granted in the past. A separate option grant, outside of the 2004 Incentive Stock Plan, for 500,000 shares was made, at an exercise price of $1.47 per share, in connection with the hiring of our President and Chief Executive Officer during the fiscal year ended April 30, 2005. As of July 31, 2011, there were 450,000 options outstanding relating to this grant, which expire on December 6, 2014.

The number of shares and weighted average exercise prices of (i) options granted under the SOPs and (ii) the separate option grant to our President and Chief Executive Officer outside of the SOPs for the three months ended July 31, 2011 and 2010 are as follows:

	For the Three Months Ended July 31,			
	2011		2010	
	Shares	Weighted-Average Price	Shares	Weighted-Average Price
Options outstanding, beginning of year	3,137,565	$ 4.73	3,207,264	$ 4.84
Granted during year	554,100	3.56	35,000	4.32
Exercised during year	(100,000)	1.80	—	—
Canceled/forfeited during year	(195,334)	4.87	(6,666)	3.05
Options outstanding, end of period	3,396,331	$ 4.62	3,235,598	$ 4.93
Weighted average remaining life	6.89 years		6.75 years	
Options exercisable, end of period	1,883,035	$ 5.09	2,057,103	$ 4.46
Weighted average remaining life	5.02 years		5.53 years	

The aggregate intrinsic value of outstanding options that were vested as of July 31, 2011 and 2010 was $1.3 million and $2.0 million, respectively.

We have an ESPP, which authorizes the sale of up to 10,000,000 shares of our common stock to employees. The ESPP commenced on June 24, 2002 and continues in effect for a term of ten years unless sooner terminated. The ESPP was implemented by a series of offering periods of two years in duration, with four six-month purchase periods in the offering period. The ESPP was amended in September 2004 so that future offering periods, commencing with the October 1, 2004 offering period, are six months, consistent with the six-month purchase period. The purchase price is 85% of the fair market value of our common stock on the offering date or on the purchase date, whichever is lower. A participant may elect to have payroll deductions made on each payday during the offering period in an amount not less than 1% and not more than 20% (or such greater percentage as the board may establish from time to time before an offering date) of such participant’s compensation on each payday during the offering period. The last day of each offering period is the purchase date for such offering period. An offering period commencing on April 1 ends on the next September 30. An offering period commencing on October 1 ends on the next March 31. Our board of directors has the power to change the duration and/or the frequency of offering and purchase periods with respect to future offerings and purchases without stockholder approval if such change is announced at least five days prior to the scheduled beginning of the first offering period to be affected. The maximum number of shares an employee may purchase during each purchase period is 12,500 shares or a total of $25,000 in shares, based on the fair market value on the first day of the purchase period.

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All options and rights to participate in the ESPP are nontransferable and subject to forfeiture in accordance with the ESPP guidelines. In the event of certain corporate transactions, each option outstanding under the ESPP will be assumed or an equivalent option will be substituted by the successor corporation or a parent or subsidiary of such successor corporation. During the three months ended July 31, 2011 and 2010, no shares were purchased under the ESPP.

We measure the cost of employee services received in exchange for an award of an equity instrument based on the grant-date fair value of the award. We calculate the fair value of our stock options and warrants issued to employees using the Black-Scholes model at the time the options and warrants were granted. That amount is then amortized over the vesting period of the option or warrant. With our ESPP, fair value is determined at the beginning of the purchase period and amortized over the term of the offering period.

The following assumptions were used in valuing our options and ESPP purchases during the three-month periods ended July 31, 2011 and 2010:

	For the Three Months Ended July 31,	
	2011	2010
Stock option grants:		
Risk-free interest rate	1.47 - 2.20%	2.27 - 2.47%
Expected term	5.42 - 8.18 years	5.36 - 7.36 years
Expected volatility	66.9 - 73.9%	76.4%
Dividend yield	0%	0%
Employee Stock Purchase Plan:		
Risk-free interest rate	17.00%	24.00%
Expected term	6 months	6 months
Expected volatility	28.1%	52.5%
Dividend yield	0%	0%

We estimate expected volatility using historical volatility for the expected term. The fair value of each stock option or ESPP purchase was estimated on the date of the grant using the Black-Scholes option pricing model (using the risk-free interest rate, expected term, expected volatility, and dividend yield variables, as noted in the above table). The weighted-average fair value of stock options granted during the three months ended July 31, 2011 was $2.35 per share. There were 554,100 and 35,000 options granted during the three months ended July 31, 2011 and 2010, respectively. The total stock-based compensation expense, including stock options, purchases under the ESPP, and RSU awards, was $587,000 and $568,000 for the three months ended July 31, 2011 and 2010, respectively. Stock-based compensation expense is included in general and administrative expenses.

We calculate the fair value of our performance-based RSUs ("PSUs") issued to employees using the Monte-Carlo model at the time the PSUs were granted. We use the following assumptions in valuing our PSUs: (a) grant date market value of our common stock and the NASDAQ Composite Index, (b) expected volatilities of our common stock and the NASDAQ Composite Index (c) correlation coefficient between our common stock and the NASDAQ Composite Index, (d) risk-free interest rate, and (e) dividend yield.

During the three months ended July 31, 2011, we granted 95,200 PSUs, with an aggregate maximum award of 190,400 PSUs, to current employees. These PSUs were granted to certain of our named executive officers and vest based on the relative performance of our stock price against the NASDAQ Composite Index over a three-year period. During the three months ended July 31, 2010, we did not grant any PSUs. The aggregate fair market value of our RSU and PSU grants is being amortized to compensation expense over the vesting period (three years). During the three months ended July 31, 2011 and 2010, we issued 1,000 and 58,029 shares of common stock, respectively, under RSUs that had vested during such periods with a total market value of $3,000 and $235,000, respectively. Compensation expense recognized related to grants of RSUs and PSUs was $31,000 and $49,000 for the three months ended July 31, 2011 and 2010, respectively. As of July 31, 2011, there was $585,000 of unrecognized compensation cost related to unvested RSUs, much of which relates to PSUs. This cost is expected to be recognized over a weighted average of 2.3 years.

Stockholder Rights Plan

On August 9, 2005, we adopted a stockholder rights plan (the "Rights Plan"). Under the Rights Plan, we made a dividend distribution of one preferred share purchase right (a "Right") for each outstanding share of common stock. The dividend is payable to stockholders of record at the close of business on August 26, 2005. Each Right entitles the registered holder to purchase from us one one-thousandth of a share of our Series A Junior Participating Preferred Stock, par value $.001 per share (the "Preferred Stock"), at a price of $36.00 per one one-thousandth of a share of Preferred Stock, subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement dated as of August 25, 2005, as the same may be amended from time to time, between us and Interwest Transfer Company, Inc., as Rights Agent.

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In general, until the earlier to occur of (i) ten days following a public announcement that a person or group of affiliated or associated persons (with certain exceptions) has acquired beneficial ownership of 15% or more of the outstanding shares of our common stock or (ii) ten business days (or such later date as may be determined by action of our board of directors prior to such time as any person or group of affiliated persons becomes an “Acquiring Person”) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of 15% or more of the then outstanding shares of our common stock, the Rights will be evidenced, with respect to any of the common stock certificates outstanding as of August 25, 2005, by such common stock certificates together with a copy of a summary describing the Rights. As of July 31, 2011, we have not had any such changes that would have resulted in the execution of the Rights Plan.

(13) Income Taxes:

We use an asset and liability approach for financial accounting and reporting of income taxes. Deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities and are measured by applying enacted tax rates and laws to the taxable years in which differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

At July 31, 2011, we had gross tax-affected unrecognized tax benefits of approximately $1.1 million, all of which, if recognized, would favorably impact our effective tax rate. Included in the unrecognized tax benefits at July 31, 2011 and 2010 was approximately $206,000 and $136,000, respectively, of accrued interest and penalties related to uncertain tax positions, which have been recorded in other non-current liabilities as none of these positions are expected to reverse in the next 12 months.

The full value of our unrecognized tax benefits has been classified as non-current income tax liabilities because a payment of cash is not anticipated within one year of the balance sheet date. In fiscal 2012, we expect to incur additional interest on outstanding tax accounts. We do not expect this change to be material. Interest and penalties related to income tax liabilities are included in income tax expense.

With limited exception, we are subject to U.S. federal, state, local, and non-U.S. income tax audits by tax authorities for fiscal years subsequent to April 30, 2007.

(14) Commitments and Contingencies:

Litigation

We, together with certain related organizations, are a co-defendant in various legal proceedings involving product liability claims and are aware of other product liability claims, including allegations of defective product design, manufacturing, negligent marketing, and/or distribution of firearms leading to personal injury. 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 currently exceed product liability accruals and, if applicable, insurance coverage. We believe that the various allegations as described above are unfounded, and, in addition, that any accident and any results from them were due to negligence or misuse of the firearm by the claimant or a third party and that there should be no recovery against us.

In addition, we are a co-defendant in legal proceedings brought by the City of Gary, Indiana against numerous firearm manufacturers, distributors, and dealers seeking to recover damages allegedly arising out of the misuse of firearms by third parties in shootings. The city’s complaint seeks money damages, among other things, for the costs of investigating crime, preventing crime, costs of medical care, police and emergency services, and decreases in property values. In addition, nuisance abatement and/or injunctive relief is sought to change the design, manufacture, marketing, and distribution practices of the various defendants. The suit alleges public nuisance, negligent distribution and marketing, and negligent design. We believe that the various allegations as described above are unfounded, and, in addition, that any accidents and any results from them were due to negligence or misuse of the firearm by a third party and that there should be no recovery against us.

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We and certain of our officers and directors were named in three similar purported securities class action lawsuits, which were subsequently consolidated into one action. The plaintiffs seek damages for alleged violations of Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The certified consolidated action consists of a class of persons that purchased our securities between June 15, 2007 and December 6, 2007. On March 25, 2011, the court dismissed the case with prejudice. The plaintiff is appealing the Court's dismissal.

