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

Form 10-Q

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

For the quarterly period ended July 31, 2008

Commission File No. 001-31552

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

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

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

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

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

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

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

The registrant had 47,060,345 shares of common stock, par value $0.001, outstanding as of September 1, 2008.

SMITH & WESSON HOLDING CORPORATION
Quarterly Report on Form 10-Q
For the Three Months Ended July 31, 2008
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PART I: FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	July 31, 2008 (Unaudited)	April 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,365,242	$ 4,358,856
Accounts receivable, net of allowance for doubtful accounts of $547,146 on July 31, 2008 and $196,949 on April 30, 2008	60,877,115	54,162,936
Inventories, net of excess and obsolescence reserve	52,643,002	47,159,978
Other current assets	7,962,128	4,724,973
Deferred income taxes	9,947,234	9,947,234
Income tax receivable	695,972	1,817,509
Total current assets	133,490,693	122,171,486
Property, plant and equipment, net	49,532,978	50,642,953
Intangibles, net	64,434,794	65,500,742
Goodwill	41,173,416	41,173,416
Other assets	9,594,116	10,261,975
	$298,225,997	$289,750,572
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15,831,108	$ 21,995,705
Accrued expenses	12,002,905	16,610,504
Accrued payroll	5,488,522	5,046,446
Accrued taxes other than income	2,214,742	1,747,235
Accrued profit sharing	5,520,485	4,035,522
Accrued workers' compensation	460,361	422,686
Accrued product liability	2,904,773	2,767,024
Accrued warranty	1,756,057	1,691,742
Deferred revenue	715,482	212,552
Current portion of notes payable	23,005,442	8,919,640
Total current liabilities	69,899,877	63,449,056
Deferred income taxes	20,216,239	20,216,239
Notes payable, net of current portion	85,405,134	118,773,987
Other non-current liabilities	9,555,873	9,460,761
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, $.001 par value, 20,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $.001 par value, 100,000,000 shares authorized, 48,258,678 shares issued and 47,058,678 shares outstanding on July 31, 2008 and 41,832,039 shares issued and 40,632,039 shares outstanding on April 30, 2008	48,258	41,831
Additional paid-in capital	87,165,964	54,127,721
Retained earnings	32,258,001	30,004,326
Accumulated other comprehensive income	72,651	72,651
Treasury stock, at cost (1,200,000 common shares)	(6,396,000)	(6,396,000)
Total stockholders' equity	113,148,874	77,850,529
	$298,225,997	$289,750,572

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

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Three Months Ended:	
	July 31, 2008	July 31, 2007
Net product and services sales	$78,032,931	$74,411,708
License revenue	446,588	429,840
Cost of products and services sold	53,103,443	47,632,762
Gross profit	25,376,076	27,208,786
Operating expenses:		
Research and development	774,963	412,537
Selling and marketing	7,703,206	6,650,446
General and administrative	10,649,021	10,336,871
Total operating expenses	19,127,190	17,399,854
Income from operations	6,248,886	9,808,932
Other income/(expense):		
Other expense	(640,352)	(37,166)
Interest income	58,174	20,692
Interest expense	(2,051,278)	(2,233,969)
Total other expense, net	(2,633,456)	(2,250,443)
Income before income taxes	3,615,430	7,558,489
Income tax expense	1,361,755	2,867,998
Net income/comprehensive income	$ 2,253,675	$ 4,690,491
Weighted average number of common and common equivalent shares outstanding, basic	45,462,424	39,954,492
Net income per share, basic	$ 0.05	$ 0.12
Weighted average number of common and common equivalent shares outstanding, diluted (Note 12)	46,595,236	48,056,811
Net income per share, diluted (Note 12)	$ 0.05	$ 0.11

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

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three Months Ended July 31, 2008

