UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-QSB/A

Amendment No. 1

Quarterly Report of Small Business Issuers under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended January 31, 2003

Commission File No. 001-31552

Smith & Wesson Holding Corporation

(Exact name of registrant as specified in its charter)

Nevada *(State or other jurisdiction of incorporation or organization)*	**87-0543688** *(I.R.S. Employer Identification No.)*
2100 Roosevelt Avenue **Springfield, Massachusetts** *(Address of principal executive offices)*	**01104** *(Zip Code)*

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

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

Class	Outstanding as of March 7, 2004
Common stock, $0.001 par value	30,781,380

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

Table of Contents

EXPLANATORY NOTE

This amendment on Form 10-QSB/A (i) summarizes the impact and effect of the restatement of our previously filed fiscal year 2002 financial statements and the effects of that restatement for the quarters ended January 31, 2003 and 2002, (ii) identifies certain recent events and (iii) amends Items 1 and 2 of Part I, and Item 6 of Part II of the Quarterly Report of Smith & Wesson Holding Corporation (the "Company") on Form 10-QSB previously filed for the quarter ended January 31, 2003. The restatement of our previously filed fiscal year 2002 financial statements is set forth in our Form 10-KSB for the fiscal year ended April 30, 2003, filed with the Securities and Exchange Commission on December 18, 2003.

This amendment on Form 10-QSB/A for the fiscal quarters ended January 31, 2003 and 2002 amends and restates only those items of the previously filed Form 10-QSB which have been affected by the restatement. In order to preserve the nature and character of the disclosures set forth in such items as originally filed, no attempt has been made in this amendment (i) to modify or update such disclosures except as required to reflect the effects of the restatement or (ii) to make revisions to the Notes to the Consolidated Financial Statements except for those which are required by or result from the effects of the restatement. For additional information regarding the restatement, see Note 9 to the Consolidated Financial Statements for Smith & Wesson Holding Corporation and Subsidiaries included in Part I — Item 1. No other information contained in the Company's Form 10-QSB for the quarter ended January 31, 2003 has been updated or amended.

SMITH & WESSON HOLDING CORPORATION

TABLE OF CONTENTS

The financial statements of Smith & Wesson Corp. are presented as of April 28, 2001 and for the thirteen day period ended May 11, 2001. They are presented for Smith & Wesson Corp. (SW) as predecessor to Smith & Wesson Holding Corporation. The Company has previously filed, on Form 8K/A dated July 30, 2001 Balance Sheet of the predecessor SW as of April 28, 2001 from which the accompanying Balance Sheet has been derived. SW was acquired by the Company on May 11, 2001.

The Company has previously filed, on Form 10-KSB dated December 18, 2003, the accompanying Consolidated Statements of Operations, Changes in Stockholder's Equity and Cash Flows (the "Statements"). These Statements have been prepared without audit and have not been reviewed by independent accountants; however, the Company believes that all adjustments, which include only normal recurring adjustments necessary to fairly present SW's results of operations, changes in stockholder's equity and cash flows for the thirteen day period, have been included. All significant intercompany transactions have been eliminated.

PART I: FINANCIAL INFORMATION

The Restatement

Overview

On March 17, 2003, the Company engaged PricewaterhouseCoopers LLP (PwC), as our independent public accountants to audit our financial statements for fiscal year 2003. On August 12, 2003, the Company engaged PwC to conduct a re-audit of our previously issued fiscal year 2002 financial statements. On December 18, 2003, we filed our Form 10-KSB for the fiscal year ended April 30, 2003, which included restated financial statements for the fiscal year ended April 30, 2002. These restatement changes affect the financial statements for each quarter in fiscal years 2003 and 2002. In this Form 10-QSB/A, we are restating our previously filed financial statements for each of the three month periods and nine month periods ended January 31, 2003 and January 31, 2002 to reflect adjustments required with respect to the acquisition balance sheet of Smith & Wesson Corp. (S&W) and other adjustments. These adjustments include, among other items:

- adjustments to net sales for product returns and freight invoiced to customers;
- adjustments to S&W's product liability and environmental expenses;
- our accounting for non-cash interest and fees related to a note payable that we issued to finance a part of the acquisition of Smith & Wesson Corp.;
- adjustments to S&W's income tax accounts; and
- adjustments to other accounts.

Discussion

The restatement adjustments for fiscal year 2002 and the effects of those adjustments on the three and nine months ended January 31, 2003 and 2002 are described within each subsection below:

Net Sales and Cost of Sales

We have restated our fiscal year 2002 financial statements to increase net product sales by $2.8 million and increase cost of sales by $3.8 million. Included in the $2.8 million net product sales increase was $1.2 million to reverse a sales return recorded in error. The sales return related to a pre-acquisition sale by Smith & Wesson Corp., for which no reserve for returns had been established. Accordingly, upon return of the product, we now believe the returned goods should have been recorded as an increase in inventory of $1.2 million and as a reduction to acquired receivables of $1.2 million. As such, we restated our 2002 financial statements to increase net product sales by $1.2 million and increase cost of sales by $1.2 million. We also restated our fiscal year 2002 financial statements to increase net product sales by $1.6 million, increase marketing and selling expense by $0.7 million for cooperative advertising and distributor incentives, increase cost of goods sold by $0.8 million for the cost of freight and $0.1 million used to fund industry programs. These three costs had incorrectly been reported as reductions of sales. We also restated to increase cost of sales by $0.4 million for inventory and equipment write-offs, decrease cost of goods sold by $0.3 million for depreciation expense which was overstated as a result of errors in the S&W purchase accounting and to increase cost of goods sold by $1.6 million for adjustments to product liability reserves.

The effect of these adjustments on our quarterly financial statements for the three months ended January 31, 2002 is to increase net product sales by $.4 million and increase cost of sales by $0.3 million for the cost of freight and $.5 million for additional product liability expense. We are also restating our financial statements for the three months ended January 31, 2003, to increase net product sales by $0.6 million, increase selling and marketing expense by $0.1 million for cooperative advertising and distributor incentives, and increase cost of goods sold by $0.3 million for the cost of freight.

The effect of these adjustments on the nine months ended January 31, 2002 is to increase net product sales by $2.3 million, which includes a $1.2 million sales return recorded in error in the second quarter, as well as $1.1 million in freight, promotional and industry dues that had originally been reported as a reduction of sales and should have been charged to cost of sales and operating expenses. Cost of sales has been increased by $3.2 million which includes $1.0 million related to the sales return, $1.2 million relative to the product liability adjustment, $0.6 million in freight costs previously reported as a reduction to sales, and $0.4 million in for inventory and equipment write-offs. For the nine months ended January 31, 2003 the effects of the restatement on net product sales was an increase of $1.9 million which, was the freight, promotional and industry dues that had originally been reported as a reduction of sales and should have been charged to cost of sales and operating expenses.

Product Liability and Environmental Expenses

We have restated our fiscal year 2002 financial statements to record additional provisions of $2.5 million for environmental remediation and $1.6 million for product liability and accounted for such amounts as adjustments to the May 11, 2001 acquisition balance sheet of Smith & Wesson Corp. We now believe that under generally accepted accounting principles (GAAP) these amounts, aggregating $4.1 million, should have been expensed in 2002 rather than capitalized as increases to purchased assets under FAS 38, Accounting for Preacquisition Contingencies of Purchased Enterprises, which provides that adjustments of preacquisition contingencies after the end of the allocation period must be included in net income in the period the adjustment is determined. Accordingly, our fiscal year 2002 financial statements were restated to increase cost of goods sold by $1.6 million, to increase environmental expense by $2.5 million and to correspondingly reduce the amount of purchase price allocable to reduce purchased fixed assets and intangibles by $4.1 million.

The effect of these adjustments for the three months ended January 31, 2002, is to increase cost of goods sold by $0.5 million to adjust the product liability reserve. The effect of these adjustments on the nine months ended January 31, 2002 was to increase cost of goods sold by $1.2 million for product liability and to increase environmental expense by $2.5 million.

Melby Financing; Interest Expense and Compensation Expense Adjustments

We determined that there were errors in the accounting for a $5 million debt financing, known as the Melby financing, provided to us by Colton R. Melby to finance part of the acquisition of Smith & Wesson Corp. As a result of this loan and the related stock warrants issued, we originally recorded approximately $5,008,500 in expense consisting of $5,000,000 in interest expense, $6,000 in depreciation expense and $2,500 in office supplies expense in fiscal year 2002. We have now determined that under GAAP we should have recorded aggregate expense of $4,541,500 consisting of $2,567,166 in interest expense for amortization of debt discount related to the warrants; $827,414 in interest expense for amortization of debt issue costs arising from the consideration paid to the parties who assisted in arranging the financing (the finders); a loss on early extinguishment of the note payable of $294,420 charged to interest expense; interest expense of $185,000 resulting from settlement of the finders' liability and compensation expense of $667,500 to a finder related to his employment by us. The net result of these transactions is that the previously reported pre-tax loss for the fiscal year ended April 30, 2002 was overstated by $467,000. Our fiscal year 2002 financial statements were restated accordingly, to decrease interest expense by $1,126,000, decrease depreciation expense by $6,000, decrease supplies expense by $2,500 and increase general and administrative expense by $667,500 for compensation expense.

The following discussion provides additional background on the Melby financing. On May 6, 2001, we sold to Mr. Melby a $5 million nonconvertible note due May 12, 2002 and warrants, known as the Melby warrants, to acquire shares of our common stock. At the time of this financing transaction, Mr. Melby had no relationship with us. He became a director of the Company in May 2001, served as our Executive Vice President from May 2002 to September 2002 and served as our President and Chief Operating Officer from September 2002 to December 2003. Under the terms of the Melby financing, we also issued additional warrants, known as the Melby affiliate warrants, to Mr. Melby's two brothers and one of his associates. Shortly after the issue date, Mr. Melby's brothers exercised their Melby affiliate warrants. The Melby affiliate warrants issued to Mr. Melby's associate expired unexercised.

We initially valued the Melby warrants and the Melby affiliate warrants and recorded a debt discount of $5,000,000 completely offsetting the Melby Note of the same amount. We now believe that under GAAP the $5.0 million financing proceeds should have been allocated among the debt and the Melby warrants and Melby affiliate warrants on a relative fair value basis. Based on their relative values, we have determined that, of the $5.0 million financing proceeds, $2,245,000 should have been allocated to the debt and $2,755,000 should have been allocated to equity for the warrants. As a result of the warrant discount, interest expense for the fiscal year ended April 30, 2002 should have been $2,755,000, comprising $2,567,166 amortized to interest expense over the period from the May 2001 debt issue date through the debt extinguishment date and an early extinguishment loss of $187,834 on the debt extinguishment date. The $5.0 million of debt was redeemed in an early extinguishment on March 28, 2002 for $5 million of consideration consisting of $2,837,000 in cash and $2,162,200 in common stock valued at the March 28, 2002 extinguishment date. Mr. Melby used the $2,837,800 of cash from the extinguishment to exercise his warrants. On the debt extinguishment date, an extinguishment loss of $294,420, including the remaining unamortized debt issue costs of $106,586 and the unamortized debt discount of $187,834, should have been recognized.

For the three and nine months ended January 31, 2002, we should have recorded interest expense of $564,606 and $2,333,415 respectively, relating to the Melby Note, the Melby Warrants, and the Melby Affiliate Warrants compared to interest expense previously recorded of $.9 million and $4.5 million, respectively.

In connection with the Melby financing, on May 11, 2001 we also issued warrants, known as the finders' warrants, to the two finders retained to locate the Melby financing. These warrants had a fair value of $434,000. In addition to the finders' warrants, each finder was also entitled to receive a $250,000 cash fee. On May 6, 2001, we advised the finders that they would be paid this fee in approximately 90 days. We now believe that, under GAAP, we should have recorded debt issue costs of $934,000 together with a corresponding liability of $500,000 and $434,000 of paid in capital for the finders' warrants. In addition, we should have recorded amortization expense of $827,414 in fiscal year 2002 related to the debt issue costs and we should have written off the remaining unamortized debt issue costs of $106,586 on the debt extinguishment date.

For the three and nine months ended January 31, 2002, we should have recorded interest expense of $229,912 and $710,849 respectively, relating to the finders' warrants.

On September 24, 2001, we issued 500,000 shares of common stock to one of the finders to settle the $250,000 liability to him. In addition, on August 9, 2001, we paid $62,500 cash to the other finder, Mr. Corey Lambrecht, which reduced our liability to him from $250,000 to $187,500. On April 1, 2002, Mr. Lambrecht became our Vice President of Licensing. On April 30, 2002, we issued 375,000 shares to him. He has served as our Executive Vice President since September 2002. We had previously recorded the issuance of 875,000 shares of common stock as of May 6, 2001 as a credit to paid in capital for $437,500 or $0.50 per share, although these shares were unissued as of May 6, 2001. We now believe that under GAAP we should have recorded an extinguishment loss of $185,000 in September 2001 based upon the 500,000 shares issued to the first finder on September 24, 2001 (500,000 shares valued at $0.87 as of the date of issuance less the $250,000 restated liability as of May 6, 2001). Based upon the 375,000 shares issued to Mr. Lambrecht on April 30, 2002, our restatement includes a compensation expense of $667,500 in April 2002 (375,000 shares valued at $2.28 on the date of issuance less the $187,500 remaining restated liability as of April 2002).

Because the finders' fees were determined to be settled in a fixed number of shares of stock, we now believe that we should have recorded the excess of the market value of the stock to be issued over the original amount of the obligation as additional expense for the three months ended January 31, 2002. The difference between the market value and the initial value of the 500,000 shares due to Mr. Lambrecht for the three months ended January 31, 2002 results in recognizing an increase in compensation expense of $11,250.

For the nine months ended January 31, 2002, the Company has recorded $185,000 in interest expense as an extinguishment of debt relative to the difference between the market value and the initial value of the 500,000 shares issued to one of the finders. The Company has also recorded $123,750 as compensation expense for the nine months ended January 31, 2002 for the difference between the market value and the initial value of the 375,000 shares due to Mr. Lambrecht.

Adjustments for Income Tax Accounting Error Corrections

Our acquisition of Smith & Wesson Corp. was a stock transaction for which no election was made under Internal Revenue Code Section 338 to treat the transaction as an asset purchase for income tax purposes. Therefore, while a new basis of accounting was established for financial reporting purposes, all historical tax bases carried over, resulting in substantial deferred tax temporary differences at the time of the acquisition.

On the opening balance sheet at the May 11, 2001 acquisition date of Smith & Wesson Corp., we reported a $10.5 million deferred tax liability. In the fourth quarter of fiscal year 2002, we subsequently determined that this $10.5 million deferred tax liability was an error on the opening balance sheet requiring correction under GAAP. The net deferred tax balance on the opening balance sheet as of May 11, 2001 should have reflected deferred tax liabilities and assets as set forth in the following table.

Deferred Tax Liabilities and Assets Reflected in the Net Deferred Tax Balance on the Restated Opening Balance Sheet as of May 11, 2001

	Previously Reported as of May 11, 2001	Change	Restated as of May 11, 2001
Deferred Tax Liabilities	$(10,547,329)	$ 3,134,816	$ (7,412,513)
Deferred Tax Assets	8,000,000	9,648,372	17,648,372
Net Deferred Tax Asset/(Liability) before Valuation Allowance	(2,547,329)	12,783,188	10,235,859
Less: Valuation Allowance	(8,000,000)	(2,235,859)	(10,235,859)
Net Deferred Tax Asset/(Liability) at Opening Balance Sheet date	$(10,547,329)	$10,547,329	$ 0

In our previously filed annual report on Form 10-KSB for the fiscal year ended April 30, 2002, we recorded adjustments in the fourth quarter of fiscal year 2002 to correct these errors in the opening balance sheet for deferred tax balances by decreasing net deferred tax liabilities by $10.5 million and decreasing fixed assets and intangible assets by $10.5 million. Although these fourth quarter corrections had no impact on our previously reported tax provision for fiscal year 2002, depreciation and amortization expense for 2002 are overstated as a result of recording the correction in the fourth quarter rather than as of May 11, 2001. We now believe we should have had a net deferred tax asset of $10.2 million with a corresponding valuation allowance of $10.2 million at May 11, 2001 to total to a net zero balance for deferred taxes on the opening balance sheet. This finding has a direct impact on each of the first three quarters of fiscal year 2002 as deferred tax benefits were recorded in each of these quarters.

The impact for the quarter ended January 31, 2002 was to increase income tax expense by $145,983 to eliminate the previously reported benefit from income tax of $128,333 and record income tax expense of $17,650.

For the nine months ended January 31, 2002, the impact was to increase income tax expense by $2,018,507 to eliminate the previously reported benefit from income tax of $1,965,559 and record income tax expense of $52,948.

Other Items

We also restated our fiscal year 2002 financial statements to record the following adjustments that resulted in the changes set forth in the table above:

- *Property, Plant and Equipment.* — We acquired Smith & Wesson Corp. in a bargain purchase that resulted in writing down long-lived assets below fair value, resulting in decreasing fixed assets to a financial statement basis that is less than the net tax basis, which creates a deferred tax asset. This temporary difference should have resulted in a deferred tax asset of approximately $4.8 million. However, we incorrectly recorded a $2.0 million deferred tax liability related to fixed assets which was included in the $10.5 million deferred tax liability. This error was discovered and corrected in the fourth quarter of fiscal year 2002 but should have been corrected effective May 11, 2001. The adjustment in the fourth quarter of fiscal year 2002 reduced deferred tax liabilities by $2.0 million, increased deferred tax assets by $4.8 million and reduced fixed assets and intangible assets by $6.8 million.

- *Trademark.* — The trademark is being amortized over a 20-year period for financial statement purposes, and the historical tax basis of the trademark is zero, which results in a deferred tax liability. A deferred tax liability of $2,640,000 relating to the trademark was previously recorded at the opening balance sheet as part of the $10.5 million deferred tax liability. However, Smith & Wesson Corp. had sufficient deferred tax assets to offset this liability, which reverses over a foreseeable time frame (20 years). A full valuation allowance of $8.0 million against deferred tax assets was previously recorded in the opening balance sheet, thus resulting in recognition of only deferred tax liabilities on the balance sheet. In the fourth quarter of fiscal year 2002, we determined that this deferred tax liability must, under GAAP, be considered as a source of future taxable income available to offset deferred tax assets at May 11, 2001. Therefore, at May 11, 2001, no valuation allowance should have been recognized to the extent deferred tax assets will be utilized by this reversing deferred tax liability, meaning that the valuation allowance at opening balance sheet was overstated. This overstatement was corrected in the fourth quarter of 2002.

- *LIFO Reserve.* — The last in, first out (LIFO) reserve book versus tax difference was created primarily as the result of purchase accounting adjustments made to inventory. Smith & Wesson Corp. had historically valued its financial statement and tax inventory under the LIFO accounting method. The inventory acquired in the May 11, 2001 acquisition was recorded at fair value. Therefore, for book purposes the LIFO reserve was zero at May 11, 2001. However, the inventory basis and related LIFO reserve was unchanged for tax purposes. Therefore, there was a LIFO reserve for tax purposes only of approximately $14.7 million, creating a temporary difference. We now believe that the use of tax planning strategies available with respect to the LIFO reserve were not appropriately considered for purposes of determining the valuation allowance for the opening balance sheet. This error at opening balance sheet was discovered and corrected in the fourth quarter of the fiscal year 2002 based on tax planning strategies which would allow us to recognize the LIFO temporary difference as a source of future taxable income for purposes of determining the deferred tax asset valuation allowance.

- *Deferred Taxes.* — Our Form 10-KSB for the fiscal year ended April 30, 2002 as originally filed also reflects adjustments made in the fourth quarter of fiscal year 2002 to adjust deferred taxes to reverse approximately $2 million of tax benefits recorded over the prior three fiscal quarters.

We are also filing an amended income tax return with the Internal Revenue Service for the fiscal year ended April 30, 2002. The amended return increases our net operating loss carryforward. As a result, our deferred tax asset relating to net operating losses was also understated in the April 30, 2002 tax provision. Since there is a full valuation allowance against this asset, there is no net balance sheet effect at April 30, 2002 or income statement impact on the financial statements for fiscal year 2002 other than a change to the footnote disclosures.