In addition, we are involved in several purported stockholder derivative lawsuits. These actions were brought by putative plaintiffs on behalf of our company against certain of our officers and directors. The lawsuits are based principally on a theory of breach of fiduciary duties. The putative plaintiffs seek unspecified damages on behalf of our company from the individual defendants, and recovery of their attorneys' fees.

We are vigorously defending ourselves in the lawsuits. There can be no assurance, however, that we will not have to pay significant damages or amounts in settlement above insurance coverage. An unfavorable outcome or prolonged litigation could harm our business. Litigation of this nature also is expensive and time consuming, and diverts the time and attention of our management.

We monitor the status of known claims and the product liability accrual, which includes amounts for defense costs for asserted and unasserted claims. While it is difficult to forecast the outcome of these claims, we believe, after consultation with litigation counsel, that it is uncertain whether the outcome of these claims will have a material adverse effect on our financial position, results of operations, or cash flows. We believe that we have provided adequate reserves for defense costs. We do not anticipate material adverse judgments and intend to vigorously defend ourselves.

At this time, an estimated range of reasonably possible additional losses relating to unfavorable outcomes cannot be made.

We have recorded our liability for defense costs before consideration for reimbursement from insurance carriers. We have also recorded the amount due as reimbursement under existing policies from the insurance carriers as a receivable shown in other current assets and other assets.

New Cases

There were no new cases filed against us during the three months ended July 31, 2011. The following new case was filed against us subsequent to the quarter ended July 31, 2011:

Mark D. Lee v. Smith & Wesson Corp., et al., in the Court of Common Pleas of Richland County, Ohio. This civil action, originally filed on November 11, 2008 and re-filed on August 17, 2011, alleged that the plaintiff sustained an injury to his right eye on November 11, 2006 while operating a Smith & Wesson Model 460 XVR revolver. The plaintiff sought unspecified damages against us and the seller of the firearm. The complaint alleged that this incident occurred when the cylinder of the revolver swung open upon firing, allowing gases and particles to escape from the firearm during firing. The complaint asserted claims for negligence, strict liability, and breach of warranty. On August 18, 2010, the plaintiff filed a Notice of Voluntary Dismissal Without Prejudice, as well as a Notice of Substitution of Counsel. The plaintiff re-filed his action within the one-year statute of limitations.

Cases Dismissed or Resolved

Universal Safety Response, Inc. v. Barrier1 Systems, Inc., in the United States District Court for the Northern District of New York. On August 16, 2011, this case was settled within the limits of our self-insured retention.

Todd Brown and Kathy Brown v. Smith & Wesson Corp., in the United States District Court for the Western District of Arkansas. Trial began on June 27, 2011. During the course of the trial, the plaintiff voluntarily withdrew this action without prejudice. The plaintiff has one year to re-file this action. Pursuant to the court's order, the plaintiff must pay our costs and fees for the first trial prior to re-filing this action.

J.D. Nelson, et al. v. Smith & Wesson Corp., et al., in the United States District Court for the District of Alaska. This suit was filed in the state court of Alaska on June 3, 2009, and removed to the United States District Court on January 25, 2010 after service of process. On May 18, 2010, the district court granted our motion to dismiss, and dismissed the plaintiffs' case in its entirety. On June 1, 2010, the plaintiffs filed a motion for reconsideration. On June 14, 2010, the plaintiffs' motion for reconsideration was denied by the district court. The plaintiffs filed an appeal to the Ninth Circuit Court of Appeals on June 18, 2010. On September 1, 2011, the appellate court affirmed the decision of the district court dismissing the case in its entirety.

Chester Wolfe, et al. v. Smith & Wesson Holding Corporation, et al., in the Common Pleas Court of Miami County, Ohio. On September 3, 2011, this case was settled within the limits of our self-insured retention.

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Cases on Appeal

The ruling in the following case is subject to certain pending appeals:

In re Smith & Wesson Holding Corp. Securities Litigation. This case is a consolidation of the following three cases: *William Hwang v. Smith & Wesson Holding Corp., et al.; Joe Cranford v. Smith & Wesson Holding Corp., et al.;* and *Joanne Trudelle v. Smith & Wesson Holding Corp., et al.* It is pending in the United States District Court for the District of Massachusetts (Springfield), and is a purported securities class action lawsuit brought individually and on behalf of all persons who purchased the securities of our company between June 15, 2007 and December 6, 2007. The putative plaintiffs seek unspecified damages against us, certain of our officers, and our directors for alleged violations of Sections 10(b) and 20(a) of the Exchange Act. The Oklahoma Firefighters Pension and Retirement System was appointed Lead Plaintiff of the putative class. On May 30, 2008, Lead Plaintiff filed a Consolidated Class Action Complaint seeking unspecified damages against us and several officers and directors for alleged violations of Sections 10(b) and 20(a) of the Exchange Act. On August 28, 2008, we and the named officers and directors moved to dismiss the Consolidated Amended Complaint because it failed to state a claim under the federal securities laws and the Private Securities Litigation Reform Act of 1995. The putative class Lead Plaintiff submitted its Opposition to our motion on October 28, 2008. On March 26, 2009, our motion was granted as to Mr. Monheit and denied as to the remaining defendants. On May 11, 2010, the court certified the consolidated action as consisting of a class of persons who purchased securities of our company between June 15, 2007 and December 6, 2007 and suffered damage as a result. Court scheduled discovery concerning the facts of this action ended on May 28, 2010. Examination of any experts put forth by the parties ended on October 1, 2010. On October 29, 2010, we moved for summary disposition of the case. Lead Plaintiff opposed our motion on November 22, 2010 and cross-moved for partial summary judgment. A hearing of this matter was held for December 20, 2010. On March 25, 2011, the court granted our Motion for Summary Judgment as to all remaining defendants, and dismissed the consolidated actions with prejudice. The Lead Plaintiff filed its Notice of Appeal of that dismissal on April 21, 2011. The Lead Plaintiff has not appealed Mr. Monheit's dismissal and the time for such an appeal has now past. The Lead Plaintiff filed its Appellant Brief on July 5, 2011. We filed our Opposition to Appellant's Brief on August 22, 2011. The Lead Plaintiff's Reply to the Opposition Brief is due by September 6, 2011.

Pending Cases

Norman Hart v. Smith & Wesson Holding Corp., et al.; and *Frank Holt v. Smith & Wesson Holding Corp., et al*., in the United States District Court for the District of Massachusetts. These two actions were filed on or about September 1, 2010 (Holt) and September 17, 2010 (Hart) in the United States District Court for the District of Nevada. They are purported derivative actions brought by two separate plaintiffs on behalf of our company against certain of our officers and directors. The complaints allege, *inter alia*, that the officer and director defendants breached their fiduciary duties by failing to: (1) institute and maintain internal controls permitting us to engage in systematic violations of the U.S. Foreign Corrupt Practices Act of 1977 ("FCPA"); (2) maintain internal accounting controls despite our obligation to do so under the FCPA; and (3) take any steps to prevent the purportedly unlawful conduct engaged in by certain company executives. The putative plaintiffs seek unspecified damages on behalf of our company from the individual defendants and recovery of their attorneys' fees. On November 15, 2010, the parties stipulated to a scheduling order, signed by the court that same day, that, among other things: (1) consolidated the two cases; and (2) set forth a schedule for the putative plaintiffs to file a consolidated amended complaint, and then a motion to dismiss briefing schedule. On or about November 23, 2010, the defendants removed the action from the District Court of Nevada, Clark County to the United States District Court for the District of Nevada. On December 8, 2010, the putative plaintiffs filed an *ex parte* motion for extension of time to file their consolidated amended complaint, indicating that they intended to file a motion to remand the case back to state court. The district court granted the motion on December 14, 2010, and ordered that the consolidated amended complaint was due within 14 days after the district court rules on the then-anticipated motion to remand. The putative plaintiffs filed their anticipated motion to remand on December 21, 2010. On December 22, 2010, defendants filed a response to the motion to remand, in which they consented to the remand. On or about May 9, 2011, this case was remanded back to the Clark County District Court for the State of Nevada. On May 24, 2011, the putative plaintiffs filed their consolidated Verified Amended Complaint. On June 10, 2011, the putative plaintiffs agreed to dismiss their Nevada state court complaint with the intention of refilling a similar complaint in the U.S. District Court for the District of Massachusetts. On July 20, 2011, the putative plaintiffs filed their Verified Shareholder Derivative Complaint in the U.S. District Court for the District of Massachusetts. Pursuant to a joint stipulation filed on August 4, 2011, we have until September 30, 2011 to file our answer or move to dismiss.

Aaron Sarnacki v. Smith & Wesson Holding Corp., et al., in the United States District Court for the District of Massachusetts. This action was filed on or about October 28, 2010 in the United States District Court for the District of Arizona. It is a purported derivative action brought by the plaintiff on behalf of our company against certain of our officers and directors. The complaint alleges that the officer and director defendants breached their fiduciary duties by providing misleading statements concerning our earnings and business prospects for fiscal 2008. The complaint also asserts that between June 14, 2007 and December 6, 2007, the officer and director defendants provided false statements about our financial results. The putative plaintiffs seek unspecified damages on behalf of our company from the individual defendants and recovery of their attorneys' fees. On January 13, 2011, this action was transferred to the United States District Court for the District of Massachusetts. On July 1, 2011, we moved to dismiss the Verified Shareholder Derivative Complaint. The putative plaintiffs have until September 19, 2011 to file their opposition to our Motion to Dismiss. A hearing on this matter is currently scheduled for October 6, 2011.