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance at April 30, 2008	41,832,039	$ 41,831	$54,127,721	$30,004,326	$ 72,651	$(6,396,000)	$ 77,850,529
Issuance of common stock in connection with an equity offering, net of costs of $2,312,468	6,250,000	6,250	32,056,282				32,062,532
Exercise of employee stock options	18,000	18	38,287				38,305
Disgorgement of profit			3,071				3,071
Stock-based compensation			1,116,315				1,116,315
Book deduction of stock-based compensation in excess of tax deductions			(175,553)				(175,553)
Net income				2,253,675			2,253,675
Issuance of common stock under restricted stock unit awards	158,639	159	(159)				—
Balance at July 31, 2008	48,258,678	$ 48,258	$87,165,964	$32,258,001	$ 72,651	$(6,396,000)	$113,148,874

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

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

	For the Three Months Ended	
	July 31, 2008	July 31, 2007
Cash flows from operating activities:		
Net income	$ 2,253,675	$ 4,690,491
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation	4,033,617	2,934,241
Loss (gain) on sale of assets	(27,533)	327
Provision for losses on accounts receivable	368,673	51,492
Stock-based compensation expense	1,116,315	857,215
Changes in operating assets and liabilities:		
Accounts receivable	(7,082,852)	(171,078)
Inventories	(5,483,024)	(9,217,249)
Other current assets	(3,237,155)	(3,780,148)
Income tax receivable	1,121,537	1,732,892
Accounts payable	(6,164,597)	(2,829,120)
Accrued payroll	442,076	(780,014)
Accrued profit sharing	1,484,963	(3,437,280)
Accrued taxes other than income	467,507	(1,031,018)
Accrued other expenses	(4,607,599)	1,674,896
Accrued workers' compensation	37,675	(2,722)
Accrued product liability	137,749	(585,000)
Accrued warranty	64,315	112,270
Other assets	(47,390)	(623,203)
Other non-current liabilities	95,112	672,143
Deferred revenue	502,930	(5,218)
Net cash provided by operating activities	(14,524,006)	(9,736,083)
Cash flows from investing activities:		
Payments to acquire patents	(16,844)	(11,050)
Proceeds from sale of property and equipment	27,593	3,650
Payments to acquire property and equipment	(1,109,994)	(6,116,462)
Net cash used for investing activities	(1,099,245)	(6,123,862)
Cash flows from financing activities:		
Proceeds from loans and notes payable	14,697,821	7,815,455
Net borrowings under line of credit agreements	—	7,133,265
Debt issue costs — bank debt	(15,667)	(37,620)
Proceeds from issuance of common stock, net of issuance costs	32,062,532	—
Proceeds from disgorgement of profit	3,071	—
Proceeds from exercise of options to acquire common stock including employee stock purchase plan	38,305	471,249
Excess tax (book) deduction of stock-based compensation	(175,553)	933,158
Payments on loans and notes payable	(33,980,872)	(3,512,511)
Net cash provided by financing activities	12,629,637	12,802,996
Net decrease in cash and cash equivalents	(2,993,614)	(3,056,949)
Cash and cash equivalents, beginning of period	4,358,856	4,065,328
Cash and cash equivalents, end of period	$ 1,365,242	$ 1,008,379
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	$ 2,224,741	$ 2,417,003
Income taxes	409,535	286,821

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

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended July 31, 2008 and 2007

(1) Basis of Presentation:

The consolidated balance sheet as of July 31, 2008, the consolidated statements of income for the three months ended July 31, 2008 and 2007, the consolidated statement of changes in stockholders' equity for the three months ended July 31, 2008, and the consolidated statements of cash flows for the three months ended July 31, 2008 and 2007 have been prepared by us, without audit. The quarter end for our wholly owned subsidiaries, Smith & Wesson Corp. and Thompson Center Holding Corporation, was August 2, 2008, a two-day variance to our reported fiscal quarter end of July 31, 2008. This variance did not create any material difference in the financial statements as presented. In our opinion, all adjustments, which include only normal recurring adjustments necessary to fairly present the financial position, results of operations, changes in stockholders' equity, and cash flows at July 31, 2008 and for the periods presented have been included. All significant intercompany transactions have been eliminated. The balance sheet as of April 30, 2008 has been derived from our audited financial statements.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our company's Annual Report on Form 10-K for the year ended April 30, 2008. The results of operations for the three months ended July 31, 2008 may not be indicative of the results that may be expected for the year ended April 30, 2009 or any other period.