Adjustments to General and Administrative Expenses

We also restated our fiscal year 2002 financial statements to record $1,232,634 of additional costs and expenses related to reserves for self-insured medical costs, unemployment insurance, workers' compensation reserves, and legal services that were previously accounted for as purchase adjustments to the May 11, 2001 acquisition balance sheet of Smith & Wesson Corp. and which we now believe under GAAP should have been expensed in fiscal year 2002. These adjustments increased our previously reported pre-tax loss for fiscal year 2002. A summary of the items comprising the $1,232,634 is presented below:

Adjustments to Expense in Fiscal Year 2002 for Items Previously Capitalized

Increase in medical self insurance reserves and unemployment reserves after the acquisition date	$ 374,634
Increase in workers' compensation reserve and cost of Directors and Officers insurance required under Massachusetts law as a result of the acquisition of Smith & Wesson Corp	175,000
Accounting and legal costs	683,000
Total	$1,232,634

In addition to the expenses noted in the table above, for the three months ended January 31, 2002, general and administrative expenses increased by $83,802 due to the restatement.

For the nine months ended January 31, 2002, we should have recorded $450,000 of additional expense consisting of accounting and legal costs of $275,000 and the workers compensation/Directors and Officers insurance expense of $175,000.

Other Income/Expense

We restated our fiscal year 2002 financial statements to increase other expense by $47,200 which includes a loss on extinguishment of debt $187,834.

For the three months ended January 31, 2002, we should have recorded other income of $112,675.

For the nine months ended January 31, 2002, we should have recorded other income of $91,586.

Summary of Restatement Adjustments

The aggregate impact to our fiscal year statement of operations of the adjustments described above is to increase our previously reported 2002 pre-tax net loss by $5.3 million. The following table summarizes the statement of operations impact of these adjustments on our net loss for the period indicated.

Restatement and Adjustment Impact on Net Income (Loss)

	Fiscal Year Ended April 30, 2002		
	As Previously Reported	Net Change	Restated
	(In millions, except per share data)		
Net Product Sales	$ 76.5	$ 2.8	$ 79.3
Cost of Sales	56.9	3.8	60.7
License income, net	1.2	0.0	1.2
Expenses, including operating expense and other income and expense	17.7	5.6	23.3
Interest Expense, net	8.5	(1.3)	7.2
Income Taxes	0.1	0.0	0.1
Net income (loss) (increase) decrease	$ (5.5)	$ (5.3)	$(10.8)
Earnings per share Basic	$(0.27)	$(0.25)	$(0.52)
Diluted	$(0.27)	$(0.25)	$(0.52)

The aggregate impact of the fiscal year 2002 restatement on our financial statements for the three months ended January 31, 2002, is to decrease our previously reported net income by $555,826 to $720,070. Additionally, the restatement had minor effects on our financial statements for the three months ended January 31, 2003 resulting in an increase of our net income for that period from $231,717 to $718,545. The following table summarizes the statement of operations impact of these adjustments on our net loss for each of the periods indicated.

Restatement and Adjustment Impact on Net Income (Loss)

	Three Months Ended January 31, 2003			Three Months Ended January 31, 2002		
	As Previously Reported	Net Change	Restated	As Previously Reported	Net Change	Restated
	(In millions, except per share data)					
Net Product Sales	$24.9	$ 0.6	$25.5	$21.6	$0.4	$22.0
Cost of Sales	18.5	0.3	18.8	15.2	0.8	16.0
License income, net	0.4	(0.1)	0.3	0.3	0.0	0.3

	Three Months Ended January 31, 2003			Three Months Ended January 31, 2002		
	As Previously Reported	Net Change	Restated	As Previously Reported	Net Change	Restated
	(In millions, except per share data)					
Expenses, including operating expense and other income and expense	5.8	(0.3)	5.5	3.7	0.2	3.9
Interest Expense, net	0.8	0.0	0.8	1.8	(0.2)	1.6
Income Taxes	0.0	0.0	0.0	(0.1)	0.1	0.0
Net Income (loss) (increase) decrease	0.2	0.5	0.7	1.3	(0.6)*	0.7*
Earnings per share						
Basic	.01	.01	.02	.07	(.03)	.04
Diluted	.01	.01	.02	.07	(.04)	.03

	Nine Months Ended January 31, 2003			Nine Months Ended January 31, 2002		
	As Previously Reported	Net Change	Restated	As Previously Reported	Net Change	Restated
	(In millions, except per share data)					
Net Product Sales	$69.0	$1.9	$70.9	$52.8	$ 2.2	$ 55.0
Cost of Sales	50.4	0.8	51.2	41.9	3.3	45.2
License income, net	1.0	0.0	1.0	0.9	0.0	0.9
Expenses, including operating expense and other income and expense	17.4	0.3	17.7	12.1	3.3	15.4
Interest Expense, net	2.0	0.2	2.2	6.9	(1.2)	5.7
Income Taxes	0.0	0.0	0.0	(2.0)	2.1	0.1
Net income/(loss) (increase) decrease*	0.2	0.5*	0.7*	(5.3)*	(5.1)*	(10.4)
Earnings per share						
Basic	.01	.02	.03	(.28)	(.26)	(.54)
Diluted	.01	.01	.02	(.28)	(.26)	(.54)

(*) Do not add due to rounding

Change from LIFO to FIFO Method

Our annual report on Form 10-KSB for the fiscal year ended April 30, 2002 incorrectly disclosed that we adopted the first in, first out (FIFO) method of inventory valuation for Smith & Wesson Corp. following our acquisition of Smith & Wesson Corp. on May 11, 2001. We did not adopt the FIFO method of inventory valuation for S&W until the fourth quarter of fiscal year 2002. Our disclosure in our quarterly reports filed on Form 10-QSB for the quarters ended October 31, 2001 and January 31, 2002 correctly disclosed that for these quarters, inventory was valued using the last in, first out (LIFO) method. However, following the acquisition of S&W on May 11, 2001, we failed to record adjustments during each of the first three quarters of fiscal year 2002 to reflect S&W's inventory in accordance with the LIFO method of inventory accounting. The result was that the cost of sales amounts reported in our previously filed 2002 quarterly financial statements were equivalent to a FIFO basis. S&W changed to the FIFO method of accounting during the fourth quarter of fiscal year 2002.

Under GAAP, a change to the FIFO method would ordinarily require that the financial statements of all prior periods presented be restated to reflect results under the newly adopted FIFO accounting method. However, since our quarterly results initially reported for the three months ended January 31, 2001 reflect the FIFO basis of accounting for inventory (even though we disclosed that our inventory was accounted for on a LIFO basis) we do not believe we need to amend our previously reported results for this matter.

Amendments to Prior Filings

On December 18, 2003, we filed our annual report for the year ended April 30, 2003 on Form 10-KSB. This annual report includes our restated consolidated financial statements for the year ended April 30, 2002.

This quarterly report on Form 10-QSB/A includes our restated consolidated financial statements for the quarters ended January 31, 2003 and 2002. We have not amended our previously-filed report on Form 10-QSB for the quarter ended January 31, 2002.

Recent Developments

American Stock Exchange Listing Status

On September 11, 2003, we received notice from the American Stock Exchange staff indicating that we are not in compliance with the American Stock Exchange's continued listing standards due to our inability to file with the SEC in a timely manner our Form 10-KSB for the fiscal year ended April 30, 2003, as required under the rules of the American Stock Exchange. On September 25, 2003, we submitted a plan of compliance to the American Stock Exchange. The staff of the American Stock Exchange accepted our plan on October 17, 2003, and it granted us an extension of time to regain compliance with the continued listing standards.

Because we were not able to file our Form 10-KSB by October 24, 2003, the date specified in our original plan to the Exchange, we requested the opportunity to submit a revised plan to the staff of the American Stock Exchange. Under this revised plan submitted to and accepted by the Exchange on November 25, 2003 and as further amended on December 12, 2003 and on December 31, 2003, we have filed our quarterly reports for the first and second quarters of fiscal year 2004 and amended our quarterly reports for the first and second quarters of fiscal year 2003 as of January 9, 2004. We will continue to be subject to periodic review by the staff of the American Stock Exchange. If we fail to make progress consistent with the revised plan or fail to regain compliance with the continued listing standards, we may be delisted from the American Stock Exchange.

SEC Investigation

The SEC is conducting an investigation to determine whether there have been violations of the federal securities laws in connection with matters relating to the restatement of our consolidated financial statements for fiscal year 2002. We continue to be in discussions with the SEC and intend to continue to fully cooperate with the SEC.

Restructuring

On January 16, 2004, the Board of Directors voted to close the Scottsdale corporate office and relocate the executive office function to the Company’s Springfield, Massachusetts location. The board also voted to transfer the Licensing division to Springfield as well. In addition, it was also decided to discontinue the Crossings catalog operation as well as the Company’s Advanced Technology division. The company intends to incur a one-time charge in the quarter ended January 31, 2004, relative to this restructuring.

Table of Contents

Item 1: ***Financial Statements***

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	Restated (Note 9) January 31, 2003	April 30, 2002	Restated (Note 9) January 31, 2002	Saf-T-Hammer Corporation April 30, 2001
	Unaudited		Unaudited	
ASSETS				
Current assets:				
Cash and cash equivalents	$ 11,369,090	$ 20,012,491	$ 31,193,368	$ 69,110
Marketable securities	1,557,057	1,003,159	—	—
Accounts receivable, net of allowance for doubtful accounts of $101,576 on January 31, 2003, $100,566 on April 30, 2002, $98,144 on January 31, 2002, and $0 on April 30, 2001	13,552,252	12,099,436	9,138,292	3,904
Inventories	14,882,652	19,354,781	19,164,457	21,780
Other current assets	2,952,878	1,447,143	2,872,028	194,832
Income tax receivable	190,766	211,803	237,668	—
Total current assets	44,504,695	54,128,813	62,605,813	289,626
Property, plant and equipment, net	6,432,339	4,199,207	2,840,696	31,752
Intangibles, net	1,041,765	986,408	736,183	—
Collateralized cash deposits	22,184,717	21,227,025	6,237,025	—
Other assets	16,040,000	15,903,400	15,241,700	—
	$ 90,203,516	$ 96,444,853	$ 87,661,417	$ 321,378
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current liabilities				
Accounts payable	$ 5,037,600	$ 6,955,136	$ 5,284,039	$ 693,978
Accrued expenses	6,970,401	7,999,450	6,671,854	—
Accrued payroll	2,767,618	3,135,117	2,666,764	—
Accrued taxes other than income	1,760,082	1,755,859	1,452,669	—
Accrued profit sharing	781,174	819,838	—	—
Finders liability	—	—	311,250	—
Deferred revenue	202,130	1,597,674	1,629,236	—
Note payable, related party net of debt issue costs of $644,736 as of January 31, 2002	—	357,425	4,952,689	597,425
Note payable, Tomkins	—	—	10,000,000	—
Note payable, unrelated party net of debt issue costs of $114,000	—	—	—	386,000
Due to Walther USA, LLC, net	—	529,353	836,770	—
Total current liabilities	17,519,005	23,149,852	33,805,271	1,677,403
Notes payable	45,000,000	45,000,000	30,000,000	—
Other non-current liabilities	27,936,485	29,449,775	31,189,082	—
Commitments and contingencies (Note 6)				
Stockholders' equity (deficit):				
Common stock, $.001 par value, 100 million shares authorized 29,805,430 and 19,501,689 shares issued and outstanding on January 31, 2003 and 2002, respectively, and 29,683,613 and 18,131,355 shares issued and outstanding on April 30, 2002 and 2001, respectively	29,805	29,683	19,502	18,131
Additional paid-in capital	15,892,230	15,751,515	9,177,606	4,786,469
Accumulated (deficit)	(16,195,335)	(16,938,840)	(16,530,044)	(6,160,625)
Accumulated other comprehensive income	21,326	2,868	—	—
Total stockholders' equity (deficit)	(251,974)	(1,154,774)	(7,332,936)	(1,356,025)
	$ 90,203,516	$ 96,444,853	$ 87,661,417	$ 321,378

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

Table of Contents

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)

	For the Three Months Ended:		For the Nine Months Ended:	
	Restated (Note 9) January 31, 2003	Restated (Note 9) January 31, 2002	Restated (Note 9) January 31, 2003	Restated (Note 9) January 31, 2002
Net product sales	$25,509,861	$21,993,216	$70,881,940	$ 55,017,852
License revenue	409,190	326,940	1,121,066	965,446
Cost of goods sold	18,834,351	15,995,937	51,150,283	45,153,765
Cost of services	67,923	49,457	131,250	67,050
Gross profit	7,016,777	6,274,762	20,721,473	10,762,483
Operating expenses:				
Research and development, net	191,270	128,641	711,544	418,261
Selling and marketing	2,834,906	2,319,572	8,153,051	6,127,807
General and administrative	3,034,081	1,571,899	9,470,451	6,459,638
Environmental expense	—	—	—	2,500,000
Total operating expenses	6,060,257	4,020,112	18,335,046	15,505,706
Income/(loss) from operations	956,520	2,254,650	2,386,427	(4,743,223)
Other income/(expense):				
Other income/(expense)	558,153	112,675	612,212	91,586
Interest income	115,460	208,030	478,023	680,401
Interest expense	(899,250)	(1,837,635)	(2,696,144)	(6,345,235)
	(225,637)	(1,516,930)	(1,605,909)	(5,573,248)
Income (loss) before income taxes	730,883	737,720	780,518	(10,316,471)
Income tax expense	12,338	17,650	37,013	52,948
Net income (loss)	$ 718,545	$ 720,070	$ 743,505	$(10,369,419)
Other comprehensive income:				
Unrealized gain on marketable securities net of income tax of $2,983 and $8,950, respectively	6,153	—	18,458	—
Comprehensive income (loss)	$ 724,698	$ 720,070	$ 761,963	$(10,369,419)
Weighted average number of common equivalent shares outstanding, basic	29,793,539	19,501,689	29,727,550	19,109,813
Net income/(loss) per share, basic	$ 0.02	$ 0.04	$ 0.03	$ (0.54)
Weighted average number of common equivalent shares outstanding, diluted	36,359,655	23,976,550	36,181,817	19,109,813
Net income/(loss) per share, diluted	$ 0.02	$ 0.03	$ 0.02	$ (0.54)

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

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
For the Nine Months Ended January 31, 2003 and 2002 (restated Note 9)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
	Shares	Amount				
Balance at April 30, 2001	18,131,355	$18,131	$4,786,469	$ (6,160,625)		$ (1,356,025)
Issuance of warrants for services related to debt financing			3,189,000			3,189,000
Common stock issued to settle liabilities	500,000	500	434,500			435,000
Exercise of warrants	750,000	750	599,250			600,000
Issuance of common stock for services	120,334	121	168,387			168,508
Net (loss) for the nine months ended January 31, 2002				(10,369,419)		(10,369,419)
Balance at January 31, 2002	19,501,689	$19,502	$9,177,606	$(16,530,044)	$ —	$ (7,332,936)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
	Shares	Amount				
Balance at April 30, 2002	29,683,613	$29,683	$15,751,515	$(16,938,840)	$ 2,868	$(1,154,774)
Shares issued under ESPP on October 1, 2002	67,117	67	75,945			76,012
Issuance of common stock for services	54,700	55	64,770			64,825
Net income for the nine months ended January 31, 2003				743,505		743,505
Other comprehensive Income					18,458	18,458
Balance at January 31, 2003	29,805,430	$29,805	$15,892,230	$(16,195,335)	$21,326	$ (251,974)

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

Table of Contents

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS
For the Nine Months Ended:

	Restated (Note 9) January 31, 2003	Restated (Note 9) January 31, 2002
Cash flows provided by (used for) provided by operating activities:		
Net income (loss)	$ 743,505	$(10,369,419)
Adjustments to reconcile net income (loss) to cash provided by (used for) operating activities:		
Amortization and depreciation	607,905	292,516
Gain on sales of assets	(6,380)	(13,129)
Provision for losses on accounts receivable	2,500	21,450
Provision for excess and obsolete inventory	181,388	2,418,830
Stock compensation for services	64,825	168,508
Debt discount amortized to interest expense	—	2,447,415
Amortization of debt issue costs to interest expense	—	710,849
Loss on Finder’s liability settled in stock	—	185,000
Compensation expense settled in stock	—	123,750
Changes in operating assets and liabilities (Increase) decrease in assets:		
Accounts receivable	(1,455,316)	(1,422,321)
Inventories	4,290,741	2,697,351
Due from Tomkins	—	7,699,500
Other current assets	(1,505,735)	(1,544,150)
Income tax receivable	21,037	(237,668)
Other assets	(136,600)	(1,055,168)
Increase (decrease) in liabilities:		
Accounts payable	(1,917,536)	1,457,744
Accrued payroll	(367,499)	(1,155,085)
Accrued profit sharing	(38,664)	—
Accrued taxes other than income	4,223	80,719
Finders liability	—	311,250
Accrued expenses	(1,029,049)	(6,254,479)
Other non-current liabilities	(1,513,290)	7,233,896
Deferred revenue	(1,395,544)	16,529
Due to Walther USA, LLC, net	(529,353)	1,485,754
Net cash (used for) provided by operating activities	(3,978,842)	5,299,642
Cash flows (used for) provided by investing activities:		
Net cash and cash equivalents acquired from business combination	—	48,598,168
Cash portion of business acquisition	—	(5,000,000)
Payments to acquire marketable securities	(535,440)	—
Additions to collateralized cash deposits	(957,692)	(1,087,025)
Payments to secure financing	—	(373,750)
Payments to acquire patents	(67,101)	—
Proceeds from sale of property and equipment	8,760	14,026
Payments to acquire property and equipment	(2,831,673)	(1,426,803)
Net cash (used for) provided by investing activities	(4,383,146)	40,724,616
Cash flows (used for) financing activities:		
Payment on notes payable, Tomkins	—	(20,000,000)
Proceeds from note payable, related parties	—	5,000,000
Payments on loans and notes payable, related parties	(357,425)	(500,000)
Proceeds from sale of common stock	76,012	—
Proceeds from exercise of warrants to acquire common stock	—	600,000
Net cash used for financing activities	(281,413)	(14,900,000)
Net (decrease) increase in cash and cash equivalents	(8,643,401)	31,124,258
Cash and cash equivalents, beginning of year	20,012,491	69,110
Cash and cash equivalents, end of period	$11,369,090	$ 31,193,368

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

SMITH & WESSON HOLDING CORPORATION and Subsidiaries
CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended January 31, 2003 and 2002

Notes to Consolidated Financial Statements

(1) Basis of Presentation:

The restated consolidated balances sheets as of January 31, 2003 and 2002, the restated consolidated statements of operations and changes in stockholders' equity (deficit) for the three and nine months ended January 31, 2003 and 2002 and the cash flow statements for the nine months ended January 31, 2003 and 2002, have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to fairly present the financial position, results of operations changes in stockholder's equity (deficit) and cash flows at January 31, 2003 and 2002 and for the periods presented, have been included. All significant intercompany transactions have been eliminated.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 2003 Annual Report to Shareholders on Form 10-KSB.

(2) Organization:

Organization

Smith & Wesson Holding Corporation, (the "Company") was incorporated on June 17, 1991 in the State of Nevada as De Oro Mines, Inc. The Company's original Articles of Incorporation provided for 1,000,000 shares of common stock with a par value of $0.01 per share. From its inception, De Oro Mines, Inc. was a development stage company primarily engaged in the business of developing mining properties. During 1992, De Oro transferred its remaining assets, settled its liabilities and remained dormant until 1996.

On August 15, 1996, the shareholders of the Company authorized the recapitalization of the Company and the amendment of its Articles of Incorporation to allow the corporation to issue up to 100,000,000 shares of a single class of common stock with a par value of $0.001 per share. The amended Articles were duly adopted as stated and were filed on October 16, 1996 with the State of Nevada.

Effective October 20, 1998, the Company acquired the assets of Saf-T-Hammer, Inc. and changed its name from De Oro Mines, Inc. to Saf-T-Hammer Corporation. The acquisition was accounted for under the purchase method. Prior to this agreement becoming effective, the Company had a total of 532,788 shares of common stock issued and outstanding. Pursuant to the Asset Acquisition Agreement, the Company issued 1,331,250 shares of common stock to Saf-T-Hammer, Inc., which then resulted in a total of 1,864,038 shares of common stock being issued and outstanding.

On May 11, 2001, the Company purchased all of the outstanding stock of Smith & Wesson Corp. for $15,000,000 from Tomkins Corporation and accordingly the operations of Smith Wesson Corp. are included in these financial statements from the date of acquisition (See Note 3 "Acquisition of Smith & Wesson Corp."). Smith & Wesson Corp. was incorporated under the laws of the State of Delaware on January 13, 1987. Smith & Wesson Corp. has been in business since 1852, during which period ownership has changed on a few occasions. Prior to incorporation on January 13, 1987, Smith & Wesson Corp. operated as a division of Lear Siegler. On June 9, 1987, Tomkins Corporation ("Tomkins"), a company organized under the laws of the State of Delaware, acquired all the outstanding stock of the Company.