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Art Bundy v. Smith & Wesson Holding Corp., et al.; and *Dwight Nance v. Smith & Wesson Holding Corp., et al.*, in the United States District Court for the District of Massachusetts. These actions were filed on or about January 24, 2011. These are purported derivative actions brought by two separate plaintiffs on behalf of our company against certain of our officers and directors. The complaints allege that the officer and director defendants have breached their fiduciary duties by providing misleading statements concerning the company's earnings and business prospects for fiscal 2008. The complaints also assert that between June 14, 2007 and December 6, 2007, the officer and director defendants provided false statements about the company's financial results. The putative plaintiffs seek unspecified damages on behalf of our company from the individual defendants, and recovery of their attorneys' fees. On July 22, 2011, we moved to dismiss the Verified Shareholder Derivative Complaint. On August 5, 2011, the putative plaintiffs filed a Cross-Motion to our Motion to Dismiss seeking to stay the proceeding until the outcome of the pending appeal in the securities class action described in *In re Smith & Wesson Holding Corp Securities Litigation, above.* On August 19, 2011, we filed our opposition to the putative plaintiffs' Cross-Motion. A hearing date has not yet been scheduled.

U.S. Department of Justice ("DOJ") Investigation

On January 19, 2010, the DOJ unsealed indictments of 22 individuals from the law enforcement and military equipment industries, one of whom was our former Vice President-Sales, International & U.S. Law Enforcement. We were not charged in the indictment. We also were served with a Grand Jury subpoena for the production of documents. We have always taken, and continue to take seriously, our obligation as an industry leader to foster a responsible and ethical culture, which includes adherence to laws and industry regulations in the United States and abroad. Although we are cooperating fully with the DOJ in this matter and have undertaken a comprehensive review of company policies and procedures, the DOJ may determine that we have violated FCPA laws. We cannot predict when this investigation will be completed or its outcome. There could be additional indictments of our company, our officers, or our employees. If the DOJ determines that we violated FCPA laws, or if our employee is convicted of FCPA violations, we may face sanctions, including significant civil and criminal penalties. In addition, we could be prevented from bidding on domestic military and government contracts and could risk debarment by the U.S. Department of State. We also face increased legal expenses and could see an increase in the cost of doing international business. We could also see private civil litigation arising as a result of the outcome of the investigation. In addition, responding to the investigation may divert the time and attention of our management from normal business operations. Regardless of the outcome of the investigation, the publicity surrounding the investigation and the potential risks associated with the investigation could negatively impact the perception of our company by investors, customers, and others.

Securities and Exchange Commission ("SEC") Investigation

Subsequent to the end of fiscal 2010, we received a subpoena from the staff of the SEC giving notice that the SEC is conducting a non-public, fact-finding inquiry to determine whether there have been any violations of the federal securities laws. It appears this civil inquiry was triggered in part by the DOJ investigation into potential FCPA violations. We have always taken, and continue to take seriously, our obligation as an industry leader to foster a responsible and ethical culture, which includes adherence to laws and industry regulations in the United States and abroad. Although we are cooperating fully with the SEC in this matter, the SEC may determine that we have violated federal securities laws. We cannot predict when this inquiry will be completed or its outcome. If the SEC determines that we have violated federal securities laws, we may face injunctive relief, disgorgement of ill-gotten gains, and sanctions, including fines and penalties, or may be forced to take corrective actions that could increase our costs or otherwise adversely affect our business, results of operations, and liquidity. We also face increased legal expenses and could see an increase in the cost of doing business. We could also see private civil litigation arising as a result of the outcome of this inquiry. In addition, responding to the inquiry may divert the time and attention of our management from normal business operations. Regardless of the outcome of the inquiry, the publicity surrounding the inquiry and the potential risks associated with the inquiry could negatively impact the perception of our company by investors, customers, and others.

Environmental Remediation

We are subject to numerous federal, state, and local laws that regulate the discharge of materials into, or otherwise relate to the protection of, the environment. These laws have required, and are expected to continue to require, us to make significant expenditures of both a capital and expense nature. Several of the more significant federal laws applicable to our operations include the Clean Air Act, the Clean Water Act, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), and the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act ("RCRA").

We have in place programs and personnel to monitor compliance with various federal, state, and local environmental regulations. In the normal course of our manufacturing operations, we are subject to governmental proceedings and orders pertaining to waste disposal, air emissions, and water discharges into the environment. We fund our environmental costs through cash flows from operations. We believe that we are in compliance with applicable environmental regulations in all material respects.

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We are required to remediate hazardous waste at our facilities. Currently, we own designated sites in Springfield, Massachusetts and are subject to two release areas, which are the focus of remediation projects as part of the Massachusetts Contingency Plan ("MCP"). The MCP provides a structured environment for the voluntary remediation of regulated releases. We may be required to remove hazardous waste or remediate the alleged effects of hazardous substances on the environment associated with past disposal practices at sites not owned by us. We have received notice that we are a potentially responsible party from the Environmental Protection Agency and/or individual states under CERCLA or a state equivalent at one site.

Pursuant to the merger agreement related to our acquisition of Thompson/Center Arms, the former stockholders of Thompson Center Holding Corporation agreed to indemnify us for losses arising from, among other things, environmental conditions related to Thompson/Center Arms' manufacturing activities. Of the purchase price, $8.0 million was placed in an escrow account, a portion of which was to be applied to environmental remediation at the manufacturing site in Rochester, New Hampshire. In November 2008, $2.5 million of the escrow account was released to the former stockholders of Thompson Center Holding Corporation. We and the former stockholders of Thompson Center Holding Corporation recently entered into a settlement agreement under which approximately $1.2 million was released to us from the escrow account for remediation costs and the remainder was released to such former stockholders. Site remediation costs will be paid with monies released from the escrow account. We have estimated the total site remediation costs at $1.5 million and have established an accrual equal to that amount with $77,000 reported in accrued liabilities and the remainder in non-current liabilities. We believe the likelihood of environmental remediation costs exceeding the amount accrued to be remote.

We had reserves of $2.1 million and $638,000 as of July 31, 2011 and 2010, respectively for remediation of the sites referred to above and believe that the time frame for remediation is currently indeterminable. As of July 31, 2011 and 2010, we had recorded $2.0 million and $577,000, respectively, of environmental reserve in non-current liabilities with the remaining balances recorded in accrued expenses. Based on the indeterminable time frame for remediation, the time frame for payment of such remediation is likewise currently indeterminable, thus making any net present value calculation impracticable. Our estimate of these costs is based upon currently enacted laws and regulations, currently available facts, experience in remediation efforts, existing technology, and the ability of other potentially responsible parties or contractually liable parties to pay the allocated portions of any environmental obligations.

When the available information is sufficient to estimate the amount of liability, that estimate has been used; when the information is only sufficient to establish a range of probable liability and no point within the range is more likely than any other, the lower end of the range has been used. We may not have insurance coverage for our environmental remediation costs. We have not recognized any gains from probable recoveries or other gain contingencies. The environmental reserve was calculated using undiscounted amounts based on independent environmental remediation reports obtained.

Based on information known to us, we do not expect current environmental regulations or environmental proceedings and claims to have a material adverse effect on our consolidated financial position, results of operations, or cash flows. However, it is not possible to predict with certainty the impact on us of future environmental compliance requirements or of the cost of resolution of future environmental proceedings and claims, in part because the scope of the remedies that may be required is not certain, liability under federal environmental laws is joint and several in nature, and environmental laws and regulations are subject to modification and changes in interpretation. There can be no assurance that additional or changing environmental regulation will not become more burdensome in the future and that any such development would not have a material adverse effect on our company.

Deferred Compensation

Post-Retirement Pension Plan — We have a senior executive supplemental retirement plan for certain Thompson/Center Arms officers, which covered three former executives at July 31, 2011. Benefits under this plan are paid monthly (currently monthly benefit is $3,000 and is adjusted annually based on the percent change in the CPI for all Urban Consumers) for ten years following the retirement of an officer or director. This is an unfunded, non-qualified, and non-contributory plan under which we pay all future obligations. As of July 31, 2011, $438,000 has been accrued in the financial statements, based upon the present value of the estimated future obligation using a discount rate of 1.96% and the remaining months of commitment. Estimated future benefit payments by fiscal year are as follows: 2012 — $85,000; 2013 — $114,000; 2014 — $95,000; 2015 — $76,000; 2016 — $63,000; and thereafter — $25,000.

Suppliers

The inability to obtain sufficient quantities of raw materials, components, and other supplies from independent sources necessary for the production of our products could result in reduced or delayed sales or lost orders. Any delay in or loss of sales could adversely impact our operating results. Many of the materials used in the production of our products are available only from a limited number of suppliers. In most cases, we do not have long-term supply contracts with these suppliers.

Contracts

Employment Agreements — We have employment, severance, and change of control agreements with certain officers and managers.

Other Agreements — We have distribution agreements with various third parties in the ordinary course of business.

Outstanding Letters of Credit/Restricted Cash — We had open letters of credit aggregating $809,000 as of July 31, 2011. We had restricted cash totaling $5.8 million as of July 31, 2011 of which $5.0 million acts as a compensating balance against our line of credit dated December 7, 2010 and $812,000 is related to the environmental remediation required to be performed in accordance with our credit facility with TD Bank.

(15) Derivative Financial Instruments and Hedging Activities:

In accordance with ASC 820-10, the *Fair Value Measurements and Disclosures Topic*, financial assets and liabilities recorded on the accompanying consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1 — Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we have the ability to access at the measurement date (examples include active exchange-traded equity securities, listed derivatives, and most U.S. Government and agency securities).

Level 2 — Financial assets and liabilities whose values are based on quoted prices in markets in which trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets. Level 2 inputs include the following:

- quoted prices for identical or similar assets or liabilities in non-active markets (such as corporate and municipal bonds which trade infrequently);
- inputs other than quoted prices that are observable for substantially the full term of the asset or liability (examples include interest rate and currency swaps); and
- inputs that are derived principally from or corroborated by observable market data for substantially the full term of the asset or liability (such as certain securities and derivatives).

Level 3 — Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect our assumptions about the assumptions a market participant would use in pricing the asset or liability. We currently do not have any Level 3 financial assets or liabilities.