Reclassification

Certain amounts presented in the prior periods' consolidated financial statements related to inventory have been reclassified to conform to the current periods' presentation.

(2) Organization:

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

We are one of the world's leading manufacturers of firearms. We manufacture a wide array of revolvers, pistols, tactical rifles, hunting rifles, black powder firearms, handcuffs, and firearm-related products and accessories for sale to a wide variety of customers, including gun enthusiasts, collectors, hunters, sportsmen, competitive shooters, protection focused individuals, law enforcement agencies and officers, and military agencies in the United States and throughout the world.

On May 11, 2001, we purchased all of the outstanding stock of Smith & Wesson Corp. from U.K.-based Tomkins. Smith & Wesson Corp. and its predecessors have been in business since 1852.

On January 3, 2007, we purchased all of the outstanding stock of Thompson Center Holding Corporation (formerly Bear Lake Acquisition Corp.). This acquisition has been accounted for under the purchase method of accounting and, accordingly, the results of operations from the acquired business have been included in our consolidated financial statements since the acquisition date.

(3) Significant Accounting Policies

Revenue Recognition — We recognize revenue when the following four basic criteria have been met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been provided; (3) the fee is fixed or determinable; and (4) collection is reasonably assured. We report revenues net of shipping costs and revenue-based taxes, including sales, use, and federal excise taxes, where applicable.

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

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

Use of Estimates — The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial statement dates and the reported amounts of revenues and expenses during the reporting periods. Our significant estimates include allowances for bad debts, discounts and returns on sales; excess and obsolete inventory, the valuation of goodwill, other intangible assets, and tangible long-lived assets; estimates used in accounting for acquisitions; assumptions used involving share-based payment instruments; and accruals for tax liabilities, warranty, product liability, workers' compensation, deferred compensation, environmental liability, and medical claims payable. Actual results could differ from those estimates.

Accounting for Acquisitions — In accordance with the purchase method of accounting, we determine and record the fair values of assets acquired and liabilities assumed as of the date of the acquisition. We utilize an independent valuation specialist to determine the fair values of identifiable intangible assets acquired in order to determine the portion of the purchase price allocable to these assets.

We allocate costs to acquire the business, including transaction costs, to the fair value of net assets acquired. We record as goodwill any excess of the purchase price over the estimated fair value of the net assets acquired.

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

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

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

In accordance with Statement of Financial Accounting Standards (“SFAS”) 142, “Goodwill and Other Intangible Assets,” we test goodwill and intangible assets with indefinite lives for impairment on an annual basis as of the end of the third fiscal quarter and between annual tests if indicators of potential impairment exist. The impairment test compares the fair value of the reporting unit to its carrying amount, including goodwill and intangible assets with indefinite lives, to assess whether impairment is present. We have reviewed the provisions of SFAS 142 with respect to the criteria necessary to evaluate the number of reporting units that exist. Based on our review, we have determined that we operate in one reporting unit. Based on this assessment, we have not had any impairment charges during our history as a result of our impairment evaluation of goodwill and other indefinite-lived intangible assets under SFAS 142.

In accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” we periodically review long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of those assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded carrying value for the asset. If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis. Based on this assessment, we have not had any impairment charges during our history as a result of our review of long-lived assets under SFAS 144.