Name Change

At a special meeting held February 14, 2002, and at the recommendation of the Board of Directors, the Company's shareholders approved a change of the Company's name to "Smith & Wesson Holding Corporation."

(3) Acquisition of Smith & Wesson Corp.:

The Acquisition

Pursuant to a Stock Purchase Agreement (the "Acquisition Agreement") dated as of May 11, 2001 between Tomkins and Smith & Wesson Holding Corporation, the Company acquired (the "Acquisition") all of the issued and outstanding shares of the Smith & Wesson Corp. ("Smith & Wesson"). As a result of the Acquisition, Smith & Wesson became a wholly owned subsidiary of the

Company. The Company paid $15,000,000 (the "Purchase Price") in exchange for all of the issued and outstanding shares of Smith & Wesson as follows:

- $5 million (See the "Melby Loan") of which was paid at closing in cash;
- $10 million due on or before May 11, 2002 pursuant to the terms of an unsecured promissory note issued by the Company to Tomkins (the "Acquisition Note"). The Acquisition Note accrues interest at a rate of 9% per year; and
- A receivable of $464,500 due from Tomkins to the Company.

The Purchase Price was the result of negotiations between the Company and Tomkins. This acquisition has been accounted for under the purchase method pursuant to APB 16, "Business Combinations." A summary of the net assets acquired is as follows:

Acquisition cost:	
Cash paid on May 11, 2001	$ 5,000,000
Note payable, Tomkins (Acquisition Note)	10,000,000
Total consideration	15,000,000
As of May 11, 2001:	
Cash and cash equivalents acquired	$ 48,598,168
Accounts receivable	7,733,517
Inventory	24,258,858
Collateralized cash deposits	5,150,000
Other current assets	1,976,862
Due from Tomkins Corporation	7,699,500
Property, plant & equipment	1,582,773
Intangibles	828,964
Other long-term assets	13,991,700
	$111,820,342
Liabilities assumed:	
Accounts payable and accrued expenses	$ 21,252,449
Deferred revenue	1,612,707
Other non-current liabilities	23,955,186
Note payable, Tomkins	50,000,000
	96,820,342
Net assets acquired	$ 15,000,000

Acquisition Note

Pursuant to the Acquisition Agreement, the Company issued a promissory note in the amount of $10 million as partial consideration for the acquisition of Smith & Wesson. This note was due on May 11, 2002, was uncollateralized and bore interest at 9% per annum. During March 2002, the Company obtained a bank loan and paid off the entire balance.

Tomkins Note

The Acquisition Agreement requires the Company to guaranty Smith & Wesson's existing obligations to Tomkins under a promissory note issued on April 30, 1997 by Smith & Wesson to Tomkins (the "Tomkins Note"). The original Tomkins Note was in the amount of $73,830,000, due April 30, 2004 and bore interest at the rate of 9% per annum. Prior to the Acquisition, Tomkins contributed to the capital of Smith & Wesson, $23,830,000 of the Tomkins Note, thereafter leaving a balance of $50,000,000. Immediately subsequent to the Acquisition, Smith & Wesson paid $20,000,000 of the Tomkins Note. The Company executed a guaranty in favor of Tomkins dated May 11, 2001 and amended the Tomkins Note as follows:

(a) Commencing on May 11, 2001, the due date was extended by ten years to May 11, 2011;

(b) The unpaid principal balance shall be paid in 84 equal monthly payments commencing on May 11, 2004;

(c) Until May 11, 2006, dividends declared and paid to the Company shall not exceed $600,000 for the twelve month period ended May 11, 2002, and may not exceed $1,800,000 for annual periods thereafter;

(d) Until the payment of $10 million under the Acquisition Note owed by the parent to Tomkins, the Company shall not, either directly or indirectly, incur, assume, guaranty, or otherwise become liable to any indebtedness, except in the ordinary course of business or to re-finance the unpaid balance of the Tomkins Note.

(e) Smith & Wesson shall not liquidate, wind-up or dissolve any business assets, including tangible and intangible assets; and

(f) In the event of default by Smith & Wesson on the Tomkins Note, the Tomkins Note shall be accelerated and become due and payable in full immediately. In addition, any change in control of the Company or Smith & Wesson, will accelerate the Tomkins Note and will become due and payable in full immediately.

The Melby Loan

The Company obtained financing in the amount of $5 million from an individual, pursuant to a Promissory Note & Loan Agreement dated May 6, 2001 between the Company and this individual (the "Melby Note"). Interest accrued on the Melby Note at a rate of 12% per annum and until maturity on May 15, 2002. During March 2002, the Company obtained a bank loan (See below) and paid off the entire balance. Pursuant to the terms of the Melby Note, the Company prepaid the annual interest of $600,000 at a rate of 12% on May 14, 2001. Related to this loan, the Company also granted warrants, to purchase in aggregate, approximately 8.7 million shares of common stock at exercise prices ranging from $0.40 per share to $2.00 per share.

As mentioned above, in consideration for making this loan to the Company, the Company issued to Colton Melby, formerly the President and Chief Operating Officer and currently a Director of the Company, a Common Stock Purchase Warrant dated May 6, 2001 (the "Melby Warrant"). The Melby Warrant allowed Mr. Melby to purchase up to 7,094,500 shares of common stock at an exercise price of $.40 per share, subject to adjustment as set forth therein. The Melby warrant was exercisable immediately and would have expired six years from the date of issuance. Also in consideration for the Note, the Company issued Common Stock Purchase Warrants each dated May 11, 2001, to three affiliates of Mr. Melby (the "Affiliate Warrants"). The Affiliate Warrants allowed each holder to purchase up to 300,000 shares of common stock at an exercise price of (a) $.80 per share if exercised on or before May 21, 2001, (b) $2.00 per share if exercised from May 22, 2001 through June 30, 2001, and (c) $5.00 per share if exercised after June 30, 2001. The Affiliate Warrants were exercisable immediately and would have expired one year from the date of issuance. As a portion of a finder's fee for arranging the Melby Note, the Company issued Common Stock Purchase Warrants, each dated May 11, 2001, to two unrelated parties (the "Finders Warrants"). The Finders Warrants would have expired two years from the date of issuance and allowed each holder to purchase up to 354,725 shares of common stock at an exercise price of $1.00 per share. The Company relied upon Section 4(2) of the Securities Act with respect to the issuance of these Warrants.

Bank Loan

During March 2002, the Company entered into a specific purpose loan agreement with its bank. Pursuant to the terms of this agreement, the Company borrowed $15.0 million to pay the Acquisition Note and the Melby Note related to the acquisition of Smith & Wesson Corp. The outstanding balance of $15.0 million accrues interest at a rate of 5.85% per annum and is collateralized by liquid assets of S&W up to the face aggregate amount of the obligation. Interest is payable monthly and the principal is payable in monthly installments starting April 28, 2004 and is due in full by March 28, 2014. Beginning in April 2004, monthly combined principal and interest payments will be $165,403.

(4) Summary of Significant Accounting Policies:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Smith & Wesson Holding Corporation and its wholly owned subsidiaries — Smith & Wesson Corp., Smith & Wesson Firearms Training Centre GmbH (Germany), Smith & Wesson Distributing, Inc., Smith & Wesson, Inc. and Lost Coast Ventures, Inc. (Inactive). All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting periods. Operating results in the future could vary from the amounts derived from management's estimates and assumptions. In addition, future facts and circumstances could alter management's estimates with respect to the adequacy of reserves. The more significant estimates and assumptions used by management in the preparation of the financial statements relate to the reserves established for uncollectible accounts receivable, excess and obsolete inventory and certain accrued liabilities, including, but not limited to, product, environmental and warranty liabilities and workers compensation.

Fair Value of Financial Instruments

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

Revenue Recognition

The Company recognizes revenue when the earnings process is complete and the risks and rewards of ownership have transferred to the customer, which is generally upon shipment.

The Company recognizes tooling, forging, heat treating, finishing, plating, and engineering support revenues after acceptance by the customer and only when no further contingencies or material performance obligations exist, when collectibility is reasonably assured and thereby the Company has earned the right to receive and retain payments for services performed and billed.

The Company recognizes licensing revenue from the use of its Identi-Kit software over the subscription period.

The Company recognizes trademark licensing revenue on a quarterly basis based on actual receipts due from licensees through the date of our financial statements. These revenues are comprised of minimum royalties and/or a percentage of a licensee's sales on licensed products. Fees received upon initial signing of license agreements are recognized as revenues to the extent of costs incurred. Any amounts in excess of costs are deferred and amortized over the life of the agreement. Due to a combination of uncertain factors regarding existing licensees and past payment performance of licensees in general, the Company believes that reasonable assurance of collectibility does not currently exist. Therefore, the Company does not initially recognize minimum royalty payments, but instead, records such revenue over the period the minimum royalty becomes due and payable. The Company also believes, due to the factors noted above, that an allowance for "uncollectible minimum royalties" cannot reasonably be estimated.

Segment Information

The Company adopted the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 requires public companies to report financial and descriptive information about their reportable operating segments. The Company identifies its operating segments based on how management internally evaluates separate financial information, business activities and management responsibility. At the present time, the Company believes it operates in a single business segment and adoption of this standard did not have a material impact on the Company's financial statements. For each of the three and nine month periods ended January 31, 2003 and 2002, there have been no material foreign operations.

Net Earnings (Loss) Per Share

Basic earnings per common share are equal to net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are equal to net income divided by the weighted average number of common shares outstanding during the period, including the effect of stock options and stock awards, if such effect is dilutive.

Stock Options

As described in Note 8, the Company has stock option plans under which employees and directors have options to purchase Common Stock. The Company applies APB Opinion 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock option plans. Accordingly, compensation cost is not recognized in the financial statements except in the event where options are granted to consultants at below market exercise prices.

The following table illustrates the effect on net income and earnings per share had compensation cost been recognized on the fair value of the options at the grant dates for awards under those plans consistent with Statement of Financial Accounting Standards, No. 123, "Accounting for Stock-Based Compensation" using the Black-Scholes fair value method for option pricing.

	For the Nine Months Ended January 31,	
	2003	**2002**
Net Income (loss) — as reported (restated)	$ 743,505	$(10,369,419)
Common stock issued in exchange for services	64,825	292,258
Compensation expense, as determined under the Black Scholes option pricing model	(756,151)	(440,782)
Net Income (loss) — proforma	$ 52,179	$(10,517,943)
Basic earnings (loss) per common share:		
Net income (loss) — as reported	$ 0.03	$ (0.54)
Net income (loss) — proforma	$ 0.00	$ (0.55)
Diluted earnings (loss) per common share:		
Net income (loss) — as reported	$ 0.02	$ (0.54)
Net income (loss) — proforma	$ 0.00	$ (0.55)

Product Liability

The Company provides reserves for potential product liability defense costs based on estimates determined in consultation with counsel. Adjustments to the provision for product liability are evaluated on an ongoing basis and are charged or credited to cost of sales. This evaluation is based upon information regarding potential or existing product liability cases. Any future costs as a result of this evaluation are recorded when considered both probable and reasonably estimable.

Environmental Liability

The Company has provided reserves, on an undiscounted basis for potential environmental obligations that management considers probable and for which reasonable estimates of such obligations can be made. Environmental liabilities are considered probable based upon specific facts and circumstances including, but not limited to, currently available environmental studies, existing technology, presently enacted laws and regulations, the timing of future expenditures, experience in remediation efforts, direction or approval from regulatory agencies, the Company's status as a potentially responsible party (PRP) and the ability of other PRPs or contractually liable parties, if any, to pay the allocated portion of any environmental obligations. Management believes that the Company has adequately reserved for the reasonable estimable costs of known environmental obligations. Currently, reserves are reviewed and additional reserves or deletions to the reserves may occur due to the specific facts and circumstances previously noted.

	Estimated Reserve	
Site	January 31, 2003	April 30, 2002
Southfield	$1,545,000	$1,545,000
Westfield	305,000	305,000
Fire Pond	1,291,000	1,359,000
Tank #15	27,000	27,000
Wildcat	108,000	108,000
Chlorinated Release	298,000	298,000
Academy	444,000	444,000
Total	$4,018,000	$4,086,000

(5) Advertising Costs:

Advertising costs, consisting primarily of magazine advertisements and printed materials, are expensed as incurred. For the nine months ended January 31, 2003 and 2002, advertising expenses amounted to approximately $2,760,000 and $1,844,000, respectively.

(6) Self-Insurance Reserves:

As of January 31, 2003 and 2002, the Company's subsidiary, Smith & Wesson, had reserves for workers compensation and product liability totaling $8,763,915 and $12,325,993, respectively, of which, $5,973,915 and $10,075,993, respectively, have been classified as non-current and included in other non-current liabilities and the remaining amounts of $2,790,000 and $2,250,000, respectively, are included in accrued expenses on the accompanying consolidated balance sheet. While management believes these reserves to be adequate, there exists a possibility that the ultimate liabilities will exceed such estimates. Amounts credited or charged to expense were $(75,995) and $2,421,903 for the nine months ended January 31, 2003 and 2002, respectively.

Following is a summary of the activity in the workers' compensation and product liability reserves for the nine months ended January 31, 2003 and January 31, 2002:

	January 31, 2003	January 31, 2002
Beginning Balance	$11,090,125	$12,248,197
Provision, net of reserve adjustments	(75,995)	2,421,903
Payments	(2,250,215)	(2,344,107)
Ending balance	$ 8,763,915	$12,325,993

It is the Company's policy to provide an estimate for loss as a result of expected adverse findings or legal settlements where such losses are probable and are reasonably estimable. It is also the Company's policy to accrue for reasonable estimable legal costs associated with defending such litigation. While such estimates involve a range of possible costs, the Company determines, in consultation with legal counsel, the most likely cost within such range on a case-by-case basis. At January 31, 2003 and January 31, 2002, the Company has product liability reserves of approximately $8.1 million and $11.0 million, respectively comprised entirely of expected legal defense costs.

(7) Commitments and Contingencies:

Litigation

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

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

The Company's management monitors the status of known claims and the product liability accrual, which includes amounts for defense costs for asserted and unasserted claims. While it is difficult to forecast the outcome of these claims, in the opinion of management, after consultation with litigation counsel, it is uncertain whether the outcome of these claims will have a material adverse effect on the results of operations or financial condition of the Company. Management believes that it has provided adequate reserves for defense costs. The Company does not anticipate a material adverse judgment and intends to vigorously defend itself.

At this time, the estimated range of reasonably possible additional losses, as that term is defined in SFAS No. 5, is zero. A range of reasonably possible losses relating to unfavorable outcomes cannot be made. However, in the product liability cases in which a dollar amount of damages is claimed, the amount of damages claimed, which totaled approximately $904 million are set forth as an indication of possible maximum liability that the Company might be required to incur in these cases (regardless of the likelihood or reasonable probability of any or all of this amount being awarded to claimants) as a result of adverse judgments that are sustained on appeal.

In the nine months ended January 31, 2003, the Company paid approximately $1.8 million in defense and administrative costs relative to product liability and municipal litigation. In addition, the Company spent $207,500 in aggregate in settlement fees relative to product liability cases.

The Company has recorded the liability for defense costs at a level before reimbursement from insurance carriers. The Company has 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.

SEC Investigation

The SEC is conducting an investigation to determine whether there have been violations of the federal securities laws in connection with matters relating to the restatement of our consolidated financial statements for fiscal year 2002. We continue to be in discussions with the SEC and intend to continue to fully cooperate with the SEC.

Environmental Remediation

The Company is subject to numerous federal, state and local laws, which 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, the Company to make significant expenditures of both a capital and expense nature. Several of the more significant federal laws applicable to the Company's 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").

The Company has in place programs and personnel that monitor compliance with various federal, state and local environmental regulations. In the normal course of its manufacturing operations, the Company is subject to occasional governmental proceedings and orders pertaining to waste disposal, air emissions and water discharges into the environment. The Company will fund its environmental costs through cash flows from operating revenue and expects to do so in the future. S&W believes that it is in compliance with applicable environmental regulations in all material respects.

The Company is required to remediate hazardous waste at Company owned facilities. Currently, it owns designated sites in Springfield, Massachusetts and is subject to five 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. The Company 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 the Company. The Company has received notice that it is a potentially responsible party from the Environmental Protection Agency (EPA) and/or individual states under CERCLA or a state equivalent at one site.

The Company has reserves of approximately $4.0 million ($3.9 million as non-current) for remediation of the sites referred to above and believes that the time frame for remediation is currently indeterminable. Therefore, the time frame for payment of such remediation is likewise currently indeterminable thus making any net present value calculation irrelevant. The Company's estimates of these costs are based upon presently enacted laws and regulations, currently available facts, experience in remediation efforts utilizing existing technology, and the ability of other potentially responsible parties or contractually liable parties to pay the allocated portions of any environmental obligations. Where the available information is sufficient to estimate the amount of liability, that estimate has been used; where 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. The Company does not have insurance coverage for its environmental remediation costs. The Company has 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 from consultants.

Based on information known to the Company, management does not expect current environmental regulations or environmental proceedings and claims to have a material adverse effect on the results of operations or financial conditions of the Company. However, it is not possible to predict with certainty the impact on the Company 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 the Company.

Contracts

Employment Agreements — The Company has entered into employment agreements with certain officers and managers to retain their expertise in the ordinary course of business.

Other Agreements — The Company has various distribution agreements with various third parties in the ordinary course of business.

(8) Stockholders' Equity:

Common Stock

During the nine months ended January 31, 2003 and 2002, options or warrants were exercised as follows:

(a) During November 2002, the Company issued 4,700 shares of the Company's common shares having a market value of $8,037 to an employee to settle $5,875 in compensation due him. These shares were valued at $1.71 per share.

(b) During November 2002, the Company issued 50,000 shares of the Company's common shares to an unrelated third party as part of a litigation settlement involving the Company's subsidiary.

(c) During May 2001, 750,000 warrants were exercised by affiliates of a related party at $0.80 per share for net proceeds of $600,000. These warrants were granted in relation to the financing of the Melby Note (see Note 3).

(d) During August 2001, the Company issued 6,667 shares of the Company's common shares to a consultant as part of an employment agreement and hence recorded compensation expense of $9,334.

(e) During September 2001, the Company issued 26,667 shares of the Company's common shares to a consultant for services rendered and hence recorded compensation expense of $37,334.

(f) During September 2001, the Company issued 500,000 shares of the Company's common shares to one of the finders in relation to the financing of the Melby Note (see Note 2). These shares were issued to settle the finders fee payable at the time the financing was arranged. A total of $185,000 was charged to interest expense as part of the extinguishment of this debt.

(g) During October 2001, the Company issued 87,000 shares of the Company's common shares to a consultant for services rendered and hence recorded compensation expense of $121,840.

The following table provides a reconciliation of the income (loss) amounts and shares used to determine basic and diluted earnings (loss) per share.

	For the Nine Months Ended January 31, 2003 (restated)			For the Nine Months Ended January 31, 2002 (restated)		
	Net Income	Shares	Per Share Amount	Net Loss	Shares	Per Share Amount
Basic (loss) per share	$743,505	29,727,550	$0.03	$(10,369,419)	19,109,813	$(0.54)
Effect of dilutive stock options	—	6,454,267		—	—	
Diluted (loss) per share	$743,505	36,181,817	$0.02	$(10,369,419)	19,109,813	$(0.54)

Options and warrants to purchase 50,000 and 20,703,950 shares, respectively, of the Company's Common Stock were excluded from the January 31, 2003 and 2002 computation of diluted earnings per share because the effect would be antidilutive.

Stock Warrants

The Company issued warrants related to the financing of debt used for the acquisition of Smith & Wesson Corp., as incentive bonuses to employees and directors, and as compensation to outside consultants during fiscal year 2002.

In consideration for past services to the Company, including services rendered in connection with the acquisition of Smith & Wesson, the Company issued a Common Stock Purchase Warrant, dated May 11, 2001 (formally approved by the Board of Directors on April 24, 2001), to Mitchell Saltz, former Chief Executive Officer and a director of the Company and a director of Smith & Wesson (the "Saltz Warrant"). The Saltz Warrant entitles Mr. Saltz to purchase up to 5,000,000 shares of common stock at an exercise price of $0.89 per share, subject to adjustment as set forth therein. The Saltz Warrant is exercisable immediately and expires five years from the date of issuance. The Company relied upon Section 4(2) of the Securities Act with respect to the issuance of the Saltz Warrant.

In consideration for past services to the Company, including services rendered in connection with the acquisition of Smith and Wesson, the Company issued a Common Stock Purchase Warrant, dated May 11, 2001 (formally approved by the Board of Directors on April 24, 2001), to Robert L. Scott, former President and a director of both the Company and Smith & Wesson (the "Scott Warrant"). The Scott Warrant entitles Mr. Scott to purchase up to 5,000,000 shares of common stock at an exercise price of $.89 per share, subject to adjustment as set forth therein. The Scott Warrant is exercisable immediately and expires five years from the date of issuance. The Company relied upon Section 4(2) of the Securities Act with respect to the issuance of the Scott Warrant.