The following table presents information about our assets and liabilities that are measured at fair value on a recurring basis as of July 31, 2011 and April 30, 2011, respectively, and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value (in thousands):

Description	July 31, 2011	(Level 1)	April 30, 2011	(Level 1)
Assets:				
Cash equivalents and short-term deposits	$ 37,662	$ 37,662	$ 58,283	$ 58,283
Total assets	$ 37,662	$ 37,662	$ 58,283	$ 58,283

We purchase certain finished goods and component parts from a European supplier and pay for them in Euros. We routinely purchase foreign exchange forward contracts to minimize the impact of fluctuations in foreign exchange rates. Forward contracts provide full protection for us against the devaluation of the U.S. dollar to the euro. If the euro strengthens above the average rate, we will not pay more than the average rate. We have not elected to designate our derivative instruments as qualifying for hedge accounting treatment under ASC 815-20-25 and, accordingly, we record any gains and losses from these derivative contracts as an element of other income (expense) at each reporting period, based on the change in the estimated fair value of these contracts. We determine the fair values of the derivative financial instruments based on the exchange rates of the euro quoted in active markets. As of July 31, 2011, we had no forward contracts outstanding.

Other than those acquired in business combinations, long-lived tangible assets are recorded at cost and depreciated over their useful lives. Indefinite-lived intangible assets and goodwill acquired in business combinations are tested for impairment on an annual basis on February 1st and between annual tests if indicators of potential impairment exist.

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The following table presents information about the effect of derivative instruments on our financial performance for the three months ended July 31, 2011 and 2010 (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative	
		2011	2010
Foreign Exchange Contracts (unrealized)	Other income/(expense)	—	499
Contingent Consideration (Note 2)	Other income/(expense)	—	2,530

(16) Recent Accounting Pronouncements:

Recently Issued Accounting Standards

In June 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The amendments in this ASU require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2011, with early adoption permitted. We are currently evaluating the impact of our pending adoption of ASU 2011-05 on our consolidated financial statements.

Recently Adopted Accounting Standards

In December 2010, the FASB issued ASU 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations*. This ASU reflects the decision reached in EITF Issue No. 10-G. The amendments in this ASU affect any public entity, as defined by Topic 805 *Business Combinations*, that enters into business combinations that are material on an individual or aggregate basis. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this standard did not have any impact on our consolidated financial statements.

In December 2010, the FASB issued ASU 2010-28, *Intangibles — Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. This ASU reflects the decision reached in EITF Issue No. 10-A. The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this standard did not have any impact on our consolidated financial statements.

(17) Segment Reporting:

We have two reportable segments: firearms and security solutions. The firearm segment consists of products and services manufactured and sold from our Springfield, Massachusetts; Houlton, Maine; and Rochester, New Hampshire facilities, which includes primarily firearms, handcuffs, and related accessories sold through a distribution chain and direct sales to consumers and international, state, and federal governments. The security solutions segment consists of products and services produced and sold from our Franklin, Tennessee facilities, which includes the sales and installation of perimeter security products to military, government, and corporate customers. Operating costs are reported based on the activities performed within each segment.

Segment assets are those directly used in or clearly allocable to an operating segment's operations. For both segments, assets include accounts receivable, inventory, prepaid expenses, deferred tax assets, machinery and equipment, furniture and fixtures, and computer equipment. In addition, included in the assets of the firearm segment are intangible assets totaling $4.9 million and property, plant, and equipment totaling $61.9 million. Included in the assets of the security solutions segment are intangible assets totaling $3.6 million and property, plant, and equipment totaling $1.6 million.

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Results by business segment are presented in the following table for the three months ended July 31, 2011 and 2010, respectively (dollars in thousands):

	For the three months ended July 31, 2011			For the three months ended July 31, 2010		
	Firearms	Security Solutions	Total	Firearms	Security Solutions	Total
Net product and services sales to external customers	$ 91,730	$ 7,461	$ 99,191	$ 77,763	$ 17,121	$ 94,884
Operating income/(loss)	5,533	(2,381)	3,152	6,923	(318)	6,605
As a percentage of revenue	6.0%	-31.9%	3.2%	8.9%	-1.9%	7.0%
Depreciation and amortization	3,629	327	3,956	2,871	537	3,408
Stock based compensation	512	75	587	427	141	568
Income tax expense/(benefit)	1,749	(1,212)	537	2,751	(369)	2,382
Assets	251,218	21,754	272,972	221,147	121,954	343,101
Expenditures for property, plant and equipment	4,730	372	5,102	1,964	76	2,040

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Overview

Please refer to the 2011 Highlights found in the Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended April 30, 2011. This section sets forth key management objectives and key performance indicators used by management as well as key industry data tracked by management.

First Quarter Fiscal 2012 Highlights

Net product and services sales for the three months ended July 31, 2011 were $99.2 million, an increase of $4.3 million, or 4.5%, over net product and services sales of $94.9 million for the three months ended July 31, 2010. Firearm product and services sales were $91.7 million for the three months ended July 31, 2011, an increase of $14.0 million, or 18.0%, over the three months ended July 31, 2010, while security solutions sales were $7.5 million for the three months ended July 31, 2011, a decrease of $9.7 million, or 56.4%, from the three months ended July 31, 2010. Within firearms, there was a significant increase in consumer demand for our Sigma pistols because of our price repositioning strategy during fiscal 2011. In addition, our BODYGUARD® family of products continued to have significant market demand. A new product in our modern sporting rifle line hits attractive price points and has significantly increased our sales in that category. Walther product sales were down significantly primarily on increased competition in the .380 and .22 caliber product lines. Hunting product sales decreased from the prior year quarter primarily on decreased black powder sales and productivity and efficiency issues as we move our hunting product line to our Springfield, Massachusetts facility. Within security solutions, reduced federal spending negatively impacted sales during the three months ending July 31, 2011.

Gross profit as a percentage of net sales was 28.4% for the three months ended July 31, 2011 compared with 34.0% for the three months ended July 31, 2010. The decrease in gross profit margin was attributable to changes in our product sales mix, which reduced the average selling price of our products, and costs associated with the relocation of our hunting product line from Rochester, New Hampshire to our Springfield, Massachusetts facility.

Net income for the three months ended July 31, 2011 was $791,000, or $0.01 per fully diluted share, compared with net income of $6.2 million, or $0.10 per fully diluted share, for the three months ended July 31, 2010.

Results of Operations

Net Product and Services Sales

The following table sets forth certain information relating to net product and services sales for the three months ended July 31, 2011 and 2010 (dollars in thousands):

	2011	2010	$ Change	% Change
Handguns	$ 53,765	$ 42,482	$ 11,283	26.6%
Walther	6,684	10,194	(3,510)	-34.4%
Modern Sporting Rifles	14,929	6,964	7,965	114.4%
Hunting Firearms	6,674	8,722	(2,048)	-23.5%
Parts & Accessories	5,348	4,301	1,047	24.3%
Total Firearms	87,400	72,663	14,737	20.3%
Other Non-Firearms	4,330	5,100	(770)	-15.1%
Total Firearm Division	91,730	77,763	13,967	18.0%
Security Solutions Division	7,461	17,121	(9,660)	-56.4%
Total Net Product and Services Sales	$ 99,191	$ 94,884	$ 4,307	4.5%

Net sales for the three-month period ended July 31, 2011 increased over the comparable quarter last year because of increased consumer demand in firearms, offset by the reduction in revenue in our security solutions division. The revenue reduction in security solutions was driven primarily by reduced or delayed demand because of federal budget constraints. In our firearm division, handgun sales increased 26.6% over the comparable quarter last year as a result of the significant market demand that continued for our BODYGUARD family of products; the introduction of our Governor revolver, which began shipping in May 2011; and increased consumer demand for our Sigma pistols due to our price repositioning strategy in the prior year. Walther product sales were down 34.4% mostly as a result of increased competition in small frame and concealed carry products and large order fulfillment in the prior quarter last year. Sales of modern sporting rifles increased 114.4% over the comparable quarter last year due to strong demand for our Sport model rifle, which hits attractive price points. Hunting products were down from the comparable quarter last year primarily due to a decline in black powder sales and productivity and efficiency issues as we move our hunting product line to our Springfield, Massachusetts facility. The increase in parts and accessories sales also was as a result of the increase in consumer demand.

The order backlog as of July 31, 2011 was $168.7 million, of which $148.8 million related to firearms, with the balance attributed to security solutions. The firearm order backlog was $74.0 million higher than at the end of the comparable quarter last year, primarily as a result of backlog generated by new products and the success of the price repositioning in the Sigma and M&P series of pistols late in fiscal 2011. Compared with the prior quarter ended April 30, 2011, firearm order backlog decreased $37.9 million during the three months ended July 31, 2011, primarily due to seasonality and increased order fulfillment, including large shipments of international orders. Security solutions backlog decreased $707,000 as a result of the economic issues as noted above.

In our firearm division, sales into our sporting goods distribution channel were approximately $78.3 million for the three months ended July 31, 2011, an increase of 18.7% over the comparable quarter last year, and sales into our professional channels were $13.0 million, an increase of 17.4% over the comparable quarter last year. Firearm sales into our professional channels, compared with the comparable quarter last year, were broken down as follows: law enforcement sales of $5.7 million were 1.7% higher; federal government sales of $1.7 million were 61.5% higher; and international sales of $5.6 million were 26.7% higher, with large orders from Australia and Taiwan in the current quarter. Security solutions corporate sales of $2.6 million, including $598,000 of international sales, were flat to the prior year. Security solutions federal government and military sales were $4.9 million for the three months ended July 31, 2011, a $9.1 million decline from the comparable quarter last year due to the impact of federal budget constraints. The three months ended July 31, 2010 included several large access control projects for the military paid for out of the U.S. government's 2009 fiscal budget.