Significant judgments and estimates are involved in determining the useful lives of our long-lived assets, determining what reporting units exist, and assessing when events or circumstances would require an interim impairment analysis of goodwill or other long-lived assets to be performed. Changes in our organization or our management reporting structure, as well as other events and circumstances, including but not limited to technological advances, increased competition, and changing economic or market conditions, could result in (a) shorter estimated useful lives, (b) additional reporting units, which may require alternative methods of estimating fair values or greater disaggregation or aggregation in our analysis by reporting unit, and/or (c) other changes in previous assumptions or estimates. In turn, this could have a significant impact on our consolidated financial statements through accelerated amortization and/or impairment charges.

We have reviewed the provisions of SFAS 142 with respect to the criteria necessary to evaluate the number of reporting units that exist. Based on our review, we have determined that we operate in one reporting unit.

(4) Notes Payable:

Credit Facility — Pursuant to a credit agreement, dated November 30, 2007 (the “Loan Agreement”), we, as guarantor, along with certain of our direct and indirect subsidiaries, including Smith and Wesson Corp. (“SWC”) and Thompson Center Arms Company, Inc. (“TCA”), as borrowers, refinanced our existing credit facilities with Toronto Dominion (Texas) LLC (the “Lender”) to, among other things, increase our acquisition line of credit to $70 million and consolidate and increase our revolving lines of credit to $40 million. In May 2008, we utilized proceeds from our stock offering to repay the $28.0 million outstanding balance on the acquisition loan and terminated the acquisition loan. We incurred a $485,000 non-cash charge associated with the write-off of unamortized debt acquisition costs as a result of our decision to terminate the loan.

The credit facility now includes the following:

(1) A revolving line of credit of up to a maximum amount of the lesser of (a) $40 million, or (b) the sum of (i) 80% of the net amount of SWC’s and TCA’s eligible accounts receivable (as defined in the Loan Agreement), plus (ii) the lesser of (A) $12 million or (B) 60% of SWC’s and TCA’s eligible inventory (as defined in the Loan Agreement), which line of credit will be available until

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November 30, 2012 for working capital needs. The amended revolving line of credit bears interest at LIBOR or a variable rate equal to prime, at our election. As of July 31, 2008, there was $40.0 million available for borrowings, of which there was $17.8 million outstanding, bearing an interest rate of 5.50% per annum.

(2) A 49-month, $7.8 million term loan, bearing interest at a rate of 6.23% per annum, of which $6.7 million was outstanding as of July 31, 2008. The monthly payment is $178,647, with the final payment due January 30, 2012.

(3) An 85-month, $5.5 million term loan, which bears interest at a rate of 6.85% per annum, of which $1.0 million was outstanding as of July 31, 2008. The monthly payment is $45,527 through May 31, 2010. In June 2008, we made a $4,367,000 payment against this loan, funded partially with proceeds of our stock offering and the rest with cash from operations.

As security for the credit facility, the Lender has a first priority lien on all of our personal property and real estate assets, including intangible assets constituting intellectual property, such as the “Smith & Wesson” trade name.

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

The Loan Agreement contains various covenants, including certain financial covenants, all of which were met as of July 31, 2008.

Convertible Debt — On December 15, 2006, we issued an aggregate of $80.0 million of senior convertible notes (the “Notes”) maturing on December 15, 2026 to qualified institutional buyers pursuant to the terms and conditions of a securities purchase agreement and indenture. We used the net proceeds from the Notes, together with $28.0 million from our commercial debt, to fund our acquisition of Bear Lake Acquisition Corp. and its subsidiaries, including Thompson/Center Arms.

The Notes bear interest at a rate of 4% per annum payable on June 15 and December 15 of each year. We were required to pay additional interest on the Notes if we defaulted on certain of our obligations under the registration rights agreement covering the resale of the Notes and the common stock issuable upon conversion of the Notes. The registration rights agreement required that the Securities and Exchange Commission declare the registration statement effective by June 14, 2007. As the registration did not become effective until June 26, 2007, additional interest of approximately $260,000 accrued on the Notes.