Employee Stock Option and Employee Stock Purchase Plans

The Company adopted the Employee Stock Option Plan ("the SOP"). The SOP authorizes the issuance of up to 10,000,000 shares of the Company's common stock pursuant to the exercise of the options granted thereunder. The Board of Directors through its Compensation Committee administers the SOP, selects recipients to whom options are granted and determines the number of shares to be awarded. Options granted under the SOP are exercisable at a price determined by the Committee at the time of grant, but in no event less than fair market value. Grants of options may be made to employees and directors without regard to any performance measures. All options issued pursuant to the SOP are nontransferable and subject to forfeiture. The term of the SOP, unless earlier terminated by the Board, is ten years or May 14, 2011. Any options granted under the SOP shall become exercisable over a period of no longer than ten (10) years. Unless otherwise specified by the Board or the Committee in the resolution authorizing such option, the date of grant of an option shall be deemed to be the date upon which the Board or the Committee authorizes the granting of such option. Generally, options vest over a period of three years. In some instances, however, that time period has been reduced. During the nine months ended January 31, 2003 and 2002, the Company granted 645,000 and 1,350,000 options,respectively, under the SOP.

The number and weighted average exercise prices of options granted under the SOP, for the nine months ended January 31, 2003 and 2002 are as follows:

	For the Nine Months Ended January 31,			
	2003		2002	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options Outstanding, beginning of year	1,550,000	$0.81	—	—
Granted during the period	645,000	$1.35	1,350,000	$0.81
Exercised during the period	—	—	—	—
Canceled/forfeited during the period	(133,334)	$0.81	—	—
Options outstanding, end of period	2,061,666	$0.98	1,350,000	$0.81
Shares exercisable, end of quarter	656,673		—	

A summary of stock options outstanding and exercisable at January 31, 2003 follows:

	Outstanding			Exercisable	
	Number Outstanding at January 31	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at January 31	Weighted Average Exercise Price
Range of Exercise Prices					
$0.81-$0.81	1,416,666	9.03 years	$0.81	516,673	$0.81
$1.18-$1.51	595,000	9.70 years	$1.29	140,000	$1.18
$2.04-$2.04	50,000	9.88 years	$2.04	—	—
$0.81-$2.04	2,061,666	9.24 years	$0.98	656,673	$0.89

The Company adopted an Employee Stock Purchase Plan ("the ESPP"), which authorizes the sale of up to 10,000,000 shares of the Company's common stock to employees and directors. The ESPP commenced operating on June 24, 2002 and shall continue in effect for a term of ten (10) years unless sooner terminated. The ESPP shall be implemented by a series of offering periods of twenty-four (24) months duration, with new offering periods commencing on or about April 1 and October 1 of each year (or at such other time or times as may be determined by the Board of Directors). The purchase price shall be equal to 85% of the fair market value of a share of common stock on the offering date or on the purchase date, whichever is lower. A participant shall elect to have payroll deductions made on each payday during the offering period in an amount not less than one percent (1%) and not more than twenty percent 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 first offering period began on June 24, 2002 and will continue until March 31, 2004. Each offering period shall consist of four (4) consecutive purchase periods of six (6) months' duration. The last day of each purchase period shall be the purchase date for such purchase period. A purchase period commencing on April 1 shall end on the next September 30. A purchase period commencing on October 1 shall end on the next March 31. The Board of Directors of the Company shall have 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 (5) 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 shall be 12,500 shares. 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 shall be assumed or an equivalent option shall be substituted by the successor corporation or a parent or Subsidiary of such successor corporation. During the nine months ended January 31, 2003 and 2002, 67,117 and 0 shares, respectively, were purchased under the ESPP out of a total authorized of 10,000,000 shares.

The Company applies APB 25 in accounting for its stock compensation plans, under which no compensation cost has been recognized except in the event where options are granted to consultants at below market exercise prices. The effect on net income and earnings per share had compensation cost been recognized based on the fair value of the options at the grant dates for awards under those plans consistent with Statement of Financial Accounting Standards, No. 123, "Accounting for Stock Based Compensation" using the Black-Scholes fair value method for option pricing is detailed in Note 3 under "Stock Options".

For the purpose of computing the pro forma effects of stock compensation under the fair value accounting method, the fair value of each stock option grant or ESPP purchase was estimated on the date of the grant using the Black-Scholes option pricing model. The weighted-average fair value of stock options granted during the nine months ended January 31, 2003 and 2002 was $1.16 and $0.72, respectively. The weighted-average fair value of ESPP shares granted during the nine months ended January 31, 2002 was $0.59. The following weighted-average assumptions were used for stock option grants and ESPP purchases during the following periods:

	Nine Months Ended January 31	
	2003	2002
Stock option grants:		
Risk-free interest rate	4.05%	4.26%
Expected life	8.9 years	9.3 years
Expected volatility	92.4%	97.0%
Dividend yield	0%	0%
Employee Stock Purchase Plan:		
Risk-free interest rate	3.98%	not applicable
Expected life	5.3 months	not applicable
Expected volatility	88.9%	not applicable
Dividend yield	0%	not applicable

(9) The Restatement:

Overview

On March 17, 2003, the Company engaged PricewaterhouseCoopers LLP (PwC), as our independent public accountants to audit our financial statements for fiscal year 2003. On August 12, 2003, the Company engaged PwC to conduct a re-audit of our previously issued fiscal year 2002 financial statements. On December 18, 2003, we filed our Form 10-KSB for the fiscal year ended April 30, 2003, which included restated financial statements for the fiscal year ended April 30, 2002. These restatement changes affect the financial statements for each quarter in fiscal years 2003 and 2002. In this Form 10-QSB/A, we are restating our previously filed financial statements for each of the three month periods and nine month periods ended January 31, 2003 and January 31, 2002 to reflect adjustments required with respect to the acquisition balance sheet of Smith & Wesson Corp. (S&W) and other adjustments. These adjustments include, among other items:

- adjustments to net sales for product returns and freight invoiced to customers;
- adjustments to S&W's product liability and environmental expenses;
- our accounting for non-cash interest and fees related to a note payable that we issued to finance a part of the acquisition of Smith & Wesson Corp.;
- adjustments to S&W's income tax accounts; and
- adjustments to other accounts.

Discussion

The restatement adjustments for fiscal year 2002 and the effects of those adjustments on the three and nine months ended January 31, 2003 and 2002 are described within each subsection below:

Net Sales and Cost of Sales

We have restated our fiscal year 2002 financial statements to increase net product sales by $2.8 million and increase cost of sales by $3.8 million. Included in the $2.8 million net product sales increase was $1.2 million to reverse a sales return recorded in error. The sales return related to a pre-acquisition sale by Smith & Wesson Corp., for which no reserve for returns had been established. Accordingly, upon return of the product, we now believe the returned goods should have been recorded as an increase in inventory of $1.2 million and as a reduction to acquired receivables of $1.2 million. As such, we restated our 2002 financial statements to increase net product sales by $1.2 million and increase cost of sales by $1.2 million. We also restated our fiscal year 2002 financial statements to increase net product sales by $1.6 million, increase marketing and selling expense by $0.7 million for cooperative advertising and distributor incentives, increase cost of goods sold by $0.8 million for the cost of freight and $0.1 million used to fund industry programs. These three costs had incorrectly been reported as reductions of sales. We also restated to increase cost of sales by $0.4 million for inventory and equipment write-offs, decrease cost of goods sold by $0.3 million for depreciation expense which was overstated as a result of errors in the S&W purchase accounting and to increase cost of goods sold by $1.6 million for adjustments to product liability reserves.

The effect of these adjustments on our quarterly financial statements for the three months ended January 31, 2002 is to increase net product sales by $.4 million and increase cost of sales by $0.3 million for the cost of freight and $.5 million for additional product liability expense. We are also restating our financial statements for the three months ended January 31, 2003, to increase net product sales by $0.6 million, increase selling and marketing expense by $0.1 million for cooperative advertising and distributor incentives, and increase cost of goods sold by $0.3 million for the cost of freight.

The effect of these adjustments on the nine months ended January 31, 2002 is to increase net product sales by $2.3 million, which includes a $1.2 million sales return recorded in error in the second quarter, as well as $1.1 million in freight, promotional and industry dues that had originally been reported as a reduction of sales and should have been charged to cost of sales and operating expenses. Cost of sales has been increased by $3.2 million which includes $1.0 million related to the sales return, $1.2 million relative to the product liability adjustment, $0.6 million in freight costs previously reported as a reduction to sales, and $0.4 million in for inventory and equipment write-offs. For the nine months ended January 31, 2003 the effects of the restatement on net product sales was an increase of $1.9 million which, was the freight, promotional and industry dues that had originally been reported as a reduction of sales and should have been charged to cost of sales and operating expenses.

Product Liability and Environmental Expenses

We have restated our fiscal year 2002 financial statements to record additional provisions of $2.5 million for environmental remediation and $1.6 million for product liability and accounted for such amounts as adjustments to the May 11, 2001 acquisition balance sheet of Smith & Wesson Corp. We now believe that under generally accepted accounting principles (GAAP) these amounts, aggregating $4.1 million, should have been expensed in 2002 rather than capitalized as increases to purchased assets under FAS 38, Accounting for Preacquisition Contingencies of Purchased Enterprises, which provides that adjustments of preacquisition contingencies after the end of the allocation period must be included in net income in the period the adjustment is determined. Accordingly, our fiscal year 2002 financial statements were restated to increase cost of goods sold by $1.6 million, to increase environmental expense by $2.5 million and to correspondingly reduce the amount of purchase price allocable to reduce purchased fixed assets and intangibles by $4.1 million.

The effect of these adjustments for the three months ended January 31, 2002, is to increase cost of goods sold by $0.5 million to adjust the product liability reserve. The effect of these adjustments on the nine months ended January 31, 2002 was to increase cost of goods sold by $1.2 million for product liability and to increase environmental expense by $2.5 million.

Melby Financing; Interest Expense and Compensation Expense Adjustments

We determined that there were errors in the accounting for a $5 million debt financing, known as the Melby financing, provided to us by Colton R. Melby to finance part of the acquisition of Smith & Wesson Corp. As a result of this loan and the related stock warrants issued, we originally recorded approximately $5,008,500 in expense consisting of $5,000,000 in interest expense, $6,000 in depreciation expense and $2,500 in office supplies expense in fiscal year 2002. We have now determined that under GAAP we should have recorded aggregate expense of $4,541,500 consisting of $2,567,166 in interest expense for amortization of debt discount related to the warrants; $827,414 in interest expense for amortization of debt issue costs arising from the consideration paid to the parties who assisted in arranging the financing (the finders); a loss on early extinguishment of the note payable of $294,420 charged to interest expense; interest expense of $185,000 resulting from settlement of the finders' liability and compensation expense of $667,500 to a finder related to his employment by us. The net result of these transactions is that the previously reported pre-tax loss for the fiscal year ended April 30, 2002 was overstated by $467,000. Our fiscal year 2002 financial statements were restated accordingly, to decrease interest expense by $1,126,000, decrease depreciation expense by $6,000, decrease supplies expense by $2,500 and increase general and administrative expense by $667,500 for compensation expense.

The following discussion provides additional background on the Melby financing. On May 6, 2001, we sold to Mr. Melby a $5 million nonconvertible note due May 12, 2002 and warrants, known as the Melby warrants, to acquire shares of our common stock. At the time of this financing transaction, Mr. Melby had no relationship with us. He became a director of the Company in May 2001, served as our Executive Vice President from May 2002 to September 2002 and served as our President and Chief Operating Officer from September 2002 to December 2003. Under the terms of the Melby financing, we also issued additional warrants, known as the Melby affiliate warrants, to Mr. Melby's two brothers and one of his associates. Shortly after the issue date, Mr. Melby's brothers exercised their Melby affiliate warrants. The Melby affiliate warrants issued to Mr. Melby's associate expired unexercised.

We initially valued the Melby warrants and the Melby affiliate warrants and recorded a debt discount of $5,000,000 completely offsetting the Melby Note of the same amount. We now believe that under GAAP the $5.0 million financing proceeds should have been allocated among the debt and the Melby warrants and Melby affiliate warrants on a relative fair value basis. Based on their relative values, we have determined that, of the $5.0 million financing proceeds, $2,245,000 should have been allocated to the debt and $2,755,000 should have been allocated to equity for the warrants. As a result of the warrant discount, interest expense for the fiscal year ended April 30, 2002 should have been $2,755,000, comprising $2,567,166 amortized to interest expense over the period from the May 2001 debt issue date through the debt extinguishment date and an early extinguishment loss of $187,834 on the debt extinguishment date. The $5.0 million of debt was redeemed in an early extinguishment on March 28, 2002 for $5 million of consideration consisting of $2,837,000 in cash and $2,162,200 in common stock valued at the March 28, 2002 extinguishment date. Mr. Melby used the $2,837,800 of cash from the extinguishment to exercise his warrants. On the debt extinguishment date, an extinguishment loss of $294,420, including the remaining unamortized debt issue costs of $106,586 and the unamortized debt discount of $187,834, should have been recognized.

For the three and nine months ended January 31, 2002, we should have recorded interest expense of $564,606 and $2,333,415 respectively, relating to the Melby Note, the Melby Warrants, and the Melby Affiliate Warrants compared to interest expense previously recorded of $.9 million and $4.5 million, respectively.

In connection with the Melby financing, on May 11, 2001 we also issued warrants, known as the finders' warrants, to the two finders retained to locate the Melby financing. These warrants had a fair value of $434,000. In addition to the finders' warrants, each finder was also entitled to receive a $250,000 cash fee. On May 6, 2001, we advised the finders that they would be paid this fee in approximately 90 days. We now believe that, under GAAP, we should have recorded debt issue costs of $934,000 together with a corresponding liability of $500,000 and $434,000 of paid in capital for the finders' warrants. In addition, we should have recorded amortization expense of $827,414 in fiscal year 2002 related to the debt issue costs and we should have written off the remaining unamortized debt issue costs of $106,586 on the debt extinguishment date.

For the three and nine months ended January 31, 2002, we should have recorded interest expense of $229,912 and $710,849 respectively, relating to the finders' warrants.

On September 24, 2001, we issued 500,000 shares of common stock to one of the finders to settle the $250,000 liability to him. In addition, on August 9, 2001, we paid $62,500 cash to the other finder, Mr. Corey Lambrecht, which reduced our liability to him from $250,000 to $187,500. On April 1, 2002, Mr. Lambrecht became our Vice President of Licensing. On April 30, 2002, we issued 375,000 shares to him. He has served as our Executive Vice President since September 2002. We had previously recorded the issuance of 875,000 shares of common stock as of May 6, 2001 as a credit to paid in capital for $437,500 or $0.50 per share, although these shares were unissued as of May 6, 2001. We now believe that under GAAP we should have recorded an extinguishment loss of $185,000 in September 2001 based upon the 500,000 shares issued to the first finder on September 24, 2001 (500,000 shares valued at $0.87 as of the date of issuance less the $250,000 restated liability as of May 6, 2001). Based upon the 375,000 shares issued to Mr. Lambrecht on April 30, 2002, our restatement includes a compensation expense of $667,500 in April 2002 (375,000 shares valued at $2.28 on the date of issuance less the $187,500 remaining restated liability as of April 2002).

Because the finders' fees were determined to be settled in a fixed number of shares of stock, we now believe that we should have recorded the excess of the market value of the stock to be issued over the original amount of the obligation as additional expense for the three months ended January 31, 2002. The difference between the market value and the initial value of the 500,000 shares due to Mr. Lambrecht for the three months ended January 31, 2002 results in recognizing an increase in compensation expense of $11,250.

For the nine months ended January 31, 2002, the Company has recorded $185,000 in interest expense as an extinguishment of debt relative to the difference between the market value and the initial value of the 500,000 shares issued to one of the finders. The Company has also recorded $123,750 as compensation expense for the nine months ended January 31, 2002 for the difference between the market value and the initial value of the 375,000 shares due to Mr. Lambrecht.

Adjustments for Income Tax Accounting Error Corrections

Our acquisition of Smith & Wesson Corp. was a stock transaction for which no election was made under Internal Revenue Code Section 338 to treat the transaction as an asset purchase for income tax purposes. Therefore, while a new basis of accounting was established for financial reporting purposes, all historical tax bases carried over, resulting in substantial deferred tax temporary differences at the time of the acquisition.

On the opening balance sheet at the May 11, 2001 acquisition date of Smith & Wesson Corp., we reported a $10.5 million deferred tax liability. In the fourth quarter of fiscal year 2002, we subsequently determined that this $10.5 million deferred tax liability was an error on the opening balance sheet requiring correction under GAAP. The net deferred tax balance on the opening balance sheet as of May 11, 2001 should have reflected deferred tax liabilities and assets as set forth in the following table.

Deferred Tax Liabilities and Assets Reflected in the Net Deferred Tax Balance on the Restated Opening Balance Sheet as of May 11, 2001

	Previously Reported as of May 11, 2001	Change	Restated as of May 11, 2001
Deferred Tax Liabilities	$(10,547,329)	$ 3,134,816	$ (7,412,513)
Deferred Tax Assets	8,000,000	9,648,372	17,648,372
Net Deferred Tax Asset/(Liability) before Valuation Allowance	(2,547,329)	12,783,188	10,235,859
Less: Valuation Allowance	(8,000,000)	(2,235,859)	(10,235,859)
Net Deferred Tax Asset/(Liability) at Opening Balance Sheet date	$(10,547,329)	$10,547,329	$ 0

In our previously filed annual report on Form 10-KSB for the fiscal year ended April 30, 2002, we recorded adjustments in the fourth quarter of fiscal year 2002 to correct these errors in the opening balance sheet for deferred tax balances by decreasing net deferred tax liabilities by $10.5 million and decreasing fixed assets and intangible assets by $10.5 million. Although these fourth quarter corrections had no impact on our previously reported tax provision for fiscal year 2002, depreciation and amortization expense for 2002 are overstated as a result of recording the correction in the fourth quarter rather than as of May 11, 2001. We now believe we should have had a net deferred tax asset of $10.2 million with a corresponding valuation allowance of $10.2 million at May 11, 2001 to total to a net zero balance for deferred taxes on the opening balance sheet. This finding has a direct impact on each of the first three quarters of fiscal year 2002 as deferred tax benefits were recorded in each of these quarters.

The impact for the quarter ended January 31, 2002 was to increase income tax expense by $145,983 to eliminate the previously reported benefit from income tax of $128,333 and record income tax expense of $17,650.

For the nine months ended January 31, 2002, the impact was to increase income tax expense by $2,018,507 to eliminate the previously reported benefit from income tax of $1,965,559 and record income tax expense of $52,948.

Other Items

We also restated our fiscal year 2002 financial statements to record the following adjustments that resulted in the changes set forth in the table above:

- *Property, Plant and Equipment.* — We acquired Smith & Wesson Corp. in a bargain purchase that resulted in writing down long-lived assets below fair value, resulting in decreasing fixed assets to a financial statement basis that is less than the net tax basis, which creates a deferred tax asset. This temporary difference should have resulted in a deferred tax asset of approximately $4.8 million. However, we incorrectly recorded a $2.0 million deferred tax liability related to fixed assets which was included in the $10.5 million deferred tax liability. This error was discovered and corrected in the fourth quarter of fiscal year 2002 but should have been corrected effective May 11, 2001. The adjustment in the fourth quarter of fiscal year 2002 reduced deferred tax liabilities by $2.0 million, increased deferred tax assets by $4.8 million and reduced fixed assets and intangible assets by $6.8 million.

- *Trademark.* — The trademark is being amortized over a 20-year period for financial statement purposes, and the historical tax basis of the trademark is zero, which results in a deferred tax liability. A deferred tax liability of $2,640,000 relating to the trademark was previously recorded at the opening balance sheet as part of the $10.5 million deferred tax liability. However, Smith & Wesson Corp. had sufficient deferred tax assets to offset this liability, which reverses over a foreseeable time frame (20 years). A full valuation allowance of $8.0 million against deferred tax assets was previously recorded in the opening balance sheet, thus resulting in recognition of only deferred tax liabilities on the balance sheet. In the fourth quarter of fiscal year 2002, we determined that this deferred tax liability must, under GAAP, be considered as a source of future taxable income available to offset deferred tax assets at May 11, 2001. Therefore, at May 11, 2001, no valuation allowance should have been recognized to the extent deferred tax assets will be utilized by this reversing deferred tax liability, meaning that the valuation allowance at opening balance sheet was overstated. This overstatement was corrected in the fourth quarter of 2002.