Cost of Products and Services Sold and Gross Profit

The following table sets forth certain information regarding cost of products and services sold and gross profit for the three months ended July 31, 2011 and 2010 (dollars in thousands):

Total Company	**2011**	**2010**	**$ Change**	**% Change**
Cost of products and services sold	$ 71,053	$ 62,637	$ 8,416	13.4%
% of net products and services sold	71.6%	66.0%		
Gross profit	$ 28,138	$ 32,247	$ (4,109)	-12.7%
% of net products and services sold	28.4%	34.0%		

The following table sets forth certain information regarding cost of products and services sold and gross profit for our firearm division for the three months ended July 31, 2011 and 2010 (dollars in thousands):

Firearm Division	**2011**	**2010**	**$ Change**	**% Change**
Cost of products and services sold	$ 65,213	$ 49,134	$ 16,079	32.7%
% of net products and services sold	71.1%	63.2%		
Gross profit	$ 26,517	$ 28,629	$ (2,112)	-7.4%
% of net products and services sold	28.9%	36.8%		

Gross profit in our firearm division for the three months ended July 31, 2011 decreased from the comparable quarter last year primarily as a result of $1.2 million of costs and reduced productivity and efficiency in our hunting product line as we move production to our Springfield, Massachusetts facility. We also experienced increased depreciation expense from higher capital spending in fiscal 2011 as well as increased maintenance costs due to the move.

The following table sets forth certain information regarding cost of products and services sold and gross profit for our security solutions division for the three months ended July 31, 2011 and 2010 (dollars in thousands):

Security Solutions Division	**2011**	**2010**	**$ Change**	**% Change**
Cost of products and services sold	$ 5,840	$ 13,503	$ (7,663)	-56.8%
% of net products and services sold	78.3%	78.9%		
Gross profit	$ 1,621	$ 3,618	$ (1,997)	-55.2%
% of net products and services sold	21.7%	21.1%		

Gross profit in our security solutions division for the three months ended July 31, 2011 decreased from the comparable quarter last year driven by the reduction in sales. In spite of the reduction in sales, gross profit as a percentage of net products and services sold increased slightly as a result of improved estimating, project execution, and cost control.

Operating Expenses

The following table sets forth certain information regarding operating expenses for the three months ended July 31, 2011 and 2010 (dollars in thousands):

Total Company	**2011**	**2010**	**$ Change**	**% Change**
Research and development	$ 1,597	$ 1,068	$ 529	49.5%
Selling and marketing	8,714	8,822	(108)	-1.2%
General and administrative	14,675	15,752	(1,077)	-6.8%
Total operating expenses	$ 24,986	$ 25,642	$ (656)	-2.6%
% of net products and services sold	25.2%	27.0%		

The following table sets forth certain information regarding operating expenses for our firearm division for the three months ended July 31, 2011 and 2010 (dollars in thousands):

Firearm Division	2011	2010	$ Change	% Change
Research and development	$ 1,338	$ 981	$ 357	36.4%
Selling and marketing	8,125	8,387	(262)	-3.1%
General and administrative	11,520	12,338	(818)	-6.6%
Total operating expenses	$ 20,983	$ 21,706	$ (723)	-3.3%
% of net products and services sold	22.9%	27.9%		

Operating expenses in our firearm division for the three months ended July 31, 2011 decreased from the comparable quarter last year as a result of a $575,000 decrease in spending on advertising, a $476,000 reduction in bad debt expense resulting from recoveries on previously reserved for accounts, and $194,000 of reduced profit sharing expense. In addition, spending related to our investigation of the DOJ and SEC matters was lower than in the prior comparable quarter by $260,000. Total net spending on our DOJ and SEC investigation costs was $1.3 million for the quarter. Operating expenses were also negatively impacted by $312,000 of professional fees primarily related to upgrading our information technology infrastructure in our facilities and reconfiguring our website.

The following table sets forth certain information regarding operating expenses for our security solutions division for the three months ended July 31, 2011 and 2010 (dollars in thousands):

Security Solutions Division	2011	2010	$ Change	% Change
Research and development	$ 259	$ 87	$ 172	197.7%
Selling and marketing	589	435	154	35.4%
General and administrative	3,155	3,414	(259)	-7.6%
Total operating expenses	$ 4,003	$ 3,936	$ 67	1.7%
% of net products and services sold	53.7%	23.0%		

Operating expenses in our security solutions division for the three months ended July 31, 2011 increased slightly over the comparable quarter last year because of new product development costs related to our proprietary wedge barrier as well as costs incurred related to ongoing marketing in connection with the security solution division's name change, offset by reduced payroll and benefits costs resulting from lower headcount.

Income/(Loss) from Operations

The following table sets forth certain information regarding income from operations for the three months ended July 31, 2011 and 2010 (dollars in thousands):

Total Company	2011	2010	$ Change	% Change
Income from operations	$ 3,152	$ 6,605	$ (3,453)	-52.3%
% of net products and services sold	3.2%	7.0%		

The following table sets forth certain information regarding income from operations for our firearm division for the three months ended July 31, 2011 and 2010 (dollars in thousands):

Firearm Division	2011	2010	$ Change	% Change
Income from operations	$ 5,533	$ 6,923	$ (1,390)	-20.1%
% of net products and services sold	6.0%	8.9%		

The reduction in income from operations in our firearm division for the three months ended July 31, 2011 compared with the comparable quarter last year resulted primarily from the short-term impact of moving the production of our hunting product line from New Hampshire to Massachusetts, including increased spending-related depreciation, severance and relocation, asset write-offs, and reduced efficiencies.

The following table sets forth certain information regarding loss from operations for our security solutions division for the three months ended July 31, 2011 and 2010 (dollars in thousands):

Security Solutions Division	2011	2010	$ Change	% Change
Loss from operations	$ (2,381)	(318)	$ (2,063)	648.7%
% of net products and services sold	-31.9%	-1.9%		

The loss from operations in our security solutions division was primarily driven by the effect of decreased sales during the three months ended July 31, 2011.

Other Income

The following table sets forth certain information regarding other income for the three months ended July 31, 2011 and 2010 (dollars in thousands):

	2011	2010	$ Change	% Change
Other income	$ 34	$ 3,013	$ (2,979)	-98.9%

Other income for the three-month period ended July 31, 2010 included $2.5 million in valuation adjustments related to the contingent consideration recorded in connection with our acquisition of SWSS as well as $499,000 of unrealized gains on foreign currency hedges. No such adjustments or gains occurred during the current three-month period.

Interest Expense

The following table sets forth certain information regarding interest expense for the three months ended July 31, 2011 and 2010 (dollars in thousands):

	2011	2010	$ Change	% Change
Interest expense	$ 1,941	$ 1,171	$ 770	65.8%

Interest expense increased for the three months ended July 31, 2011 from the comparable quarter last year because of increased interest expense related to the Senior Notes, which bear interest at a rate of 9.5% per annum compared to our exchanged Convertible Notes, which bear interest at a rate of 4% per annum. We also experienced additional amortization expense because of the debt issue costs we incurred in connection with our increased line of credit and debt exchanges in fiscal 2011.

Income Taxes

The following table sets forth certain information regarding income tax expense for the three months ended July 31, 2011 and 2010 (dollars in thousands):

	2011	2010	$ Change	% Change
Income tax expense	$ 537	$ 2,382	$ (1,845)	-77.5%

Income tax expense decreased as a result of the decrease in operating profit. The effective tax rates for the three months ended July 31, 2011 and 2010 were 40.05% and 37.65%, respectively. The effective tax rate for the three month period ended July 31, 2010 excludes the $2.5 million valuation adjustment related to the contingent consideration recorded in connection with our acquisition of SWSS as a discrete item. We expect that the effective tax rate will remain stable throughout the rest of the year.

Net Income

The following table sets forth certain information regarding net income and the related per share data for the three months ended July 31, 2011 and 2010 (dollars in thousands, except share data):

	2011	2010	$ Change	% Change
Net income	$ 791	$ 6,211	$ (5,420)	-87.3%
Net income per share				
Basic	$ 0.01	$ 0.10	$ (0.09)	-90.0%
Diluted	0.01	0.10	(0.09)	-90.0%

The decrease in net income for the three months ended July 31, 2011 from the three months ended July 31, 2010 resulted from costs associated with the relocation of our hunting product line and the related inefficiencies, our price repositioning strategy in the prior year, a change in firearm product mix toward lower average selling priced products with lower gross margins, increased interest expense, and a reduction in other income related to contingent consideration valuation adjustments. In addition, on March 18, 2011 we issued 4,080,000 earn-out shares to former stockholders of SWSS, in connection with our July 20, 2009 acquisition, which negatively impacted net income per share.

Liquidity and Capital Resources

Our principal cash requirements are to finance the growth of our operations, including acquisitions, and to service our existing debt. Capital expenditures for new products, capacity expansion, and process improvements represent important operational cash needs.

The following table sets forth certain information relative to cash flow for the three months ended July 31, 2011 and 2010 (dollars in thousands):

	2011	2010	$ Change	% Change
Operating activities	$ (15,312)	$ (11,935)	$ (3,377)	28.3%
Investing activities	(4,977)	(2,284)	(2,693)	117.9%
Financing activities	(321)	1,044	(1,365)	-130.7%
Total	$ (20,610)	$ (13,175)	$ (7,435)	56.4%

On an annual basis, operating activities represent the principal source of our cash flow; however, seasonal factors sometimes require us to incur short-term borrowings for operating and investing activities. Due to the cyclical nature of the hunting business, we typically expect to use cash resources in operations during our first fiscal quarter with future quarters typically covering this early cash usage.

In the first three months of fiscal 2012, we used $15.3 million in cash from operating activities, an increase of $3.4 million over the amount we used in the first three months of fiscal 2011 due primarily to the reduction in net income. During the three months ended July 31, 2011, inventory increased $5.8 million versus an $11.9 million increase the prior comparable period. Generally, in order to meet fall seasonal demand, inventory growth in summer months is required. However, due to the increase in order rate as well as the impact of the hunting production move, inventory growth was significantly below prior year amounts. Accounts receivable increased $4.9 million during the three months ended July 31, 2011 versus a $2.8 million decrease in the prior comparable quarter caused by higher sales volume in the current period. The $7.1 million decline in accounts payable was partially as a result of the unusually high payables as of April 30, 2011 related to our significantly increased capital spending late in fiscal 2011.