The Notes are convertible into shares of our common stock, initially at a conversion rate of 81.0636 shares per $1,000 principal amount of Notes, or a total of 6,485,084 shares, which is equivalent to an initial conversion price of $12.336 per share. The Notes may be converted at any time. From December 15, 2009 until December 15, 2011, we may redeem all or a portion of the Notes only if the closing price of our common stock exceeds 150% of the then applicable conversion price of the Notes for no fewer than 20 trading days in any period of 30 consecutive trading days. After December 15, 2011, we may redeem all or a portion of the Notes. Noteholders may require us to repurchase all or part of their Notes on December 15, 2011, December 15, 2016, or December 15, 2021 and in the event of a fundamental change in our company, as defined in the indenture covering the Notes.

The Notes are our general unsecured obligations, ranking senior in right of payment to our subordinated indebtedness and ranking pari passu with all other unsecured and unsubordinated indebtedness. Until such time that the closing price of our common stock exceeds 200% of the then applicable conversion price of the Notes for at least 30 trading days in any period of 40 consecutive trading days, we agreed not to incur any additional indebtedness in excess of the greater of (1) $62,000,000 available under our existing credit facility with our senior lender, and (2) three times LTM EBITDA (as defined in the indenture covering the Notes) at the time such additional debt is incurred and including any amounts outstanding under our credit facility.

We evaluated the conversion features of the Notes under the provisions of Emerging Issues Task Force (“EITF”) 98-5, “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios” and EITF 00-27, “Application of Issue No. 98-5 to Certain Convertible Instruments” and determined no beneficial conversion feature existed. We have analyzed the provisions of the Notes under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and EITF 00-19, “Accounting for Derivative Financial Instruments Index to, and Potentially Settled in, a Company’s Own Stock,” and have determined that there are no features of the instruments requiring bifurcation.

(5) Inventory:

The following sets forth a summary of inventories, stated at the lower of cost or market as of July 31, 2008 and April 30, 2008:

	July 31, 2008	April 30, 2008
Finished goods	$26,179,946	$22,312,827
Finished parts	12,660,573	12,715,609
Work in process	7,679,059	6,979,072
Raw material	6,123,424	5,152,470
	$52,643,002	$47,159,978

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
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(6) Intangible Assets

Intangible assets consisted of the following as of July 31, 2008 and April 30, 2008:

	July 31, 2008	April 30, 2008
Developed technology	$ 7,800,000	$ 7,800,000
Customer relationships	46,400,000	46,400,000
Patents, trademarks & tradenames	16,638,595	16,621,752
Backlog	600,000	600,000
	71,438,595	71,421,752
Less: Accumulated amortization	(7,003,801)	(5,921,010)
Total intangible assets	$64,434,794	$65,500,742

(7) Accrued Expenses:

Accrued expenses consisted of the following as of July 31, 2008 and April 30, 2008:

	July 31, 2008	April 30, 2008
Accrued rebates and promotions	$ 894,851	$ 4,092,523
Accrued professional fees	1,152,371	1,624,500
Accrued audit liability	859,514	859,514
Accrued employee benefits	2,974,532	2,618,973
Accrued distributor incentives	1,847,518	2,443,882
Accrued environmental	48,957	67,533
Interest payable	406,538	1,687,608
Accrued utilities	475,307	350,393
Accrued other	3,343,317	2,865,578
	$12,002,905	$16,610,504

(8) Advertising Costs:

We expense advertising costs, primarily consisting of magazine advertisements and printed materials, as incurred. For the three months ended July 31, 2008 and 2007, advertising expense was approximately $3,859,000 and $2,935,000, respectively.

(9) Warranty Reserve:

We generally provide a lifetime warranty to the "original" purchaser of our firearms products. We provide for estimated warranty obligations in the period in which we recognize the related revenue. We quantify and record an estimate for warranty-related costs based on our actual historical claims experience and current repair costs. We make adjustments to accruals as warranty claim data, and historical experience warrant. Should we experience actual claims and repair costs that are higher than the estimated claims and repair costs used to calculate the provision, our operating results for the period or periods in which such additional costs materialize would be adversely impacted. Warranty expense for the three months ended July 31, 2008 and 2007 was $522,763 and $562,354, respectively.