- *LIFO Reserve.* — The last in, first out (LIFO) reserve book versus tax difference was created primarily as the result of purchase accounting adjustments made to inventory. Smith & Wesson Corp. had historically valued its financial statement and tax inventory under the LIFO accounting method. The inventory acquired in the May 11, 2001 acquisition was recorded at fair value. Therefore, for book purposes the LIFO reserve was zero at May 11, 2001. However, the inventory basis and related LIFO reserve was unchanged for tax purposes. Therefore, there was a LIFO reserve for tax purposes only of approximately $14.7 million, creating a temporary difference. We now believe that the use of tax planning strategies available with respect to the LIFO reserve were not appropriately considered for purposes of determining the valuation allowance for the opening balance sheet. This error at opening balance sheet was discovered and corrected in the fourth quarter of the fiscal year 2002 based on tax planning strategies which would allow us to recognize the LIFO temporary difference as a source of future taxable income for purposes of determining the deferred tax asset valuation allowance.

- *Deferred Taxes.* — Our Form 10-KSB for the fiscal year ended April 30, 2002 as originally filed also reflects adjustments made in the fourth quarter of fiscal year 2002 to adjust deferred taxes to reverse approximately $2 million of tax benefits recorded over the prior three fiscal quarters.

We are also filing an amended income tax return with the Internal Revenue Service for the fiscal year ended April 30, 2002. The amended return increases our net operating loss carryforward. As a result, our deferred tax asset relating to net operating losses was also understated in the April 30, 2002 tax provision. Since there is a full valuation allowance against this asset, there is no net balance sheet effect at April 30, 2002 or income statement impact on the financial statements for fiscal year 2002 other than a change to the footnote disclosures.

Adjustments to General and Administrative Expenses

We also restated our fiscal year 2002 financial statements to record $1,232,634 of additional costs and expenses related to reserves for self-insured medical costs, unemployment insurance, workers' compensation reserves, and legal services that were previously accounted for as purchase adjustments to the May 11, 2001 acquisition balance sheet of Smith & Wesson Corp. and which we now believe under GAAP should have been expensed in fiscal year 2002. These adjustments increased our previously reported pre-tax loss for fiscal year 2002. A summary of the items comprising the $1,232,634 is presented below:

Adjustments to Expense in Fiscal Year 2002 for Items Previously Capitalized

Increase in medical self insurance reserves and unemployment reserves after the acquisition date	$374,634
Increase in workers' compensation reserve and cost of Directors and Officers insurance required under Massachusetts law as a result of the acquisition of Smith & Wesson Corp.	175,000

Accounting and legal costs	683,000
Total	$1,232,634

In addition to the expenses noted in the table above, for the three months ended January 31, 2002, general and administrative expenses increased by $83,802 due to the restatement.

For the nine months ended January 31, 2002, we should have recorded $450,000 of additional expense consisting of accounting and legal costs of $275,000 and the workers compensation/Directors and Officers insurance expense of $175,000.

Other Income/Expense

We restated our fiscal year 2002 financial statements to increase other expense by $47,200 which includes a loss on extinguishment of debt $187,834.

For the three months ended January 31, 2002, we should have recorded other income of $112,675.

For the nine months ended January 31, 2002, we should have recorded other income of $91,586.

Summary of Restatement Adjustments

The aggregate impact to our fiscal year statement of operations of the adjustments described above is to increase our previously reported 2002 pre-tax net loss by $5.3 million. The following table summarizes the statement of operations impact of these adjustments on our net loss for the period indicated.

Restatement and Adjustment Impact on Net Income (Loss)

	Fiscal Year Ended April 30, 2002		
	As Previously Reported	Net Change	Restated
	(In millions, except per share data)		
Net Product Sales	$ 76.5	$ 2.8	$ 79.3
Cost of Sales	56.9	3.8	60.7
License income, net	1.2	0.0	1.2
Expenses, including operating expense and other income and expense	17.7	5.6	23.3
Interest Expense, net	8.5	(1.3)	7.2
Income Taxes	0.1	0.0	0.1
Net income (loss) (increase) decrease	$ (5.5)	$ (5.3)	$(10.8)
Earnings per share Basic	$(0.27)	$(0.25)	$(0.52)
Diluted	$(0.27)	$(0.25)	$(0.52)

The aggregate impact of the fiscal year 2002 restatement on our financial statements for the three months ended January 31, 2002, is to decrease our previously reported net income by $555,826 to $720,070. Additionally, the restatement had minor effects on our financial statements for the three months ended January 31, 2003 resulting in an increase of our net income for that period from $231,717 to $718,545. The following table summarizes the statement of operations impact of these adjustments on our net loss for each of the periods indicated.

Restatement and Adjustment Impact on Net Income (Loss)

	Three Months Ended January 31, 2003			Three Months Ended January 31, 2002		
	As Previously Reported	Net Change	Restated	As Previously Reported	Net Change	Restated
	(In millions, except per share data)					
Net Product Sales	$24.9	$ 0.6	$25.5	$21.6	$ 0.4	$22.0
Cost of Sales	18.5	0.3	18.8	15.2	0.8	16.0
License income, net	0.4	(0.1)	0.3	0.3	0.0	0.3
Expenses, including operating expense and other income and expense	5.8	(0.3)	5.5	3.7	0.2	3.9
Interest Expense, net	0.8	0.0	0.8	1.8	(0.2)	1.6
Income Taxes	0.0	0.0	0.0	(0.1)	0.1	0.0
Net Income (loss) (increase) decrease	0.2	0.5	0.7	1.3	(0.6)*	0.7*
Earnings per share						
Basic	.01	.01	.02	.07	(.03)	.04
Diluted	.01	.01	.02	.07	(.04)	.03

	Nine Months Ended January 31, 2003			Nine Months Ended January 31, 2002		
	As Previously Reported	Net Change	Restated	As Previously Reported	Net Change	Restated
	(In millions, except per share data)					
Net Product Sales	$69.0	$ 1.9	$70.9	$52.8	$ 2.2	$ 55.0
Cost of Sales	50.4	0.8	51.2	41.9	3.3	45.2
License income, net	1.0	0.0	1.0	0.9	0.0	0.9
Expenses, including operating expense and other income and expense	17.4	0.3	17.7	12.1	3.3	15.4
Interest Expense, net	2.0	0.2	2.2	6.9	(1.2)	5.7
Income Taxes	0.0	0.0	0.0	(2.0)	2.1	0.1
Net income (loss) (increase) decrease*	0.2	0.5*	0.7*	(5.3)*	(5.1)*	(10.4)
Earnings per share						
Basic	.01	.02	.03	(.28)	(.26)	(.54)
Diluted	.01	.01	.02	(.28)	(.26)	(.54)

(*) Do not add due to rounding

Change from LIFO to FIFO Method

Our annual report on Form 10-KSB for the fiscal year ended April 30, 2002 incorrectly disclosed that we adopted the first in, first out (FIFO) method of inventory valuation for Smith & Wesson Corp. following our acquisition of Smith & Wesson Corp. on May 11, 2001. We did not adopt the FIFO method of inventory valuation for S&W until the fourth quarter of fiscal year 2002. Our disclosure in our quarterly reports filed on Form 10-QSB for the quarters ended October 31, 2001 and January 31, 2002 correctly disclosed that for these quarters, inventory was valued using the last in, first out (LIFO) method. However, following the acquisition of S&W on May 11, 2001, we failed to record adjustments during each of the first three quarters of fiscal year 2002 to reflect S&W's inventory in accordance with the LIFO method of inventory accounting. The result was that the cost of sales amounts reported in our previously filed 2002 quarterly financial statements were equivalent to a FIFO basis. S&W changed to the FIFO method of accounting during the fourth quarter of fiscal year 2002.

Under GAAP, a change to the FIFO method would ordinarily require that the financial statements of all prior periods presented be restated to reflect results under the newly adopted FIFO accounting method. However, since our quarterly results initially reported for the nine months ended January 31, 2002 reflect the FIFO basis of accounting for inventory (even though we disclosed that our inventory was accounted for on a LIFO basis) we do not believe we need to amend our previously reported results for this matter.

Effect of Restatement on Balance Sheet Items

The restatement matters described above have the principal effect of reducing property, plant and equipment by approximately $3.5 million, intangible assets by approximately $2.4 million, and equity of the Company by approximately $5.9 million. Also, total liabilities increased by $14.9 million, and assets other than property, plant and equipment and intangible assets increased by $14.9 million.

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED BALANCE SHEET — JANUARY 31, 2003

	As Previously Reported	Net Change	Restated
ASSETS			
Current assets:			
Cash and cash equivalents	$ 9,184,757	$ 2,184,333	$ 11,369,090
Marketable securities	4,926,107	(3,369,050)	1,557,057
Accounts receivable, net of allowance for doubtful accounts of $101,576	13,469,754	82,498	13,552,252
Inventories	14,918,652	(36,000)	14,882,652
Other current assets	3,015,765	(62,887)	2,952,878
Income tax receivable	198,335	(7,569)	190,766
Total current assets	45,713,370	(1,208,675)	44,504,695
Property, plant and equipment, net	10,080,683	(3,648,344)	6,432,339
Intangibles, net	3,304,962	(2,263,197)	1,041,765
Collateralized cash deposits	21,000,000	1,184,717	22,184,717
Other assets	—	16,040,000	16,040,000
	$ 80,099,015	$ 10,104,501	$ 90,203,516
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities			
Accounts payable	$ 19,104,999	(14,067,399)	$ 5,037,600
Accrued expenses	—	6,970,401	6,970,401
Accrued payroll	—	2,767,618	2,767,618
Accrued taxes other than income	—	1,760,082	1,760,082
Accrued profit sharing	—	781,174	781,174
Deferred revenue	202,130	—	202,130
Total current liabilities	19,307,129	(1,788,124)	17,519,005
Notes payable	45,000,000	—	45,000,000
Other non-current liabilities	10,535,221	17,401,264	27,936,485
Stockholders' equity (deficit):			
Common stock, $.001 par value, 100 million shares authorized, 29,805,430 shares issued and outstanding	27,675	2,130	29,805
Additional paid-in capital	16,655,360	(763,130)	15,892,230
Accumulated (deficit)	(11,426,370)	(4,768,965)	(16,195,335)
Accumulated other comprehensive income	—	21,326	21,326
Total stockholders' equity (deficit)	5,256,665	(5,508,639)	(251,974)
	$ 80,099,015	$ 10,104,501	$ 90,203,516

Table of Contents

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

**CONSOLIDATED UNAUDITED STATEMENT OF OPERATIONS
AND OTHER COMPREHENSIVE INCOME
For the Three Months Ended:
January 31, 2003**

	As Previously Reported	Net Change	Restated
Net sales	$ 24,939,113	$ 570,748	$25,509,861
License revenue	391,266	17,924	409,190
Cost of goods sold	18,526,531	307,820	18,834,351
Cost of services	—	67,923	67,923
Gross profit	6,803,848	212,929	7,016,777
Operating expenses:			
Research and development, net	66,879	124,391	191,270
Selling and marketing	2,726,178	108,728	2,834,906
General and administrative	3,025,393	8,688	3,034,081
Total operating expenses	5,818,450	241,807	6,060,257
Income from operations	985,398	(28,878)	956,520
Other income/(expense):			
Other income	—	558,153	558,153
Interest income	138,693	(23,233)	115,460
Interest expense	(879,590)	(19,660)	(899,250)
	(740,897)	515,260	(225,637)
Income before income taxes	244,501	486,382	730,883
Income tax expense	12,784	(446)	12,338
Net income	$ 231,717	$ 486,828	$ 718,545
Other comprehensive income:			
Unrealized gain on marketable securities, net of income tax of $2,983	—	6,153	6,153
Comprehensive income	$ 231,717	$ 492,981	$ 724,698
Weighted average number of common equivalent shares outstanding, basic	29,790,278,	29,793,539	29,793,539
Net income per share, basic	$ 0.01	$ 0.02	$ 0.02
Weighted average number of common equivalent shares outstanding, diluted	36,028,044,	36,359,655	36,359,655
Net income per share, diluted	$ 0.01	$ 0.01	$ 0.02

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED STATEMENT OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)
For the Nine Months Ended:
January 31, 2003

	As Previously Reported	Net Change	Restated
Net sales	$68,967,960	$ 1,913,980	$70,881,940
License revenue	1,037,465	83,601	1,121,066
Cost of goods sold	50,394,133	756,150	51,150,283
Cost of services	—	131,250	131,250
Gross profit	19,611,292	1,110,181	20,721,473
Operating expenses:			
Research and development, net	368,592	342,952	711,544
Selling and marketing	7,450,283	702,768	8,153,051
General and administrative	9,536,591	(66,140)	9,470,451
Total operating expenses	17,355,466	979,580	18,335,046
Income from operations	2,255,826	130,601	2,386,427
Other income/(expense):			
Other income	—	612,212	612,212
Interest income	551,513	(73,490)	478,023
Interest expense	(2,576,596)	(119,548)	(2,696,144)
	(2,025,083)	419,174	(1,605,909)
Income/(loss) before income taxes	230,743	549,775	780,518
Income tax expense	33,658	3,355	37,013
Net income/(loss)	$ 197,085	$ 546,420	$ 743,505
Other comprehensive income:			
Unrealized gain on marketable securities, net of income tax of $8,950	—	18,458	18,458
Comprehensive income/(loss)	$ 197,085	$ 564,878	$ 761,963
Weighted average number of common equivalent shares outstanding, basic	29,726,462	29,727,550	29,727,550
Net income/(loss) per share, basic	$ 0.01	$ 0.02	$ 0.03
Weighted average number of common equivalent shares outstanding, diluted	35,768,825	36,181,817	36,181,817
Net income/(loss) per share, diluted	$ 0.01	$ 0.02	$ 0.02

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
For the Nine Months Ended January 31, 2003

	As Previously Reported					
	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at April 30, 2002	29,683,613	27,552	16,514,646	(11,623,455)	—	4,918,743
Shares issued under ESPP October 2002	67,117	67	75,945			76,012
Common stock issued to settle liabilities	54,700	56	64,769			64,825
Net income/(loss)for the nine month period ended January 31, 2003				197,085	—	197,085
Other comprehensive income				—	—	—
Balance at January 31, 2003	29,805,430	$27,675	$16,655,360	$(11,426,370)	$ —	$5,256,665

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Restated					
	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at April 30, 2002	29,683,613	$29,683	$15,751,515	$(16,938,840)	$ 2,868	$(1,154,774)
Shares issued under ESPP October 2002	67,117	67	75,945			76,012
Common stock issued to settle liabilities	54,700	55	64,770			64,825
Net income/(loss)for the nine month period ended January 31, 2003				743,505		743,505
Other comprehensive income					18,458	18,458
Balance at January 31, 2003	29,805,430	$29,805	$15,892,230	$(16,195,335)	$21,326	$ (251,974)

Table of Contents

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED STATEMENT OF CASH FLOWS
For the Nine Months ended:
January 31, 2003

	As Previously Reported	Net Change	Restated
Cash flows (used for) operating activities			
Net Income	$ 197,085	$ 546,420	$ 743,505
Adjustments to reconcile net loss to cash provided by (used for) operating activities:			
Amortization and depreciation	882,359	(274,454)	607,905
Gain on sale of assets	—	(6,380)	(6,380)
Provision for losses on accounts receivable	—	2,500	2,500
Provision for excess and obsolete inventory	—	181,388	181,388
Stock compensation for services	64,875	(50)	64,825
Changes in operating assets and liabilities (increase) decrease in assets and liabilities			
Accounts receivable	(1,540,989)	85,673	(1,455,316)
Inventories	4,446,423	(155,682)	4,290,741
Other current assets	(932,395)	(573,340)	(1,505,735)
Income tax receivable	—	21,037	21,037
Other assets	—	(136,600)	(136,600)
Increase (decrease) in liabilities:			
Accounts payable	(5,190,027)	3,272,491	(1,917,536)
Accrued payroll	—	(367,499)	(367,499)
Accrued profit sharing	—	(38,664)	(38,664)
Accrued taxes other than income	—	4,223	4,223
Accrued expenses	—	(1,029,049)	(1,029,049)
Other non-current liabilities	—	(1,513,290)	(1,513,290)
Deferred revenue	(1,395,543)	(1)	(1,395,544)
Due from Walther USA, LLC, net	—	(529,353)	(529,353)
Net cash (used for) operating activities	(3,468,212)	(510,630)	(3,978,842)
Cash flows provided by (used for) provided by investing activities:			
Payments to acquire marketable securities	—	(535,440)	(535,440)
Proceeds from sale or maturity of marketable securities	2,613,167	(2,613,167)	—
Additions to collateralized cash deposits	—	(957,692)	(957,692)
Payments to acquire patents	(55,357)	(11,744)	(67,101)
Proceeds from sale of property and equipment	—	8,760	8,760
Payments to acquire property and equipment	(3,326,778)	495,105	(2,831,673)
Net cash (used for) provided by investing activities	(768,968)	(3,614,178)	(4,383,146)
Cash flows used for financing activities:			
Payments on loans and notes payable, related parties	(357,425)	—	(357,425)
Proceeds from exercise of warrants to acquire common stock	75,961	51	76,012
Net cash used for financing activities	(281,464)	51	(281,413)
Net decrease in cash and cash equivalents	(4,518,644)	(4,124,757)	(8,643,401)
Cash and cash equivalents, beginning of year	13,703,401	6,309,090	20,012,491
Cash and cash equivalents, end of period	$ 9,184,757	$ 2,184,333	$11,369,090

Table of Contents

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED BALANCE SHEET — JANUARY 31, 2002

	As Previously Reported	Net Change	Restated
ASSETS			
Current assets:			
Cash and cash equivalents	$ 37,485,218	$ (6,291,850)	$ 31,193,368
Accounts receivable, net of allowance for doubtful accounts of $98,144	9,129,958	8,334	9,138,292
Inventories	19,557,265	(392,808)	19,164,457
Other current assets	3,885,129	(1,013,101)	2,872,028
Income tax receivable	—	237,668	237,668
Total current assets	70,057,570	(7,451,757)	62,605,813
Property, plant and equipment, net	9,240,838	(6,400,142)	2,840,696
Intangibles, net	5,069,145	(4,332,962)	736,183
Collateralized cash deposits	—	6,237,025	6,237,025
Other assets	5,372	15,236,328	15,241,700
	$ 84,372,925	$ 3,288,492	$ 87,661,417
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities			
Accounts payable	$ 20,638,501	(15,354,462)	$ 5,284,039
Accrued expenses	—	6,671,854	6,671,854
Accrued payroll	—	2,666,764	2,666,764
Accrued taxes other than income	—	1,452,669	1,452,669
Finders liability	—	311,250	311,250
Deferred revenue	1,630,568	(1,332)	1,629,236
Note payable, related parties, net of debt issue costs of $644,736	4,500,000	452,689	4,952,689
Note payable, Tomkins	10,000,000	—	10,000,000
Due to Walther USA, LLC, net	—	836,770	836,770
Total current liabilities	36,769,069	(2,963,798)	33,805,271
Notes payable	30,000,000	—	30,000,000
Other non-current liabilities	18,235,401	12,953,681	31,189,082
Stockholders' equity (deficit):			
Common stock, $.001 par value, 100 million shares authorized, 19,501,689 shares issued and outstanding	17,372	2,130	19,502
Additional paid-in capital	10,180,828	(1,003,222)	9,177,606
Accumulated (deficit)	(10,829,745)	(5,700,299)	(16,530,044)
Total stockholders' equity (deficit)	(631,545)	(6,701,391)	(7,332,936)
	$ 84,372,925	$ 3,288,492	$ 87,661,417

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED STATEMENT OF OPERATIONS AND OTHER COMPREHENSIVE INCOME
For the Three Months Ended:
January 31, 2002

	As Previously Reported	Net Change	Restated
Net sales	$21,606,035	$ 387,181	$21,993,216
License revenue	277,483	49,457	326,940
Cost of goods sold	15,238,299	757,638	15,995,937
Cost of services	—	49,457	49,457
Gross profit	6,645,219	(370,457)	6,274,762
Operating expenses:			
Research and development, net	112,151	16,490	128,641
Selling and marketing	2,108,701	210,871	2,319,572
General and administrative	1,488,097	83,802	1,571,899
Total operating expenses	3,708,949	311,163	4,020,112
Income from operations	2,936,270	(681,620)	2,254,650
Other income/(expense):			
Other income	—	112,675	112,675
Interest income	200,126	7,904	208,030
Interest expense	(1,988,833)	151,198	(1,837,635)
	(1,788,707)	271,777	(1,516,930)
Income before income taxes	1,147,563	(409,843)	737,720
Income tax (benefit) expense	(128,333)	145,983	17,650
Net income	$ 1,275,896	$ (555,826)	$ 720,070
Other comprehensive income:			
Unrealized gain (loss) on marketable securities	—	—	—
Comprehensive income	$ 1,275,896	$ (555,826)	$ 720,070
Weighted average number of common equivalent shares outstanding, basic	19,427,764	19,501,689	19,501,689
Net income per share, basic	$ 0.07	$ (0.03)	$ 0.04
Weighted average number of common equivalent shares outstanding, diluted	19,427,764	23,976,550	23,976,550
Net income per share, diluted	$ 0.07	$ (0.02)	$ 0.03