Cash used for investing activities increased by $2.7 million for the three months ended July 31, 2011. This increase in cash used for investing was entirely attributed to increased capital spending during the period. We currently expect to spend $14.9 million on capital expenditures in fiscal 2012, a decrease of $1.1 million from the $16.0 million spent in fiscal 2011, which includes the $4.4 million economic incentive tax credit (“ITC”) as discussed below. Major capital expenditures will focus on moving equipment and processes from Rochester, New Hampshire to Springfield, Massachusetts, improving production efficiencies, tooling for new product offerings, and various projects designed to increase capacity and upgrade manufacturing technology.

On December 21, 2010, in accordance with the Economic Development Incentive Program of the Commonwealth of Massachusetts, we were awarded a refundable economic ITC by the Economic Assistance Coordinating Council in conjunction with our plan to move production of our hunting product line. The ITC is calculated as 40% of qualified capital expenditures placed in service and allows for a refundable tax credit from the Commonwealth of Massachusetts of up to $4.4 million during the fiscal year ending April 30, 2011, the majority of which will be received after filing our fiscal 2011 tax return in fiscal 2012.

Cash used by financing activities was $321,000 for the three months ended July 31, 2011. This increase was primarily related to the debt issue costs paid in the period relating to the debt exchanges transacted in late fiscal 2011. We had no short-term bank borrowings at July 31, 2011 or 2010. As of July 31, 2011, we had $37.7 million in cash and cash equivalents on hand, including restricted cash of $5.8 million. We have a $120.0 million revolving line of credit with TD Bank as of July 31, 2011. Our credit agreement with TD Bank contains financial covenants relating to maintaining maximum leverage and minimum debt service coverage. The indenture governing the Convertible Notes contains a financial covenant relating to maximum additional indebtedness. The Senior Notes Indenture contains a financial covenant relating to times interest earned. We were in compliance with all debt covenants as of July 31, 2011. Based upon our current working capital position, current operating plans, and expected business conditions, we believe that our existing capital resources and credit facilities will be adequate to fund our operations, including our outstanding debt and other commitments, for the next 12 months, apart from major acquisitions, if any.

On December 15, 2006, we issued an aggregate of $80.0 million of Convertible Notes maturing on December 15, 2026 to qualified institutional buyers pursuant to the terms and conditions of a securities purchase agreement and indenture. We used the net proceeds from the Convertible Notes, together with $28.0 million from our acquisition line of credit, to fund our acquisition of Thompson/Center Arms.

The Convertible Notes bear interest at a rate of 4% per annum payable on June 15 and December 15 of each year. Holders of the Convertible Notes may require us to repurchase all or part of their Convertible Notes on December 15, 2011, December 15, 2016, or December 15, 2021 and in the event of a fundamental change in our company, as defined in the indenture governing the Convertible Notes. The Convertible Notes were convertible into shares of our common stock, initially at a conversion rate of 81.0636 shares per $1,000 principal amount, or a total of 6,485,084 shares, which was equivalent to an initial conversion price of $12.336 per share. As of July 31, 2011, taking into account the exchange agreements discussed below, the remaining outstanding Convertible Notes are convertible into a total of 2,341,906 shares. The Convertible Notes may be converted at any time. Until December 15, 2011, we may redeem all or a portion of the Convertible Notes at the redemption price of 100% of the principal amount of the Convertible Notes plus accrued and unpaid interest only if the closing price of our common stock exceeds 150% of the then applicable conversion price of the Convertible Notes for no fewer than 20 trading days in any period of 30 consecutive trading days. After December 15, 2011, we may redeem all or a portion of the Convertible Notes. As noted below, we have exchanged a total of $50.0 million of the Convertible Notes for $50.0 million of the Senior Notes. We anticipate that the holders of the entire $30.0 million principal amount of the outstanding Convertible Notes will require us to repurchase those Convertible Notes for cash on December 15, 2011. We intend to utilize cash on hand or borrowings under our credit agreement to make these payments.

The Convertible Notes are our general unsecured obligations, ranking senior in right of payment to our subordinated indebtedness and ranking pari passu with all other unsecured and unsubordinated indebtedness. Until such time that the closing price of our common stock exceeds 200% of the then applicable conversion price of the Convertible Notes for at least 30 trading days in any period of 40 consecutive trading days, we agreed not to incur any additional indebtedness in excess of the greater of (1) $60.0 million available under our credit facility, and (2) three times LTM EBITDA (as defined in the indenture governing the Convertible Notes) at the time such additional debt is incurred and including any amounts outstanding under our credit facility.

On January 14, 2011, we issued an aggregate of $23.1 million of Senior Notes to two investors in exchange for $23.1 million of the Convertible Notes pursuant to the terms and conditions of an exchange agreement and the Senior Notes Indenture. On February 10, 2011 and March 3, 2011, we issued an aggregate of $16.8 million and $10.1 million, respectively, of Senior Notes to additional investors in exchange for $16.8 million and $10.1 million, respectively, of the Convertible Notes pursuant to the terms and conditions of additional exchange agreements and the Senior Notes Indenture. As a result, we exchanged a total of $50.0 million of the Convertible Notes for $50.0 million of Senior Notes.

The Senior Notes bear interest at a rate of 9.5% per annum payable on June 15 and December 15 of each year.

At any time prior to January 14, 2014, we may, at our option, (a) redeem all or a portion of the Senior Notes at a redemption price of 100% of the principal amount of the Senior Notes, plus an applicable premium, plus accrued and unpaid interest as of the redemption date, or (b) redeem up to 35% of the aggregate principal amount of the Senior Notes with the net cash proceeds of one or more equity offerings at a redemption price of 104.75% of the principal amount of the Senior Notes, plus accrued and unpaid interest as of the redemption date; provided that in the case of clause (b) above, at least 65% of the aggregate original principal amount of the Senior Notes remains outstanding and the redemption occurs within 60 days after the closing of the equity offering. On and after January 14, 2014, we may, at our option, redeem all or a portion of the Senior Notes at a redemption price of (1) 104.75% of the principal amount of the Senior Notes to be redeemed, if redeemed during the 12-month period beginning on January 14, 2014; or (2) 100% of the principal amount of the Senior Notes to be redeemed, if redeemed during the 12-month period beginning on January 14, 2015, plus, in either case, accrued and unpaid interest on the Senior Notes as of the applicable redemption date. Subject to certain restrictions and conditions, we may be required to make an offer to repurchase the Senior Notes from the holders of the Senior Notes in connection with a change of control or disposition of assets. If not redeemed by us or repaid pursuant to the holders' right to require repurchase, the Senior Notes mature on January 14, 2016.

The Senior Notes are general unsecured obligations of our company. The Senior Notes Indenture contains certain affirmative and negative covenants, including limitations on restricted payments, limitations on indebtedness, limitations on the sale of assets, and limitations on liens.

The limitation on indebtedness in the Senior Notes Indenture is only applicable at such time that the consolidated coverage ratio (as set forth in the Senior Notes Indenture) for us and our restricted subsidiaries is less than 2.00 to 1.00. In general, as set forth in the Senior Notes Indenture, the consolidated coverage ratio is determined by comparing our prior four quarters' consolidated EBITDA (earnings before interest, taxes, depreciation, and amortization) to our consolidated interest expense.

Given the restrictions on additional indebtedness under the indenture governing the Convertible Notes and the Senior Notes Indenture, any future acquisitions may have to be financed through other means. Our future capital requirements will depend on many factors, including our rate of growth, the timing and extent of new product introductions, the expansion of sales and marketing activities, and the amount and timing of acquisitions of other companies. We cannot assure you that further equity or debt financing will be available to us on acceptable terms or at all.

Other Matters

Critical Accounting Policies

The preparation of financial statements requires us 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 income and expenses during the reporting period. Significant accounting policies are disclosed in Note 3 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended April 30, 2011. The most significant areas involving our judgments and estimates are described in the Management's Discussion and Analysis of Financial Conditions and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended April 30, 2011, to which there have been no material changes. Actual results could differ from estimates made.

Recent Accounting Pronouncements

The nature and impact of recent accounting pronouncements is discussed in Note 16 to our consolidated financial statements commencing on page 21 of this report, which is incorporated herein by reference.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

During the period ending July 31, 2011, we have not entered into or transacted any forward option contracts relate to fluctuations in exchange rates when purchasing finished goods and components from a European supplier. We continue to review the dollar/euro relationship and have purchased euros at the spot rate and will continue to do so until such time that we determine that our foreign exchange risk will be best mitigated by entering into one or more forward contracts. During the three months ended July 31, 2010, we experienced a net loss of $370,000 on hedging transactions that were executed during the period. As of July 31, 2011, we had no forward contracts outstanding.

Item 4. *Controls and Procedures*

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under 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 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 Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We formed a disclosure committee in the fall of 2002 that includes senior financial, operational, and legal personnel charged with assisting the Chief Executive Officer and Chief Financial Officer in overseeing the accuracy and timeliness of the periodic reports filed under the Exchange Act and in evaluating regularly our disclosure controls and procedures.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of July 31, 2011, our disclosure controls and procedures are effective at a reasonable assurance level in that they were reasonably designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act (i) is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and (ii) is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

The nature of legal proceedings against us is discussed in Note 14 to our consolidated financial statements commencing on page 15 of this report, which is incorporated herein by reference.

PROTECTION OF LAWFUL COMMERCE IN ARMS ACT

On October 26, 2005, President George W. Bush signed into law the Protection of Lawful Commerce in Arms Act ("PLCAA"). The PLCAA is designed to prohibit civil liability actions from being brought or continued against manufacturers, distributors, dealers, or importers of firearms or ammunition for damages, injunctions, or other relief resulting from the misuse of their products by others. The legislation provides that any qualified civil liability action pending on the date of the enactment of the legislation shall be immediately dismissed, and it precludes similar cases from being brought in the future. The legislation excludes from the definition of a qualified civil liability action any action for death, physical injuries, or property damages resulting directly from a defect in design or manufacture of the product when it is used as intended or in a reasonably foreseeable manner, except that where the discharge of the product was caused by a volitional act that constituted a criminal offense, then such action will be considered the sole proximate cause of any resulting death, personal injuries, or property damage. Because it is impossible to predict with certainty how any court will interpret or apply the legislation to a given set of facts, we cannot predict with any certainty the impact that the PLCAA will ultimately have on the pending cases.

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Item 6. ***Exhibits***

10.90*	Severance and Change in Control Agreement, dated March 9, 2011, by and between Smith & Wesson Holding Corporation and Barry Willingham
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
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

* Management contract or compensatory arrangement.

† Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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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.

SMITH & WESSON HOLDING CORPORATION,
a Nevada corporation

By: */s/ MICHAEL F. GOLDEN*
Michael F. Golden
President and Chief Executive Officer

By: */s/ JEFFREY D. BUCHANAN*
Jeffrey D. Buchanan
Chief Financial Officer

Dated: September 7, 2011

INDEX TO EXHIBITS

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SEVERANCE AND CHANGE IN CONTROL AGREEMENT

SEVERANCE AND CHANGE IN CONTROL AGREEMENT dated March 9th, 2011, by and between **SMITH & WESSON HOLDING CORPORATION**, a Nevada corporation ("Employer"), and **BARRY WILLINGHAM** ("Employee").

WHEREAS, Employee is an executive officer and valued employee of Employer.

WHEREAS, Employer and Employee desire to agree to the results of any termination of Employee's employment under certain circumstances.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants set forth in this Agreement, the parties hereto agree as follows:

1. **Definitions**.

(a) "**Cause**" shall mean any termination of Employee's employment by Employer as a result of Employee engaging in an act or acts involving a crime, moral turpitude, fraud, or dishonesty; Employee taking any action that may be injurious to the business or reputation of Employer; or Employee willfully violating in a material respect Employer's Corporate Governance Guidelines, Code of Conduct, or any applicable Code of Ethics, including, without limitation, the provisions thereof relating to conflicts of interest or related party transactions.

(b) "**Change in Control**" of Employer shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934 as in effect on the date of this Agreement or, if Item 6(e) is no longer in effect, any regulations issued by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 that serve similar purposes; provided that, without limitation, such a Change in Control shall be deemed to have occurred if and when (i) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) directly or indirectly of equity securities of Employer representing 20 percent or more of the combined voting power of Employer's then-outstanding equity securities, except that this provision shall not apply to any person currently owning at least five percent or more of the combined voting power of Employer's currently outstanding equity securities or to an acquisition of up to 20 percent of the then-outstanding voting securities that has been approved by at least 75 percent of the members of the Board of Directors who are not affiliates or associates of such person; (ii) during the period of this Agreement, individuals who, at the beginning of such period, constituted the Board of Directors of Employer (the "Original Directors"), cease for any reason to constitute at least a majority thereof unless the election or nomination for election of each new director was approved (an "Approved Director") by the vote of a Board of Directors constituted entirely of Original Directors and/or Approved Directors; (iii) a tender offer or exchange offer is made whereby the effect of such offer is to take over and control Employer, and such offer is consummated for the equity securities of Employer representing 20 percent or more of the combined voting power of Employer's then-outstanding voting securities; (iv) Employer is merged, consolidated, or enters into a reorganization transaction with another person and, as the result of such merger, consolidation, or reorganization, less than 75 percent of the outstanding equity securities of the surviving or resulting person shall then be owned in the aggregate by the former stockholders of Employer; or (v) Employer transfers substantially all of its assets to another person or entity that is not a wholly owned subsidiary of Employer. Sales of Employer's Common Stock beneficially owned or controlled by Employee shall not be considered in determining whether a Change in Control has occurred.

2. **Result of Termination Other than for Cause**. In the event that Employer terminates Employee's employment with Employer other than for Cause, (a) Employer shall pay Employee's base salary for a period of 12 months following the effective date of such termination, and (b) Employer shall pay to Employee, at the same time as cash incentive bonuses are paid to Employer's other executives, a portion of the cash incentive bonus deemed by Employer's Compensation Committee in the exercise of its sole discretion to be earned by Employee pro rata for the period commencing on the first day of the fiscal year for which the cash incentive bonus is calculated and ending on the effective date of termination. The amounts payable under (a) above shall be paid on Employee's regular payroll schedule commencing on the first such payment date coincident with or following your "separation from service" from Employer within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and shall be treated as a series of separate payments under Treasury Regulations Section 1.409A-2(b)(2)(iii). The amounts payable under (b) above shall be made by March 15 of the year following the year to which the bonus applies and would otherwise be earned.

3. **Termination Following Change in Control**. In the event of a "Change in Control" of Employer, Employee, at Employee's option and upon written notice to Employer, may terminate Employee's employment effective on the date of the notice with the same force and effect as if such termination were other than for Cause as provided in Section 2 above, unless (A) the Change in Control shall have been approved by the Board of Directors of Employer, (B) the provisions of this Agreement remain in full force and effect as to Employee, and (C) Employee suffers no reduction in Employee's status, duties, authority, or compensation following such Change in Control, provided that Employee will be considered to suffer a reduction in Employee's status, duties, authority or compensation, only if, after the Change in Control, (i) Employee is not the president of the perimeter security business conducted by Employer and its subsidiaries immediately prior to the Change in Control, (ii) such company terminates Employee or in any material respect reduces Employee's status, duties, authority, or base compensation within one year of the Change in Control, or (iii) as a result of such Change in Control Employee is required to relocate out of Nashville, Tennessee (or surrounding areas).

4. **Competition and Confidential Information**.

(a) **Interests to be Protected**. The parties acknowledge that Employee will perform essential services for Employer, its subsidiaries, its employees, and its stockholders during the term of Employee's employment with Employer. Employee will be exposed to, have access to, and work with, a considerable amount of Confidential Information (as defined below). The parties also expressly recognize and acknowledge that the personnel of Employer and its subsidiaries have been trained by, and are valuable to, Employer and its subsidiaries and that Employer and its subsidiaries will incur substantial recruiting and training expenses if Employer or its subsidiaries must hire new personnel or retrain existing personnel to fill vacancies. The parties expressly recognize that it could seriously impair the goodwill and diminish the value of business of Employer and its subsidiaries should Employee compete with Employer or any of its subsidiaries in any manner whatsoever. The parties acknowledge that this covenant has an extended duration; however, they agree that this covenant is reasonable and it is necessary for the protection of Employer, its subsidiaries, its stockholders, and employees. For these and other reasons, and the fact that there are many other employment opportunities available to Employee if his employment is terminated, the parties are in full and complete agreement that the following restrictive covenants are fair and reasonable and are entered into freely, voluntarily, and knowingly. Furthermore, each party was given the opportunity to consult with independent legal counsel before entering into this Agreement.

(b) **Non-Competition**. For the period equal to 12 months after the termination of Employee’s employment with Employer for any reason, Employee shall not (whether directly or indirectly, as owner, principal, agent, stockholder, director, officer, manager, employee, partner, participant, or in any other capacity) engage or become financially interested in any competitive business conducted within the Restricted Territory (as defined below). As used herein, the term “competitive business” shall mean any business that sells or provides or attempts to sell or provide products or services the same as or substantially similar to the products or services sold or provided by Employer or its subsidiaries during Employee’s employment, and the term “Restricted Territory” shall mean any state or other geographical area in which Employer or its subsidiaries sells products or provides services during Employee’s employment.

(c) **Non-Solicitation of Employees**. For a period of 24 months after the termination of Employee’s employment with Employer for any reason, Employee shall not directly or indirectly, for Employee, or on behalf of, or in conjunction with, any other person, company, partnership, corporation, or governmental entity, solicit for employment, seek to hire, or hire any person or persons who is employed by or was employed by Employer or its subsidiaries within 12 months of the termination of Employee’s employment for the purpose of having any such employee engage in services that are the same as or similar or related to the services that such employee provided for Employer or any of its subsidiaries.

(d) **Confidential Information**. Employee shall maintain in strict secrecy all confidential or trade secret information relating to the business of Employer or its subsidiaries (the “Confidential Information”) obtained by Employee in the course of Employee’s employment, and Employee shall not, unless first authorized in writing by Employer, disclose to, or use for Employee’s benefit or for the benefit of, any person, firm, or entity at any time either during or subsequent to the term of Employee’s employment, any Confidential Information, except as required in the performance of Employee’s duties on behalf of Employer. For purposes hereof, Confidential Information shall include without limitation any materials, trade secrets, knowledge, or information with respect to management, operational, or investment policies and practices of Employer or its subsidiaries; any business methods or forms; any names or addresses of customers or data on customers or suppliers; and any business policies or other information relating to or dealing with the management, operational, or investment policies or practices of Employer or its subsidiaries.

(e) **Return of Books, Records, Papers, and Equipment**. Upon the termination of Employee's employment with Employer for any reason, Employee shall deliver promptly to Employer all files, lists, books, records, manuals, memoranda, drawings, and specifications; all cost, pricing, and other financial data; all other written or printed materials and computers, cell phones, PDAs, and other equipment that are the property of Employer or any of its subsidiaries (and any copies of them); and all other materials that may contain Confidential Information relating to the business of Employer or any of its subsidiaries, which Employee may then have in Employee's possession or control whether prepared by Employee or not.

(f) **Disclosure of Information**. Employee shall disclose promptly to Employer, or its nominee, any and all ideas, designs, processes, and improvements of any kind relating to the business of Employer or any of its subsidiaries, whether patentable or not, conceived or made by Employee, either alone or jointly with others, during working hours or otherwise, during the entire period of Employee's employment with Employer or within six months thereafter.

(g) **Assignment**. Employee hereby assigns to Employer or its nominee, the entire right, title, and interest in and to all inventions, discoveries, and improvements, whether patentable or not, that Employee may conceive or make during Employee's employment with Employer, or within six months thereafter, and which relate to the business of Employer or any of its subsidiaries.