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED STATEMENT OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)
For the Nine Months Ended:
January 31, 2002

	As Previously Reported	Net Change	Restated
Net product sales	$52,760,786	$ 2,257,066	$ 55,017,852
License revenue	898,396	67,050	965,446
Cost of goods sold	41,906,734	3,247,031	45,153,765
Cost of services	—	67,050	67,050
Gross profit	11,752,448	(989,965)	10,762,483
Operating expenses:			
Research and development, net	396,408	21,853	418,261
Selling and marketing	5,737,807	390,000	6,127,807
General and administrative	5,967,257	492,381	6,459,638
Environmental expense	—	2,500,000	2,500,000
Total operating expenses	12,101,472	3,404,234	15,505,706
(Loss) from operations	(349,024)	(4,394,199)	(4,743,223)
Other income/(expense):			
Other (expense)	—	91,586	91,586
Interest income	672,483	7,918	680,401
Interest expense	(7,559,436)	1,214,201	(6,345,235)
	(6,886,953)	1,313,705	(5,573,248)
(Loss) before income taxes	(7,235,977)	(3,080,494)	(10,316,471)
Income tax (benefit) expense	(1,965,559)	2,018,507	52,948
Net (loss)	$ (5,270,418)	$ (5,099,001)	$(10,369,419)
Weighted average number of common equivalent shares outstanding, basic	18,830,879	19,109,813	19,109,813
Net (loss) per share, basic	$ (0.28)	(0.27)	$ (0.54)
Weighted average number of common equivalent shares outstanding, diluted	18,830,879	19,109,813	19,109,813
Net (loss) per share, diluted	$ (0.28)	$ (0.27)	$ (0.54)

Table of Contents

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Nine Months Ended January 31, 2002

	As Previously Reported				
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at April 30, 2001	17,931,355	$15,800	$ 4,187,500	$ (5,559,327)	$(1,356,027)
Issuance of warrants for services related to debt financing			5,000,000		5,000,000
Common stock issued to settle liabilities	500,000	500	249,500		250,000
Exercise of warrants	750,000	750	599,473		600,223
Issuance of common stock for services	320,334	322	144,355		144,677
Net (loss) for the nine month period ended January 31, 2002				(5,270,418)	(5,270,418)
Balance at January 31, 2002	19,501,689	$17,372	$10,180,828	$(10,829,745)	$ (631,545)

	Restated				
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity(Deficit)
	Shares	Amount			
Balance at April 30, 2001	18,131,355	$18,131	$4,786,469	$ (6,160,625)	$ (1,356,025)
Issuance of warrants for services related to debt financing			3,189,000		3,189,000
Common stock issued to settle liabilities	500,000	500	434,500		435,000
Exercise of warrants	750,000	750	599,250		600,000
Issuance of common stock for services	120,334	121	168,387		168,508
Net (loss) for the nine month period ended January 31, 2002				(10,369,419)	(10,369,419)
Balance at January 31, 2002	19,501,689	$19,502	$9,177,606	$(16,530,044)	$ (7,332,936)

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED STATEMENT OF CASH FLOWS
For the Nine Months ended:
January 31, 2002

	As Previously Reported	Net Change	Restated
Cash flows (used for) provided by operating activities			
Net (loss)	$ (5,270,418)	$ (5,099,001)	$(10,369,419)
Adjustments to reconcile net loss to cash provided by (used for) operating activities:			
Amortization and depreciation	730,724	(438,208)	292,516
Gain on sale of assets	—	(13,129)	(13,129)
Provision for losses on accounts receivable	—	21,450	21,450
Provision for excess and obsolete inventory	—	2,418,830	2,418,830
Debt discount amortization to interest expense	—	2,447,415	2,447,415
Amortization of debt issue costs to interest expense	—	710,849	710,849
Income tax benefit	(1,947,967)	1,947,967	—
Loss on Finder's liability settled in stock	—	185,000	185,000
Stock compensation for services	110,900	57,608	168,508
Interest expense, including debt issue costs and beneficial conversion feature	4,500,000	(4,500,000)	—
Compensation expense settled in stock	—	123,750	123,750
Changes in operating assets and liabilities (increase) decrease in assets and liabilities:			
Accounts receivable	(1,392,537)	(29,784)	(1,422,321)
Inventories	4,723,373	(2,026,022)	2,697,351
Other current assets	4,045,692	(5,589,842)	(1,544,150)
Income tax receivable	—	(237,668)	(237,668)
Due from Tomkins	—	7,699,500	7,699,500
Other assets	—	(1,055,168)	(1,055,168)
Increase (decrease) in liabilities:			
Accounts payable	(2,710,252)	4,167,996	1,457,744
Accrued payroll	—	(1,155,085)	(1,155,085)
Finders liability	—	311,250	311,250
Accrued taxes other than income	—	80,719	80,719
Accrued expenses	—	(6,254,479)	(6,254,479)
Due to Walther USA, LLC, net	—	1,485,754	1,485,754
Other non-current liabilities	—	7,233,896	7,233,896
Deferred revenue	17,862	(1,333)	16,529
Deferred tax liabilities	(28,548)	28,548	—
Net cash (used for) provided by operating activities	2,778,829	2,520,813	5,299,642
Cash flows provided by investing activities:			
Net cash and cash equivalents acquired from business combination	28,598,168	20,000,000	48,598,168
Cash portion of acquisition	—	(5,000,000)	(5,000,000)
Proceeds from loans receivable and certificate of deposit	7,385,000	(7,385,000)	—
Additions to collateralized cash deposits	—	(1,087,025)	(1,087,025)
Payments to secure financing	—	(373,750)	(373,750)
Payments for patents costs	(300,000)	300,000	—
Proceeds from sale of property and equipment	—	14,026	14,026
Payments to acquire property and equipment	(1,145,889)	(280,914)	(1,426,803)
Net cash provided by investing activities	34,537,279	6,187,337	40,724,616
Cash flows provided by (used for) financing activities:			
Payments on loans and notes payable, unrelated parties	(500,000)	(19,500,000)	(20,000,000)
Payments on loans and notes payable, related parties	—	(500,000)	(500,000)
Proceeds from notes payable, related parties	—	5,000,000	5,000,000
Proceeds from exercise of warrants to acquire common stock	600,000	—	600,000
Net cash provided by (used for) financing activities	100,000	(15,000,000)	(14,900,000)
Net increase in cash and cash equivalents	37,416,108	(6,291,850)	31,124,258

	As Previously Reported	Net Change	Restated
Cash and cash equivalents, beginning of year	69,110	—	69,110
Cash and cash equivalents, end of period	$37,485,218	$(6,291,850)	$31,193,368

(10) Subsequent Events:

On February 10, 2004 Amy R. Armstrong, the Company's Senior Vice President, Corporate Communications entered into a Severance Agreement with the Company. On February 17, 2004, Damian A. Larson, the Company's Chief Financial Officer, and Daniel A. Larson, the Company's General Counsel, resigned and entered into a Severance Agreement with the Company. All of these individuals had been offered and declined the opportunity to relocate to Springfield as part of the plan to close the Scottsdale corporate headquarters. Accordingly the Company has taken a charge in the third quarter of approximately $520,000 for the costs associated with these severance agreements.

SMITH & WESSON CORP. and Subsidiary (the Predecessor)

PREDECESSOR FINANCIAL STATEMENTS (UNAUDITED)

The financial statements of Smith & Wesson Corp. are presented as of April 28, 2001 and for the thirteen day period ended May 11, 2001. They are presented for Smith & Wesson Corp. (SW) as predecessor to Smith & Wesson Holding Corporation. The Company has previously filed, on Form 8K/A dated July 30, 2001 Balance Sheet of the predecessor SW as of April 28, 2001 from which the accompanying Balance Sheet has been derived. SW was acquired by the Company on May 11, 2001.

The Company has previously filed, on Form 10-KSB dated December 18, 2003, the accompanying Consolidated Statements of Operations, Changes in Stockholder's Equity and Cash Flows (the "Statements"). These Statements have been prepared without audit and have not been reviewed by independent accountants; however, the Company believes that all adjustments, which include only normal recurring adjustments necessary to fairly present SW's results of operations, changes in stockholder's equity and cash flows for the thirteen day period, have been included. All significant intercompany transactions have been eliminated.

SMITH & WESSON CORP and Subsidiary

CONSOLIDATED BALANCE SHEET — April 28, 2001

ASSETS	
Current assets:	
Cash and cash equivalents	$ 972,745
Accounts receivable, net of allowance for doubtful accounts of $281,450	7,912,080
Inventories	8,696,698
Due from Tomkins	58,904,233
Other current assets	1,519,193
Due from Walther USA, LLC, net	626,343
Total current assets	78,631,292
Property, plant and equipment, net	21,957,552
Intangibles, net	15,685,000
Collateralized cash deposits	5,150,000
Other assets	13,991,700
	$135,415,544
LIABILITIES AND STOCKHOLDER'S EQUITY	
Current liabilities	
Accounts payable	$ 6,018,861
Accrued payroll	2,761,548
Accrued taxes other than income	1,516,535
Accrued expenses	9,243,813
Deferred revenue	1,616,378
Total current liabilities	21,157,135
Notes payable	73,830,000
Deferred tax liability	3,016,990
Other non-current liabilities	24,559,186
Stockholders' equity:	
Common stock, $.01 par value, 800 shares issued and outstanding	8
Additional paid-in capital	70,923,721
Accumulated deficit	(58,070,144)
Other comprehensive loss	(1,352)
Total stockholders' equity	12,852,233
	$135,415,544

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

SMITH & WESSON CORP and Subsidiary

CONSOLIDATED UNAUDITED STATEMENT OF OPERATIONS
For the Thirteen Day Period Ended May 11, 2001:

Net sales	$1,965,385
Cost of goods sold	1,784,119
Gross Profit	181,266
Operating expenses:	
Research and development, net	49,979
Selling and marketing	291,110
General and administrative	280,345
Total operating expenses	621,434
Loss from operations	(440,168)
Other income/(expense):	
Other income/expense	(9,812)
Intercompany credits	399,974
Interest income	76,240
Interest expense	(221,490)
	244,912
Loss before income taxes	(195,256)
Income taxes	—
Net loss	$ (195,256)
Weighed average number of common equivalent shares outstanding, basic	800
Net loss per share, basic	$ (244.07)
Weighted average number of common equivalent shares outstanding, diluted	800
Net loss per share, diluted	$ (244.07)

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

SMITH & WESSON CORP and Subsidiary

CONSOLIDATED UNAUDITED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
For the Thirteen Day Period Ended May 11, 2001

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholder's Equity
	Shares	Amount			
Balance at April 28, 2001	800	$ 8	$70,923,721	$(58,071,496)	$12,852,233
Capital contributed by parent			23,830,000		23,830,000
Net loss for the period ended May 11, 2001				(195,256)	(195,256)
Balance at May 11, 2001	800	$ 8	$94,753,721	$(58,266,752)	$36,486,977

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

SMITH & WESSON CORP and Subsidiary

CONSOLIDATED UNAUDITED STATEMENT OF CASH FLOWS
For the Thirteen Day Period Ended May 11, 2001:

Cash flows used for operating activities:	
Net loss	$ (195,256)
Adjustments to reconcile net loss to cash used for operating activities:	
Depreciation and amortization	245,361
Changes in operating assets and liabilities (Increase) decrease in assets:	
Accounts receivable	178,563
Inventories	(793,232)
Prepaid expenses and other current assets	168,674
Increase (decrease) in liabilities:	
Accounts payable	(1,917,515)
Accrued payroll	(90,104)
Accrued taxes other than income	(144,585)
Other current liabilities	(1,014,971)
Deferred income	(3,671)
Net cash used for operating activities	(3,566,736)
Cash flows provided by investing activities:	
Proceeds from intercompany loans receivable	51,204,732
Payments to acquire property and equipment	(12,573)
Net cash provided by investing activities	51,192,159
Net increase in cash and cash equivalents	47,625,423
Cash and cash equivalents, beginning of the period	972,745
Cash and cash equivalents, end of the period	$48,598,168

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

SMITH & WESSON CORP. and Subsidiary

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Thirteen Day Period Ended May 11, 2001

(1) Organization and Business Activity:

Organization

Smith & Wesson Corp. was incorporated under the laws of the State of Delaware on January 13, 1987. Smith & Wesson Corp. has been in business since 1852, during which period, ownership has changed a few times. Prior to incorporation on January 13, 1987, Smith & Wesson Corp. operated as a division of Lear Siegler. On June 9, 1987, Tomkins Corporation ("Tomkins"), a company organized under the laws of the State of Delaware, acquired all the outstanding stock of the Company.

On May 11, 2001, Saf-T-Hammer Corporation (the "Parent") purchased all of the outstanding stock of the Smith & Wesson Corp. for $15,000,000 (See Note 12 "Subsequent Events").

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Smith & Wesson Corp. and its wholly owned subsidiaries (collectively the "Company") — Smith & Wesson Firearms Training Centre GmbH (Germany), Smith & Wesson Distributing, Inc., and Smith & Wesson, Inc. All significant inter- company accounts and transactions have been eliminated in consolidation.

Business Activity

The Company manufactures firearms and related products and accessories for sale to registered distributors, sportsmen, collectors, public safety officials and military agencies in the United States, and also sells to distributors throughout the world.

The Company has two manufacturing facilities (in Springfield, MA and Houlton, ME), both of which are used primarily to manufacture firearms. However, the Company also uses its machine-tooling capabilities at the Springfield facility to manufacture and assemble bicycles, handcuffs, golf club heads, and component parts for various industries.

(2) Summary of Significant Accounting Policies

Fiscal Year End

The Company's fiscal year ends on the Saturday closest to April 30. The accompanying consolidated financial statements are for the thirteen-day period from April 29, 2001 through May 11, 2001.

Cash

Equivalents — For the purpose of the statement of cash flows, cash equivalents include all highly liquid debt instruments with original maturities of three months or less which are not securing any corporate obligations.

Concentration — The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting periods. Operating results in the future could vary from the amounts derived from management's estimates and assumptions. In addition, future facts and circumstances could alter management's estimates with respect to the adequacy of insurance reserves. The more significant estimates and assumptions used by management in the preparation of the financial statements relate to the reserves established for uncollectible accounts receivable, obsolete and slow moving inventory and certain accrued liabilities, including, but not limited to, product, environmental and warranty liabilities and workers compensation.

Fair Value of Financial Instruments

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

Revenue Recognition

The Company recognizes revenue when the earnings process is complete and the risks and rewards of ownership have transferred to the customer, which is generally upon shipment.

The Company recognizes tooling, forging, heat treating, finishing, plating, and engineering support revenues after acceptance by the customer and only when no further contingencies or material performance obligations exist, when collectibility is reasonably assured and thereby the company has earned the right to receive and retain payments for services performed and billed.

The Company recognizes licensing revenue from the use of its Identi-Kit software over the subscription period.

Deferred Revenues

Deferred revenues represent deposits and prepayments from customers for products and services for which the revenue is not yet recognizable, as the risks and rewards of ownership have not yet transferred to the customer. Management expects to have fully earned such revenues within a 12-month period and they will be recognized into revenues at that time.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of

The Company evaluates the recoverability of long-lived assets, or asset groups, whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. Should such evaluations indicate that the related future undiscounted cash flows are not sufficient to recover the carrying values of the assets, such carrying values would be reduced to fair value and this adjusted carrying value would become the asset's new cost basis. Fair value is determined primarily using future anticipated cash flows that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset, or asset group, discounted using an interest rate commensurate with the risk involved.

Inventories

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

Property, Plant and Equipment

Property, plant and equipment, consisting of land, building, improvements, machinery, equipment, computers, furniture and fixtures, are recorded at cost and are depreciated using the straight-line method over their estimated useful lives. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. A summary of the estimated useful lives is as follows:

Description	Useful Life
Building and improvements	10 to 40 years
Machinery and equipment	2 to 10 years
Furniture and fixtures	2 to 10 years
Computers and software	3 to 5 years

Goodwill

Goodwill arose from the acquisition of the Company by Tomkins in 1987. This acquisition was accounted for under the purchase method of accounting, whereby, the excess of the purchase price paid over the fair value of assets acquired and liabilities assumed was recorded as goodwill in the amount of approximately $68,525,000. This transaction was recorded by the Company pursuant to guidance provided by the Securities and Exchange Commission on SAB Topic 54 — *"Push Down Basis of Accounting Required in Certain Limited Circumstances."* Goodwill is being amortized on a straight-line basis over 40 years as determined by management. During the period ended April 28, 2001, management determined that the carrying amount of the net goodwill balance far exceeded the future net undiscounted cash flows expected to be generated, and accordingly, recognized an impairment loss of $29,000,000. Accumulated amortization as of April 28, 2001 amounted to $23,840,000.

Net Loss Per Share

Basic net loss per share has been calculated based upon the weighted average number of common shares outstanding during the period. Diluted net loss per share has been determined by dividing the net loss by the weighted average number of common shares outstanding plus the dilutive effect of stock options, warrants, and other convertible securities. Basic and diluted net loss per share are the same for the thirteen-day period ended May 11, 2001, as there were no dilutive securities during this period.

Income Taxes

The Company uses 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 basis assets and liabilities and are measured by applying enacted tax rates and laws to taxable years in which differences are expected to be recovered or settled. A valuation allowance was recorded to reduce deferred tax assets to an amount that represents the Company's best estimate of the amount of such deferred tax assets that are likely to be realized. Further, 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.

Warranty

The Company generally provides a lifetime warranty to the "original" purchaser of its firearms products. Estimated warranty obligations are provided for in the period in which the related revenue is recognized. The Company quantifies and records an estimate for warranty related costs based on the Company's actual historical claims experience and the current repair costs. Adjustments are made to accruals as warranty claim data and historical experience warrant. Should the Company experience actual claims and repair costs that are higher than the estimated claims and repair costs used to calculate the provision, the Company's operating results for the period or periods in which such returns or additional costs materialize will be adversely impacted. Warranty expense for the thirteen-day period ended May 11, 2001 amounted to approximately $46,000.

Product Liability

The Company provides for product liability claims. The provision for product liability claims are charged to cost of sales.

Insurance Reserves

The Company is "self-insured" (defined as excessive loss re-insurance) through retentions or deductibles for the majority of its workers' compensation, automobile, general liability, product liability and group health insurance programs. Self-insurance amounts vary up to $2,000,000 per occurrence. Insurance with third parties, some of which is then reinsured through the Parent, is in place for claims in excess of these self-insured amounts. During the thirteen-day period ended May 11, 2001, all of the Company's insurance was covered under the Tomkins insurance policies. The Company's liability for estimated premiums and incurred losses are actuarially determined and recorded in the accompanying consolidated financial statements on an undiscounted basis.

(3) Major Customer:

One customer accounted for approximately 13% of the Company's net sales for the thirteen-day period ended May 11, 2001. This customer owed the Company approximately $1,065,000 as of April 28, 2001.

(4) International Sales:

The Company sells its products worldwide. A breakdown of international and export sales, which accounted for approximately 8% of net sales for the thirteen-day period ended May 11, 2001, is as follows:

Net Sales by Region	
Europe	$ 4,000
Asia	2,000
Latin America	85,000
All others	60,000
Total	$151,000

(5) Advertising Costs:

Advertising costs, consisting primarily of magazine advertisements and printed materials, are expensed as incurred. For the thirteen-day period ended May 11, 2001, advertising expenses amounted to approximately $64,000.

(6) Inventories:

A summary, stated at lower of cost or market, is as follows:

	April 28, 2001
Finished goods	$ 11,728,375
Finished parts	8,856,991
Work in process	1,185,470
Raw material	1,670,186
	23,441,022
LIFO Reserve	(14,744,324)
	$ 8,696,698

The LIFO reserve reflects the difference between stating the inventory at historical FIFO cost and the current LIFO cost. The LIFO reserve decreased by $1 during the thirteen-day period ended May 11, 2001.