(h) **Equitable Relief**. In the event a violation of any of the restrictions contained in this Section occurs, Employer shall be entitled to preliminary and permanent injunctive relief as well as damages and an equitable accounting of all earnings, profits, and other benefits arising from such violation, which right shall be cumulative and in addition to any other rights or remedies to which Employer may be entitled. In the event of a violation of any provision of subsection (b), (c), (f), or (g) of this Section, the period for which those provisions would remain in effect shall be extended for a period of time equal to that period beginning when such violation commenced and ending when the activities constituting such violation shall have been finally terminated in good faith.

(i) **Restrictions Separable**. If the scope of any provision of this Agreement (whether in this Section 4 or otherwise) is found by a Court to be too broad to permit enforcement to its full extent, then such provision shall be enforced to the maximum extent permitted by law. The parties agree that the scope of any provision of this Agreement may be modified by a judge in any proceeding to enforce this Agreement, so that such provision can be enforced to the maximum extent permitted by law. Each and every restriction set forth in this Section 4 is independent and severable from the others, and no such restriction shall be rendered unenforceable by virtue of the fact that, for any reason, any other or others of them may be unenforceable in whole or in part.

5. **Successors and Assigns**. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto; provided that because the obligations of Employee hereunder involve the performance of personal services, such obligations shall not be delegated by Employee. For purposes of this Agreement successors and assigns shall include, but not be limited to, any individual, corporation, trust, partnership, or other entity that acquires a majority of the stock or assets of Employer by sale, merger, consolidation, liquidation, or other form of transfer. Employer will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or assets of Employer to expressly assume and agree to perform this Agreement in the same manner and to the same extent that Employer would be required to perform it if no such succession had taken place. Without limiting the foregoing, unless the context otherwise requires, the term “Employer” includes all subsidiaries of Employer.

6. **Release of Claims and Non-Disparagement**. Employer’s obligations under this Agreement are contingent upon Employee executing (and not revoking during any applicable revocation period) a valid and enforceable full and unconditional release of any claims Employee may have against Employer (whether known or unknown) as of the termination of Employee’s employment. Employer shall present the release to Employee within ten days of termination, and Employee shall have up to 45 days to consider whether to execute the release; in the event Employee executes the release, Employee shall have an additional eight calendar days in which to expressly revoke his execution of the release in writing. In the event that Employee fails to execute the release within the 45 day-period, or in the event Employee formally revokes his execution of the release within eight calendar days of his execution of the release, then this Agreement shall be null and void. Employee shall not be entitled to any payments or benefits under this Agreement after termination of his employment if he does not execute the release or if he revokes the release during any statutory revocation period, and to the extent that Employer has made any payments to Employee prior to Employee’s failure to execute the release within the 45 day-period or prior to his revocation, then Employee shall immediately reimburse Employer for any and all such payments. Employer’s obligations and all payments under this Agreement shall cease if Employee makes any written or oral statement or takes any action that Employee knows or reasonably should know constitutes an untrue, disparaging, or negative comment concerning Employer.

7. **Miscellaneous**.

(a) **Notices**. All notices, requests, demands, and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given, made, and received (i) if personally delivered, on the date of delivery, (ii) if by facsimile or e-mail transmission, upon receipt, (iii) if mailed, three days after deposit in the United States mail, registered or certified, return receipt requested, postage prepaid, and addressed as provided below, or (iv) if by a courier delivery service providing overnight or “next-day” delivery, on the next business day after deposit with such service addressed as follows:

(1) If to Employer:

2100 Roosevelt Avenue
Springfield, Massachusetts 01104
Attention: Chief Executive Officer
Phone: (413) 747-3349
Facsimile: (413) 739-8528
E-Mail: mgolden@smith-wesson.com

(2) If to Employee:

Barry Willingham
4552 Stagecoach Circle
Franklin, Tennessee 37067
Phone: (615) 955-0031
E-Mail: BWillingham@smith-wesson.com

Either party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 5 for the giving of notice.

(b) **Indulgences; Waivers**. Neither any failure nor any delay on the part of either party to exercise any right, remedy, power, or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power, or privilege preclude any other or further exercise of the same or of any other right, remedy, power, or privilege, nor shall any waiver of any right, remedy, power, or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power, or privilege with respect to any other occurrence. No waiver shall be binding unless executed in writing by the party making the waiver.

(c) **Controlling Law**. This Agreement and all questions relating to its validity, interpretation, performance and enforcement, shall be governed by and construed in accordance with the laws of the state of Massachusetts, notwithstanding any Massachusetts or other conflict-of-interest provisions to the contrary. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the state of Massachusetts located in Hampden County and the United States District Court for the District of Massachusetts for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement and the transactions contemplated hereby. Service of process in connection with any such suit, action, or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. Each of the parties hereto irrevocably consents to the jurisdiction of any such court in any such suit, action, or proceeding and to the laying of venue in such court. Each party hereto irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. **EACH OF THE PARTIES HERETO WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO THIS AGREEMENT AND REPRESENTS THAT COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER.**

(d) **Binding Nature of Agreement**. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors, and assigns, except that no party may assign or transfer such party's rights or obligations under this Agreement without the prior written consent of the other party.

(e) **Execution in Counterpart**. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of the parties reflected hereon as the signatories.

(f) **Provisions Separable**. The provisions of this Agreement are independent of and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

(g) **Entire Agreement**. This Agreement contains the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings, inducements, and conditions, express or implied, oral or written, except as herein contained. The express terms hereof control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms hereof. This Agreement may not be modified or amended other than by an agreement in writing.

(h) **No Participation in Severance Plans**. Except as contemplated by this Agreement, Employee acknowledges and agrees that the compensation and other benefits set forth in this Agreement are and shall be in lieu of any compensation or other benefits that may otherwise be payable to or on behalf of Employee pursuant to the terms of any severance pay arrangement of Employer or any affiliate thereof, or any other similar arrangement of Employer or any affiliates thereof providing for benefits upon involuntary termination of employment.

(i) **Paragraph Headings**. The paragraph headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

(j) **Gender**. Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine, or neuter, as the context requires.

(k) **Number of Days**. In computing the number of days for purposes of this Agreement, all days shall be counted, including Saturdays, Sundays, and holidays; provided, however, that if the final day of any time period falls on a Saturday, Sunday, or holiday, then the final day shall be deemed to be the next day that is not a Saturday, Sunday, or holiday.

(l) **Specified Employee**. Notwithstanding any provision of this Agreement to the contrary, if Employee is a "specified employee" as defined in Section 409A of the Code, Employee shall not be entitled to any payments or benefits the right to which provides for a "deferral of compensation" within the meaning of Section 409A, and whose payment or provision is triggered by Employee's termination of employment (whether such payments or benefits are provided to Employee under this Agreement or under any other plan, program or arrangement of the Employer), until (and any payments or benefits suspended hereby shall be paid in a lump sum on) the earlier of (i) the date which is the first business day following the six-month anniversary of Employee's "separation from service" (within the meaning of Section 409A of the Code) for any reason other than death or (ii) Employee's date of death, and such payments or benefits that, if not for the six-month delay described herein, would be due and payable prior to such date shall be made or provided to Employee on such date. The Employer shall make the determination as to whether Employee is a "specified employee" in good faith in accordance with its general procedures adopted in accordance with Section 409A of the Code and, at the time of the Employee's "separation of service" will notify the Employee whether or not he is a "specified employee."

(m) **Savings Clause**. This Agreement is intended to satisfy the requirements of Section 409A of the Code with respect to amounts subject thereto, and shall be interpreted and construed consistent with such intent; provided that, notwithstanding the other provisions of this subsection and the paragraph above entitled, "Specified Employee", with respect to any right to a payment or benefit hereunder (or portion thereof) that does not otherwise provide for a "deferral of compensation" within the meaning of Section 409A of the Code, it is the intent of the parties that such payment or benefit will not so provide. Furthermore, if either party notifies the other in writing that, based on the advice of legal counsel, one or more of the provisions of this Agreement contravenes any regulations or Treasury guidance promulgated under Section 409A of the Code or causes any amounts to be subject to interest or penalties under Section 409A of the Code, the parties shall promptly and reasonably consult with each other (and with their legal counsel), and shall use their reasonable best efforts, to reform the provisions hereof to (a) maintain to the maximum extent practicable the original intent of the applicable provisions without violating the provisions of Section 409A of the Code or increasing the costs to the Employer of providing the applicable benefit or payment and (b) to the extent practicable, to avoid the imposition of any tax, interest or other penalties under Section 409A of the Code upon Employee or the Employer.

(n) **Reimbursements**. Except as expressly provided otherwise herein, no reimbursement payable to Employee pursuant to any provisions of this Agreement or pursuant to any plan or arrangement of Employer shall be paid later than the last day of the calendar year following the calendar year in which the related expense was incurred, and no such reimbursement during any calendar year shall affect the amounts eligible for reimbursement in any other calendar year, except, in each case, to the extent that the right to reimbursement does not provide for a "deferral of compensation" within the meaning of Section 409A.

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

SMITH & WESSON HOLDING CORPORATION

By: */s/ Michael F. Golden*
Michael Golden
President and Chief Executive Officer

/s/ Barry Willingham
Barry Willingham

Exhibit 31.1

CERTIFICATION

I, Michael F. Golden, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Smith & Wesson Holding Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: */s/ MICHAEL F. GOLDEN*
Michael F. Golden
President and Chief Executive Officer

Date: September 7, 2011

Exhibit 31.2

CERTIFICATION

I, Jeffrey D. Buchanan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Smith & Wesson Holding Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: */s/ JEFFREY D. BUCHANAN*
Jeffrey D. Buchanan
Chief Financial Officer

Date: September 7, 2011

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Smith & Wesson Holding Corporation (the “Company”) for the quarterly period ended July 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael F. Golden, President and Chief Executive Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: */s/ MICHAEL F. GOLDEN*
Michael F. Golden
President and Chief Executive Officer

Dated: September 7, 2011

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Smith & Wesson Holding Corporation (the “Company”) for the quarterly period ended July 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeffrey D. Buchanan, Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: *\/s/ JEFFREY D. BUCHANAN*
Jeffrey D. Buchanan
Chief Financial Officer

Dated: September 7, 2011