(7) Related Party Transactions:

Loans receivable, Tomkins balances as of April 28, 2001 amounted to $58,904,233, is uncollateralized, due on demand and bears interest at LIBOR minus 1 percent per annum. Immediately prior to the Acquisition on May 11, 2001, Tomkins repaid the entire balance except for $7,699,500, of which $464,500 will be collected within a year and the remaining balance was held as a collateral for (a) open letters of credit on behalf of the Company by Tomkins in the amount of $2,235,000 and (b) a bond for $5,000,000 for the Company's workers' compensation fund on behalf of the Company by Tomkins. During May 2001, the Company collected $5,000,000 and expects to collect an additional $2,235,000 in July 2001, upon the expiration of the open letters of credit. The Company paid $20,000,000 of its indebtedness under the Tomkins Note on May 11, 2001 immediately after its acquisition by Saf-T-Hammer Corporation.

Interest earned from Tomkins during the thirteen-day period ended May 11, 2001 amounted to approximately $76,000.

Note Payable, Tomkins

On April 30, 1997, the Company declared a dividend of $73,830,000 to Tomkins and issued a note payable ("Tomkins Note") for $73,830,000. The Tomkins Note bears interest at 9% per annum and matures on April 30, 2004. (See Note 12 Subsequent Events).

Interest expense and payments to Tomkins during the thirteen-day period ended May 11, 2001 amounted to $221,000.

Due from Walther USA, LLC

On April 1, 2000, the Company acquired 50% interest in Walther USA, LLC, a joint venture with Carl Walther GmbH, a German company. Each member contributed $50,000. Walther USA purchases and sells the "Walther" brand handguns worldwide. The Company or its management do not have management control of Walther USA, however, they provide limited procurement and employee support services. Accordingly, this joint venture has been accounted for under the equity method of accounting, whereby, the Company records its share of net income and losses; however, Smith & Wesson Corp. records its share of net income or loss consistent with its April 30 year end. The members of Walther USA, LLC have chosen December 31 as it fiscal year end. A summary of the transactions with Walther USA, LLC is as follows:

	Period Ended April, 28, 2001
Due from/(to) Walther USA, LLC:	
Beginning balance	$ 601,677
Plus expenses paid for Walther USA	402,553
Plus procurement and fees earned	183,374
Less payments/collections	(300,557)
Ending Balance	$ 887,047
Investment in Walther USA, LLC:	
Beginning balance	$ (201,521)
50% equity in net loss of Walther USA	(59,183)
Net investment in Walther USA	$ (260,704)
Net balance due, as presented on the consolidated balance sheet	$ 626,343

Carl Walther, GmbH

Carl Walther, GmbH buys products from the Company. Neither the Company, nor its management has any control over the management of Carl Walther, GmbH. A summary of transactions with Carl Walther, GmbH is as follows:

	Period Ended April 28, 2001
Due from Carl Walther, GmbH (included in accounts receivable on the consolidated balance sheet):	
Beginning balance	$ —
Plus sales	589,955
Less payments	—
Balance at end of year	$589,955

(8) Benefit Plans:

Contributory Defined Investment Plan

The Company offers a contributory defined investment plan covering substantially all employees who have completed at least 6 months of service, as defined. Employees may contribute from 1% to 15% of their annual pay, with Smith & Wesson matching 50% of the first 6% of combined pre and post-tax compensation. The Company contributions are made at the end of the month. The Company did not make a contribution during the thirteen-day period ended May 11, 2001.

Non-contributory Profit Sharing Plan

The Company also has a non-contributory profit sharing plan. Employees are eligible on May 1 following their completion of a full fiscal year of continuous service. The Company contributes 15% of its net operating profit before interest and taxes, as defined, to the plan each year. The Company did not make a contribution during the thirteen-day period ended May 11, 2001.

Post-Retirement Medical Program

Prior to 1991, the Company offered a program that provided health care to retirees until age 65. The program was terminated in 1991, but employees who had a combined age and years of service equal to 70 as of December 31, 1996 were grandfathered in the program. The grandfather provision provides varying degrees of coverage based upon years of service as of December 31, 1990. There are currently 15 retirees covered by the program and 21 active employees who are grandfathered under the plan. The post retirement medical liability is based upon reports as provided by an independent consultant. The post retirement medical liability as of April 28, 2001 amounted to approximately $506,000, all of which is included in accrued liabilities on the accompanying balance sheet.

The following table sets forth the Postretirement Medical and Life Plan's status and amounts recognized in the Company's Retirement Incentive Program. The financial position at April 28, 2001 is as follows:

Actuarial present value of benefit obligation:

Accumulated benefit obligation, including vested benefits of $94,494	$172,231
Projected benefit obligation for service rendered to date	333,586
Plan assets	—
Unpaid pension cost	333,586
Balance at April 28, 2001	$505,817
Beginning balance, April 30, 2000	$597,227
Net periodic postretirement benefit cost/(income)	(50,600)
Payments during the April 28, 2001	(40,810)
Balance at April 28, 2001	$505,817

(9) Self-Insurance Reserves:

As of April 28, 2001, the Company had reserves for workers compensation and product liability totaling approximately $12,876,000 of which, $9,867,000 has been classified as long-term. While management believes these reserves to be adequate, there exists a possibility that the ultimate liabilities will exceed such estimates.

The following is a summary of the activity in the workers' compensation and product liability reserves for the fiscal year ended April 28, 2001:

	Period Ended April 28, 2001
Beginning Balance	$ 8,826,000
Provision, net of reserve adjustments	5,363,000
Payments	(1,313,000)
Ending balance	$12,876,000

(10) Income Taxes:

The Company is included in the consolidated Federal income tax return of Tomkins for the period ended May 11, 2001. Under a tax sharing agreement between the Company and Tomkins, the Company is obligated to pay Tomkins its allocable share of the Tomkins Corporation tax liability, determined as if the Company were filing a separate consolidated income tax return.

Future tax benefits (deferred tax liabilities) relate to temporary differences on the following:

	Period Ended May 11, 2001
Current assets (liabilities):	
Inventories	$ —
Compensation and related accruals	—
Other accruals	—
Non-current assets (liabilities) — depreciation	(3,016,990)
Net deferred tax asset/(liabilities)	$(3,016,990)

(11) Commitments and Contingencies:

Litigation

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

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

The Company's management monitors the status of known claims and the product liability accrual, which includes amounts for asserted and unasserted claims. While it is difficult to forecast the outcome of these claims, in the opinion of management, after consultation with special and corporate counsel, it is not probable and is unlikely that the outcome of these claims will have a material adverse effect on the results of operations or financial condition of the Company, as management believes that it has provided adequate reserves.

Environmental Remediation

The Company is subject to numerous federal, state and local laws which 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, the Company to make significant expenditures of both a capital and expense nature. Several of the more significant federal laws applicable to the Company's 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").

The Company has in place programs and personnel that monitor compliance with various federal, state and local environmental regulations. In the normal course of its manufacturing operations, the Company is subject to occasional governmental proceedings and orders pertaining to waste disposal, air emissions and water discharges into the environment. The Company will fund its environmental costs through cash flows from operating revenue and expects to do so in the future. The Company believes that it is in compliance with applicable environmental regulations in all, material respects.

The Company is required to remediate hazardous waste at Company owned facilities. Currently, a site in Springfield, Massachusetts is subject to four remediation projects as part of the Massachusetts Contingency Plan (MCP). The MCP provides a structured environment for the voluntary remediation of regulated releases. The Company 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 the Company. The Company has received notice that it is a potentially responsible party from the Environmental Protection Agency (EPA) and/or individual states under CERCLA or a state equivalent.

The Company has reserves of $1.735 million for remediation of the sites referred to above and other environmental costs in accordance with its policy to record liabilities for environmental expenditures when it is probable that obligations have been incurred and costs can be reasonably estimated. The Company's estimates of these costs are based upon currently available facts, existing technology, and presently enacted laws and regulations. Where the available information is sufficient to estimate the amount of liability, that estimate has been used; where 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.

Based on information known to the Company, management does not expect current environmental regulations or environmental proceedings and claims to have a material adverse effect on the results of operations or financial condition of the Company. However, it is not possible to predict with certainty the impact on the Company 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 environmental regulation will not become more burdensome in the future and that any such development would not have a material adverse effect on the Company.

Employment Contracts

Employment Agreements — the Company has entered into arms length employment agreements with certain officers and managers to retain their expertise in the ordinary course of business.

Operating Rental Leases

The Company leases space for three of its retail stores aggregating an annual commitment of approximately $252,000 over the next two years. Rent expense for the thirteen-day period ended May 11, 2001 amounted to $10,000.

(12) Subsequent Events:

The Acquisition

Pursuant to a Stock Purchase Agreement (the “Acquisition Agreement”) dated as of May 11, 2001 between Tomkins Corporation (“Tomkins”) and Saf-T-Hammer Corporation (“Parent”), Parent acquired (the “Acquisition”) all of the issued and outstanding shares of the Company. As a result of the Acquisition, the Company became a wholly owned subsidiary of Saf-T-Hammer. The Parent paid $15 million (the “Purchase Price”) in exchange for all of the issued and outstanding shares of Smith & Wesson as follows:

- $5 million (See the “Loan”) of which was paid at closing
- $10 million must be paid on or before May 11, 2002 pursuant to the terms of an unsecured promissory note issued by the Parent to Tomkins (the “Acquisition Note”). The Acquisition Note accrues interest at a rate of 9% per year

The Purchase Price was the result of negotiations between the Parent and Tomkins.

Acquisition Note

Pursuant to the Acquisition Agreement, the Parent issued a promissory note in the amount of $10 million as partial consideration for the acquisition of the Company. This note is due on May 11, 2002, is unsecured but guaranteed by the Parent and bears interest at 9% per annum. In the event of default by the Parent, the interest rate would increase by an additional 2% per annum on the outstanding balance.

Tomkins Note

The Acquisition Agreement requires the Parent to guaranty the Company’s existing obligations to Tomkins under a promissory note issued on April 30, 1997 by the company to Tomkins (the “Tomkins Note”). The original Tomkins Note was in the amount of $73,830,000, due April 30, 2004 and bore interest at the rate of 9% per annum. Prior to the Acquisition, Tomkins contributed to the capital of the Company $23,830,000 of the Tomkins Note, thereafter leaving a balance of $50,000,000. Immediately subsequent to the Acquisition, the Company paid $20,000,000 of the Tomkins Note. The outstanding principal balance on the Tomkins Note is $30 million. In satisfaction of this condition, the Parent executed a guaranty in favor of Tomkins dated May 11, 2001. The terms of the Tomkins Note was amended as follows:

(a) Commencing on May 11, 2001, the new due date was extended by ten years to May 11, 2011.

(b) Unpaid principal balance shall be paid in 84 equal monthly payments commencing on May 11, 2004.

(c) Until paid in full, dividends declared and paid to the Parent shall not exceed $600,000 for the twelve-month period ended May 11, 2002, and not exceed $1,800,000 for annual periods thereafter.

(d) Until the payment of $10 million under the Acquisition Note owed by the Parent to Tomkins, the Company shall not, either directly or indirectly, incur, assume, guaranty, or otherwise become liable to any indebtedness, except in the ordinary course of business or to re-finance the unpaid balance of the Tomkins Note.

(e) The Company shall not liquidate, wind-up or dissolve any business assets, including tangible and intangible assets.

(f) In the event of default by the Parent on the Acquisition Note, or default by the Company on the Tomkins Note, the Tomkins Note shall be accelerated and become due and payable in full immediately.

The Loan

The initial payment of $5 million was obtained as a loan from an individual, pursuant to a Promissory Note & Loan Agreement dated May 6, 2001 between the Parent and this individual (the “Note”). Interest accrues on the Note at a rate of 12% per annum and matures on May 15, 2002. Pursuant to the terms of the Note, the Parent prepaid the annual interest of $600,000 on the latter of five business days after the consummation of the Acquisition or May 15, 2001. This prepayment was consented to by Tomkins.

The Note is secured by a pledge of all of the issued and outstanding stock of the Company, as evidenced by a Stock Pledge Agreement dated and effective as of May 11, 2001 between the Parent and the individual (the “Pledge Agreement”).

Item 2: ***Management's Discussion and Analysis or Plan of Operations***

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of Smith & Wesson Holding Corporations's results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and the notes thereto. Unless the context otherwise requires, the terms "Company," "we," "us" and "our" refer to Smith & Wesson Holding Corporation, Smith & Wesson Corp., and their subsidiaries combined, and the terms "holding company" and "parent company" refer to Smith & Wesson Holding Corporation while the references to "S&W" refer to Smith & Wesson Corp.

Forward Looking Statements

This report on Form 10-QSB/A contains "forward-looking statements" within the meaning of Sections 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and the Company intends that such forward-looking statements be subject to the safe harbors created thereby. The Company is hereby providing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in forward-looking statements of the Company herein. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions, future events or performances (often, but not always through the use of words or phrases such as "will result," "expects to," "will continue," "anticipates," "plans," "intends," "estimated," "projects," and "outlook") are not historical facts and may be forwarding-looking and, accordingly, such statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in the forward-looking statements. Such "forward-looking statements" are subject to risks and uncertainties set forth in the risk factors contained herein as well as in the Company's Form 10-KSB for the year ended April 30, 2003.

Critical Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Smith & Wesson Holding Corporation and its wholly owned subsidiaries — Smith & Wesson Corp., Smith & Wesson Firearms Training Center GmbH (Germany), Smith & Wesson Distributing, Inc., Smith & Wesson, Inc. and Lost Coast Ventures, Inc. (Inactive). All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting periods. Operating results in the future could vary from the amounts derived from management's estimates and assumptions. In addition, future facts and circumstances could alter management's estimates with respect to the adequacy of insurance reserves. The more significant estimates and assumptions used by management in the preparation of the financial statements relate to the reserves established for uncollectible accounts receivable, obsolete and slow moving inventory and certain accrued liabilities, including, but not limited to, product, environmental and warranty liabilities and workers compensation.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete and the risks and rewards of ownership have transferred to the customer, which is generally upon shipment.

The Company recognizes tooling, forging, heat treating, finishing, plating, and engineering support revenues after acceptance by the customer and only when no further contingencies or material performance obligations exist, when collectibility is reasonably assured and the Company has earned the right to receive and retain payments for services performed and billed.

The Company recognizes revenue from use of its registered trademarks and from licenses to use its Identi-Kit software. Software revenue is recognized over the subscription period.

Trademark licensing revenues are comprised of (i) initial fees that are collected upon the signing of, or upon meeting certain conditions in, the licensing agreement and (ii) minimum royalties and/or a percentage of a licensee's sales of licensed products that are collectible over a multi-year period.

The Company recognizes trademark licensing revenues for all individual licensees on a quarterly basis based on actual receipts due from licensees through the date of our financial statements. These revenues are comprised of minimum royalties and/or a percentage of a licensee's sales on licensed products. Under the Company's current licensing agreements, these revenues are payable on a calendar quarter basis. Fees received upon initial signing of license agreements are recognized as revenues to the extent of costs incurred. Due to a combination of uncertain factors regarding existing licensees and insufficient historical experience, the Company believes that reasonable assurance of collectibility does not exist based on the results and past payment performance of licensees in general.

Therefore, the Company does not initially recognize minimum royalty payments, but instead, records such revenue over the period the minimum royalty becomes due and payable. The Company also believes, due to the factors noted above, that an allowance for "uncollectible minimum royalties" cannot be reasonably estimated.

Product Liability

The Company provides reserves for potential product liability defense costs based on estimates determined in consultation with counsel. Adjustments to the provision for product liability are evaluated on an ongoing basis and are charged or credited to cost of sales. This evaluation is based upon information regarding potential or existing product liability cases. Any future costs as a result of this evaluation are recorded when considered both probable and reasonably estimable. At this time, the estimated range of reasonably possible additional losses, as that term is defined in SFAS No. 5, is zero.

Stock Options

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation". Under APB 25, compensation cost is recognized over the vesting period based on the excess, if any, on the date of grant of the fair value of the Company's shares over the employee's exercise price. When the exercise price of the employee share options is less than the fair value price of the underlying shares on the grant date, deferred stock compensation is recognized and amortized to expense in accordance with FASB Interpretation No. 28 over the vesting period of the individual options. Accordingly, if the exercise price of the Company's employee options equals or exceeds the market price of the underlying shares on the date of grant, no compensation expense is recognized. Options or shares awards issued to non-employees or non-employee directors are valued using the fair value method and expensed over the period services are provided.

Results of Operations

During the restatement of our financial statements for the fiscal year ended April 30, 2002, we determined net sales increased by approximately $2.8 million. The increase was due to reclassification of $1.6 million in promotional and freight expenses that were incorrectly netted against sales and should have been charged to operating expenses and cost of sales, respectively. In addition, a credit was incorrectly recorded for returned product in the amount of $1.2 million. Finally, there was approximately $110,000 in merchandise returned for which credits had not been recorded until fiscal year 2003 that should have been recorded in fiscal year 2002. These adjustments, along with others (See Item I — Restatement), impact our quarterly financial statements in both fiscal years 2003 and 2002. The impact of these adjustments that affect the three months ended January 31, 2003 and 2002 are discussed below.

Net Product Sales

Net product sales for the three months ended January 31, 2003 were $25,509,861 (restated) an increase of $3,516,645 or 16.0% as compared to net product sales of $21,993,216 (restated) for the same three months ended January 31, 2002. Net product sales for the nine months ended January 31, 2003 were $70,881,940 (restated) an increase of $15,864,088 or 28.8% as compared to net product sales of $55,017,852 (restated) for the same nine months ended January 31, 2002.

Net product sales for the three months and nine months ended January 31, 2003 increased by approximately $570,748 and $1,913,980, respectively, as a result of the restatement due to $570,748 and $1,803,334, respectively, in promotional and freight expenses that were incorrectly netted against sales and should have been charged to operating expenses and cost of sales, respectively. In addition, a credit was incorrectly issued for product that had been returned in the amount of $110,646. Net product sales for the three and nine months ended January 31, 2002 increased by approximately $387,181 and $2,257,066, respectively, as a result of the restatement. This increase was due to sales return recorded in error as well as a reclassification of promotional and freight expenses that were incorrectly netted against sales and should have been charged to operating expenses and cost of sales, respectively.

For the three and nine months ended January 31, 2003, firearms sales increased by $3.6 million, or 20.4%, and $13.3 million, or 30.4%, respectively, as domestic sales continued to recover from the effects of the boycott that had taken place in the year prior to acquisition. The Company began the exclusive distribution of Walther products in the United States in January 2002. Sales of Walther products were $3.2 million and $8.5 million, respectively, in the three and nine months ended January 31, 2003. The sales increase also resulted from aggressive promotional efforts at the dealer level aimed at re-establishing the Smith & Wesson band with many of the dealers that had discontinued carrying S&W product during the boycott period. Total units sold in the three and nine months ended January 31, 2003 increased approximately 32.6% and 45.3%, respectively, over the same periods ending January 31, 2002, or approximately 61,000 units as compared to 46,000 units and approximately 170,000 units as compared to 117,000 units, respectively.

Licensing Revenue

Licensing revenues for the three and nine months ended January 31, 2003 were $409,190 (restated) and $1,121,066, respectively, compared to licensing revenues of $326,940 (restated) and $965,446 for the same periods ended January 31, 2002. Substantially, all of the increase in licensing revenues growth is attributable to growth in royalties received from existing licensees.

Gross Profit

Gross profit for the three months ended January 31, 2003 was $7,016,777 (restated), representing an increase of $742,015 or 11.8% over the gross profit of $6,274,762 (restated) for the three months ended January 31, 2002. Gross profit for the nine months ended January 31, 2003 was $20,721,473 (restated), representing an increase of $9,958,990 or 92.5% over the gross profit of $10,762,483 (restated) for the nine months ended January 31, 2002. Gross profit as a percentage of net sales ("gross profit margin") for the three months ended January 31, 2003 was 27.1% (restated), compared to the gross profit margin of 28.1% (restated) for the same period ended January 31, 2002. Gross profit as a percentage of net sales ("gross profit margin") for the nine months ended January 31, 2003 was 28.8% (restated), compared to the gross profit margin of 19.2% (restated) for the same period ended January 31, 2002.

The increase in gross profit margin in the three and nine months ended January 31, 2003 was primarily the result of: (i) the increased sales volume as a result of promotional efforts targeted at the retail level, and (ii) increased production levels to meet the higher demand, without significant cost increases to the manufacturing cost structure. Management believes that increasing the presence of S&W products at the retail level will provide a significant opportunity to strengthen its position within the consumer market, continue revenue growth and allow for improved profit margins on firearm sales.

Research and Development

The Company incurred $191,270 (restated), net of expense reimbursement from the National Institute of Justice of approximately $203,059, of research and development costs during the three months ended January 31, 2003 as compared to net expenses of $128,641 (restated) during the same three month period ended January 31, 2002, representing an increase of 48.7%. The Company incurred $711,544 (restated), net of expense reimbursement from the National Institute of Justice of approximately $596,942, of research and development costs during the nine months ended January 31, 2003 as compared to net expenses of $418,261 (restated) during the same nine month period ended January 31, 2002, representing an increase of 70.1%. These costs relate to an ongoing effort by S&W to develop technology to introduce "authorized user only handguns."

Selling, General and Administrative Expenses

Total selling, general and administrative expenses (SG&A) for the three and nine months ended January 31, 2003 were $5,868,987 (restated) or 22.6% and $17,623,502 (restated) or 24.5%, respectively, of net product sales and licensing revenues compared to $3,891,471 (restated) or 17.4% and $12,587,445 (restated) or 22.5%, respectively, of net product sales and licensing revenues for the three and nine months ended January 31, 2002.

During the three months ended January 31, 2003, SG&A incurred by S&W was $5,091,263 (restated), or 86.7% of total SG&A and the Company's corporate SG&A was $777,724 (restated) or 13.3% of total SG&A. S&W SG&A includes, but is not limited to, selling and marketing employee remuneration of $0.8 million, advertising expense of $0.9 million, general and administrative employee remuneration of $1.1 million, and professional fees of $0.5 million**.** During the nine months ended January 31, 2003, SG&A

incurred by S&W was $15,555,102 (restated), or 88.3% of total SG&A and the Company's corporate SG&A was $2,068,400 (restated) or 11.7% of total SG&A. S&W SG&A includes, but is not limited to, selling and marketing employee remuneration of $2.5 million, advertising expense of $2.8 million, general and administrative employee remuneration of $3.1 million, and professional fees of $1.2 million. Corporate SG&A, for the three months ended January 31, 2003, increased $533,948 or 219.0% from the same three month period ended January 31, 2002. Corporate SG&A, for the nine months ended January 31, 2003, increased $1,040,049 or 101.1% from the same nine month period ended January 31, 2002. The changes in corporate SG&A are due primarily to increased staffing relative to the licensing and technology units of the business.

Environmental Expense

Environmental expense for the nine months ended January 31, 2002 was $2.5 million, all of which occurred in the first quarter of fiscal year 2002. (See Part I — Restatement — Product Liability and Environmental Expenses.) This additional expense, all of which was recorded during the first quarter of fiscal year 2002, is shown separately on the January 31, 2002 restated Consolidated Statement of Operations.

Other Income/Expense

Other income, exclusive of interest expense, for the three and nine month periods ended January 31, 2003 was $673,613 (restated) and $1,090,235 (restated), respectively, as compared to other income of $320,705 (restated) and $771,987, respectively, in the same periods ended January 31, 2002.

Interest Expense

Interest expense for the three and nine months ended January 31, 2003 was $899,250 and $2,696,144, respectively, as compared to $1,837,635 (restated) and $6,345,235 (restated), respectively, for the same periods in 2002. The decrease in interest expense is attributable to amortization of debt issue costs related to the $5.0 million of the acquisition financing. Also, in March of 2002, we refinanced $15.0 million in acquisition related short-term debt through a commercial bank loan at a rate of 5.85%. The short-term debt had been comprised of two notes: 1) a $5.0 million acquisition loan with an interest rate of 12.0% per annum, and 2) a $10.0 million one-year note payable to the seller with an interest rate of 9.0% per annum.

S&W also has a $30.0 million note payable to Tomkins, which also bears an interest rate of 9.0% per annum, and incurred interest expense amounting to approximately $675,000 and $2,025,000, respectively, during the three and nine month periods ended January 31, 2003. The remaining interest expense arose from the commercial bank loan, bank charges for letters of credit and a related party loan. The change in interest expense from the previously reported figure is due to adjustments to non-cash interest expense principally due to the lowest accretion of debt discount as a result of the restatement. (See Part I — Restatement — Melby Financing; Interest Expense and Compensation Expense Adjustments) During the three months ended January 31, 2002, we incurred $794,518 of interest expense for amortization of debt discount and debt issuance costs related to warrants

Income Before Income Taxes

Income before income taxes decreased $6,837 from $737,720 (restated) for the three months ended January 31, 2002 to $730,883 for the three months ended January 31, 2003. Income before income taxes increased $11,096,989 from a loss of $10,316,471 (restated) for the nine months ended January 31, 2002 to income of $780,518 (restated) for the nine months ended January 31, 2003.

Income Taxes

Income tax expense for the three and nine months ended January 31, 2003 was $12,338 and $37,013, respectively, as compared to $17,650 and $52,948 (restated) for the same three and nine month period ended January 31, 2002, respectively. This provision is a current provision to record state income taxes.

We currently have significant deferred tax assets resulting from net operating loss carryforwards and other deductible temporary differences, which will reduce taxable income in future periods. As of April 30, 2002, we had a federal and state valuation allowance established against our deferred tax assets equal to the amount deferred tax assets exceeded deferred tax liabilities of $13.4 million (restated) and $1.4 million (restated) respectively. For the three and nine month periods ended January 31, 2003 we have recorded valuation allowances to offset first, second and third quarter income tax benefits from operations to maintain a valuation allowance equal to the amount by which deferred tax assets exceed deferred tax liabilities.

SFAS No. 109, “Accounting for Income Taxes”, requires that deferred tax assets be reduced by a valuation allowance, if based on available evidence, it is more likely than not that the deferred tax assets will not be realized and that it is difficult to conclude that a valuation allowance is not needed when there is negative evidence such as cumulative losses in recent years. Therefore, cumulative losses weigh heavily in the overall assessment. Our cumulative losses in recent years represented sufficient negative evidence to require a valuation allowance. Therefore, we have maintained a full valuation allowance against deferred tax assets in excess of deferred tax liabilities as of January 31, 2003. We intend to maintain a valuation allowance until sufficient positive evidence exists to support its reversal. Reversing a valuation allowance could have a significant effect on our future results of operations and financial position.

Net Income/(Loss)

Net income for the three and nine months ended January 31, 2003 were $718,545 and $743,505, respectively, or basic net income per share of $0.02 and $0.03, and diluted net income per share of $0.02 and $0.02 respectively, compared to net income of $720,070 or basic net income per share of $.04 and diluted net income per share of $0.03 and a loss of $10,369,419 or basic and diluted net loss per share of $.54, respectively, for the same periods in 2002.

Liquidity and Capital Resources

The Company’s principal ongoing cash requirements are to finance the production of its manufactured products and to fund the following: develop advanced technology products, grow its trademark licensing program, develop its new catalog sales program and meet other working capital requirements. Growth of the licensing program and development of advanced technology products are a primary focus at the holding company level which had approximately $4.4 million of investment capital available to it as of January 31, 2003, for these initiatives as well as for its working capital requirements. Manufactured products and other areas of growth are financed by the operations and working capital of S&W.

The Company had cash, cash equivalents and short-term investments of approximately $35.1 million at January 31, 2003. Of this amount, approximately $22.2 million was held as collateral for the line of credit and long-term note with Banknorth, N.A. as described below. A majority of the cash and cash equivalents of the Company are held by S&W. The Company maintains its cash in money market and bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Smith & Wesson Holding Corporation’s use of cash held by S&W is subject to certain covenants and restrictions imposed by the terms of the S&W acquisition and its lenders. These restrictions include limitations on the use of cash, dividends paid to Smith & Wesson Holding Corporation by S&W and S&W’s ability to incur or guaranty indebtedness.

The Company utilized approximately $4.0 million (restated) of net cash in operating activities during the nine months ended January 31, 2003 compared to cash provided by operating activities of approximately $5.3 million (restated) during the nine months ended January 31, 2002. The decrease of net cash in operating activities during the nine months ended January 31, 2003 is due substantially to the $7.7 million received from Tomkins Corporation as part of the acquisition during the same period the previous year.

Net cash utilized by investing activities was approximately $4.4 million (restated) during the nine months ended January 31, 2003 compared to cash provided by investing activities of approximately $40.7 million (restated) during the nine months ended January 31, 2002. Substantially all of the cash for investing activities in the current period related to the acquisition of marketable securities and cash utilized to collateralize outstanding letters of credit and to purchase machinery and equipment.

Net cash used for financing activities was approximately $.3 million (restated) during the nine months ended January 31, 2003 compared to approximately $14.9 million (restated) during the nine months ended January 31, 2002. During the nine months ended January 31, 2003, a related party note of $357,425 was repaid.

In May 2001, the Company borrowed $5 million from Colton Melby in order to acquire S&W. The loan accrued interest at the rate of 12%. Mr. Melby received warrants to purchase 7,094,500 shares of common stock at $.40 per share and his brothers received warrants to purchase 375,000 shares each at $.80 per share. In March 2002, the loan was repaid and Mr. Melby fully exercised his warrants by using $2,837,800 of the proceeds to fully exercise his warrants and using $2,162,200 of the proceeds to purchase an additional 1,310,424 shares. Mr. Melby’s brothers exercised their warrants in May 2001. Pursuant to the loan agreement with the Company, Mr. Melby received pre-emptive rights with respect to the issuance of new shares of Company stock for a period of six years after repayment of the loan, except with respect to stock issued to employees, directors and consultants. The Company obtained a $15.0 million long-term loan from Banknorth in April 2002, which was used to repay short-term debt related to the S&W acquisition. This note accrues interest at a fixed rate of 5.85% per annum and has a 12-year term commencing on March 28, 2002. The note is amortized over a 10-year period, requires monthly interest-only payments until March 28, 2004, and monthly principal and interest payments of $165,403 thereafter for the life of the loan. The loan is fully collateralized by S&W's marketable securities, and/or cash. Of the proceeds from the Banknorth note, $5.0 million was used to repay in full the Melby Note.

The remaining $30.0 million debt relates to an existing obligation by S&W to Tomkins and was guaranteed by the Company as a part of the acquisition agreement. The note accrues interest at a fixed rate of 9.0% per annum and has a term of 10 years commencing on May 11, 2001. It is uncollateralized, may be prepaid in part or in whole at any time, and is amortized over a 10-year period. The note requires monthly interest-only payments until May 11, 2004, and monthly principal and interest payments of $482,672 thereafter for the life of the loan. Although the loan is uncollateralized, it does contain covenants restricting Smith & Wesson Holding Corporation use of S&W cash and other assets, limits the amount of dividends that may be paid to Smith & Wesson Holding Corporation by S&W to $1.8 million per year (other than for the year ended April 30, 2002), and requires immediate repayment if there is a change in ownership of S&W or a change in control of Smith & Wesson Holding Corporation. In April 2003 and July 2003, Smith & Wesson Holding Corporation made early repayments of $2 million and $1 million, respectively, to Tomkins to bring the principal balance down from $30.0 million to $27.0 million.

As of January 31, 2003, the Company had open letters of credit aggregating approximately $5.9 million.

We believe that our existing sources of liquidity combined with cash generated from our current licensing revenues and dividends received from S&W will be sufficient to meet our anticipated cash requirements needed to manage our advanced technology operations and our licensing program, as well as satisfy operating expense requirements for at least the next 12 months. Beyond this time period, growth plans and related operating expenses at the holding company level may require revenue generation from advanced technology products or other sources or revenue growth from the licensing subsidiary to meet its anticipated future expenses and debt service requirements. In order to meet these potential future needs, the Company may be required to seek additional equity or debt financing and/or debt refinancing. The timing and amount of any such financing requirements will depend on a number of factors, including demand for our products, changes in industry conditions, new product acceptance and competitive factors. There can be no assurance that such financing will be available on acceptable terms if required, and any additional equity financing would result in incremental ownership dilution to our existing shareholders. Based upon its cash position at fiscal year end and its financial projections for the upcoming year, S&W believes that it has adequate sources of liquidity to meet debt obligations, pay the annual dividend to the parent, and finance operational and capital requirements for at least the next 12 months.

Various legal actions, proceedings and claims have been instituted against the Company's subsidiary, S&W. (For further discussion of litigation and legal proceedings pending against the Company and its subsidiary, see Part II — Item 1 — Legal Proceedings; and Note 7 to the Consolidated Financial Statements for Smith & Wesson Holding Corporation and Subsidiaries.) Management believes that, in every case, the allegations are unfounded, defenses exist, and that there should be no recovery against S&W. Legislation has been passed in approximately 30 states precluding suits of the type brought by municipalities. Some of these laws are effective retroactively while others are not.

The Company's management reviews every lawsuit and claim at the outset and is in contact with its special litigation counsel on an ongoing basis. The provision for product liability claims is based upon many factors, which vary for each case. These factors include the type of claim, nature and extent of injuries, historical settlement ranges, jurisdiction where filed, and advice of counsel. An accrual is established for each lawsuit and claim, when appropriate, based on the nature of each such lawsuit or claim. If at such time management determines that a claim is reasonably possible and the amount of such claim estimable, an accrual is made. Although reserves have been established for estimable legal defense costs, management believes that the cases are without merit and as such has not provided reserves for settlements or judgments.

Amounts are charged to product liability expense in the period in which the Company becomes aware that a claim or, in some instances a threat of claim, has been made when potential losses or costs of defense can be reasonably estimated. Such amounts are determined based on the Company's experience in defending similar claims. On a quarterly basis the cases are reviewed with outside counsel, and if necessary, reserves are adjusted accordingly based upon individual case developments. During the three months ended January 31, 2003 and January 31, 2002, the Company incurred product liability expense of approximately ($82,000) and $698,000, respectively. During the nine months ended January 31, 2003 and January 31, 2002, the Company incurred product liability expense of approximately ($9,000) and $1,708,000, respectively.

Since it is not possible to forecast the outcome of litigation or the timing of costs, in the opinion of management, after consultation with its litigation counsel, it is uncertain whether any ongoing litigation, including punitive damage claims, will have a material adverse effect on the financial position of the Company or a material impact on the Company's financial results for a particular period.

The Company is subject to numerous federal, state and local laws, which regulate or otherwise relate to the protection of the environment. The Company may be required to remove hazardous waste or remediate the alleged effects of hazardous substances on the environment associated with past operations or disposal practices. As of January 31, 2003, the Company has reserves of approximately $4.0 million for environmental matters. The amount of the Company's liabilities for remedial environmental activities are very difficult to estimate due to such factors as currently available facts, remediation technology, enacted laws or regulations and the unknown extent of the remedial actions that may be required.

The Company has identified environmental issues on the property at the Springfield, Massachusetts facility. The Company has a voluntary remediation project underway as part of the Massachusetts Contingency Plan (MCP). The Company has established reserves to cover the cost of this remediation project and believes these reserves to be adequate.

The Company also has a potential environmental issue at its ranges at the training facility in Springfield, Massachusetts. This site may require remediation if the Company were to decide to cease using this facility as a shooting range. The Company has no plans to discontinue use of its training facility.

Risk Factors

In addition to the other information contained in this quarterly report, the reader should carefully read and consider the following risk factors. If any of these risks actually occur, our business, financial condition or operating results could be adversely affected and the trading price of our common stock could decline.

- We are under investigation by the SEC to determine whether there have been violations of the federal securities laws in connection with matters relating to the restatement of our consolidated financial statements for fiscal year 2002. While we have fully cooperated with the SEC and intend to continue to do so, we cannot predict what the outcome of the investigation will be or when it will be completed. If the SEC determines that we have violated federal securities laws, we may face sanctions, including, but not limited to, significant monetary penalties and injunctive relief.

- Our management has spent considerable time and effort dealing with internal and external investigations of our controls and procedures, and this diversion of management's time may adversely affect our business and our results of operations.

- We have made, and continue to make, changes to our internal controls, our disclosure controls and procedures, our internal control over financial reporting and our corporate governance policies and procedures. Any design, operating maintenance or evaluation failure or circumvention of these controls and procedures could seriously harm our business.

- If we fail to satisfy our plan for our return to compliance with the American Stock Exchange's continued listing standards, our stock will likely be delisted. If our stock is delisted, our stock could become more difficult to trade and our ability to raise funds in the capital markets may be impaired, which could have a material adverse effect on our business.

- We are incurring significant legal and accounting costs relating to the restatement of our financial statements for the fiscal year ended April 30, 2002, the SEC investigation and recently approved severance arrangements with former officers that will directly affect our operating profit and will likely lead to a net loss for the third quarter of fiscal year 2004.

- We are subject to sales cycles driven by national events (such as 9/11/2001) which can cause dramatic increases or decreases in demand for our products and we have no ability to predict or control those cycles.

- We are defending many lawsuits brought by various cities and counties arising out of the design, manufacture, marketing and distribution of our handguns. While we are vigorously defending these lawsuits and believe they are without merit and further believe our insurance is adequate in light of judgments entered against the industry to date, there is no assurance that a jury may not render a judgment against us in excess of insurance coverage limits.

- If forced to comply with a settlement with HUD restricting our design, manufacturing, marketing and distribution of firearm products, we could be substantially impaired from competing with manufacturers who sell competing products. We believe the HUD Settlement is not legally binding, and have received confirmation that the HUD Settlement will not be enforced, but can provide no assurance that a court would not rule otherwise, as the HUD Settlement has not been formally rescinded.

- We have substantial repayment obligations related to the purchase of our wholly-owned subsidiary, Smith & Wesson Corp. for which we are developing a viable sales model to generate sufficient cash flow to make the payments required. Various covenants prohibit us from making payments directly from our subsidiary, Smith & Wesson Corp. We must begin to repay the principal on one of our loans in April 2004.

- We are expanding our technology, licensing and catalog operations. All of these areas are highly competitive and subject to changes in demand.

- Our two significant notes contain covenants and the preemptive rights held by Colt Melby could limit our discretion with respect to various business matters.

- Cost of insurance for all firearms manufacturers continue to increase and we have been impacted by those increases.

- We continue our efforts to overcome adverse publicity from past settlement agreements.

- Some of our competitors' cost structures may be more advantageous than ours.

- We operate in a highly regulated business at the international, national, state and local levels and there is no assurance that regulation may not increase having a material adverse effect on our business, including not only regulation related to firearm production itself but also related to environmental laws in a manufacturing context in general.

- We are currently engaged in remedial investigation and cleanup activities at certain sites and cannot be sure that we have identified all existing contamination or will not cause contamination in the future, making our reserves of approximately $4.0 million inadequate.

- We depend on outside suppliers and vendors for our raw materials and other supplies.

- Demand for our products is subject to the popularity of our product line, acceptance of new product designs, ongoing quality control and adequate supply of Walther products from our German supplier.

- We are exposed to currency risk from foreign exchange rate fluctuations in connection with inventory we purchase from a European supplier. If the U.S. dollar continues to weaken and our hedging arrangements do not provide adequate protection, we could experience additional expenses on inventory we purchase annually from the European supplier.

PART II: OTHER INFORMATION

Item 6. ***Exhibits and Reports on Form 8-K***

(a) Exhibits:

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

(b) Reports on Form 8-K:

None

SIGNATURES

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

SMITH & WESSON HOLDING CORPORATION,
a Nevada corporation

By: /s/ ROY C. CUNY
Roy C. Cuny,
Chief Executive Officer and Chairman of the Board

Dated: March 16, 2004

Index to Exhibits

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

Exhibit 31.1

CERTIFICATION

I, Roy C. Cuny, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB/A 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 small business issuer as of, and for, the periods presented in this report;

4. The small business issuer'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)) for the small business issuer 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 small business issuer, 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) Evaluated the effectiveness of the small business issuer'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

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

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

By: /s/ ROY C. CUNY

Roy C. Cuny

Chief Executive Officer

Date: March 16, 2004

Exhibit 31.2

CERTIFICATION

I, John A. Kelly, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB/A 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 small business issuer as of, and for, the periods presented in this report;

4. The small business issuer’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)) for the small business issuer 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 small business issuer, 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) Evaluated the effectiveness of the small business issuer’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

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

5. The small business issuer’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer’s auditors and the audit committee of the small business issuer’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 small business issuer’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 small business issuer’s internal control over financial reporting.

By: /s/ JOHN A. KELLY

John A. Kelly
Chief Financial Officer

Date: March 16, 2004

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. (s) 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Smith & Wesson Holding Corporation (the “Company”) hereby certifies, that:

(i) the accompanying Quarterly Report on Form 10-QSB/A of the Company for the fiscal quarter ended January 31, 2003 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

/s/ ROY C. CUNY

Roy C. Cuny
Chief Executive Officer

Dated: March 16, 2004

Exhibit 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. (s) 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Smith & Wesson Holding Corporation (the "Company") hereby certifies, that:

(i) the accompanying Quarterly Report on Form 10-QSB/A of the Company for the fiscal quarter ended January 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

/s/ JOHN A. KELLY

John A. Kelly
Chief Financial Officer

March 16, 2004