The following sets forth the change in accrued warranties, a portion of which is recorded as a non-current liability, in the quarters ended July 31, 2008 and 2007:

	Three Months Ended	
	July 31, 2008	July 31, 2007
Beginning Balance	$1,923,433	$1,809,380
Warranties issued and adjustments to provisions	522,763	562,354
Warranty claims	(451,355)	(454,288)
Ending Balance	$1,994,841	$1,917,446

(10) Self-Insurance Reserves:

As of July 31, 2008 and April 30, 2007, we had reserves for workers' compensation, product liability, and medical/dental costs totaling $11,740,546 and $11,452,185, respectively, of which $6,926,499 and $6,866,603, respectively, has been classified as non-current and included in other non-current liabilities, and the remaining amounts of $4,949,088 and $4,720,623, respectively, have been included in current liabilities on the accompanying consolidated balance sheets. In addition, $135,041 of excess workers' compensation receivable has been classified as an other asset. While we believe these reserves to be adequate, there exists a possibility that the ultimate liabilities will exceed such estimates. Amounts charged to expense were $3,295,768 and $2,402,919 for the three months ended July 31, 2008 and 2007, respectively.

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It is our policy to provide an estimate for loss as a result of expected adverse findings or legal settlements when we believe such losses are probable and are reasonably estimable. It is also our policy to accrue for reasonably estimable legal costs associated with defending such litigation. While such estimates involve a range of possible costs, we determine, in consultation with litigation counsel, the most likely cost within such range on a case-by-case basis. At July 31, 2008 and April 30, 2008, we had product liability and municipal litigation reserves of $8,891,443 and $8,617,122, respectively, consisting entirely of estimated legal defense costs, of which $5,986,671 and $5,850,098, respectively, has been included in other non-current liabilities, and the remaining amounts of $2,904,773 and $2,767,024, respectively, have been included in current liabilities on the accompanying consolidated balance sheets. In addition, at July 31, 2008 and April 30, 2008, we had recorded receivables from insurance carriers related to these liabilities of $4,740,932 and $4,664,629, respectively, of which $4,574,629 has been classified as other assets for both periods and the remaining $166,304 and $90,000, respectively, has been classified as other current assets.

(11) Commitments and Contingencies:

Litigation

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

We, our Chairman of the Board, our Chief Executive Officer, and our former Chief Financial Officer were named in three similar purported securities class action lawsuits. The complaints in these actions, which have been consolidated into one action, were brought individually and on behalf of all persons who purchased securities of our company between June 15, 2007 and December 6, 2007. The plaintiffs seek unspecified damages for alleged violations of Section 10(b) and Section 20(a) of the Exchange Act. We have filed a Motion to Dismiss the litigation.

We are also involved in two purported stockholder derivative lawsuits in the Superior Court for the Commonwealth of Massachusetts, which have been consolidated, and another purported derivative action brought in the U.S. District Court for the District of Nevada, which has been stayed pending the Massachusetts action. Each of the actions was brought by plaintiffs on behalf of our company against certain of our officers and directors. The complaints seek to assert state law claims, including alleged breach of fiduciary duties, waste of corporate assets, and unjust enrichment arising from our earnings guidance in June 2007 and September 2007, our reduction of earnings guidance in October 2007 and December 2007, our decision in January 2008 to suspend further guidance and not confirm prior guidance until certain market conditions settled, and certain sales of our stock. The putative plaintiffs seek unspecified damages on behalf of our company from the individual defendants. We have filed a Motion to Dismiss the litigation.

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

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

At this time, an estimated range of reasonably possible additional losses, as that term is defined in SFAS No. 5, "Loss Contingencies," relating to unfavorable outcomes cannot be made.

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

On October 26, 2005, President George W. Bush signed into law the Protection of Lawful Commerce in Arms Act (the “PLCAA”). The legislation is designed to prohibit civil liability actions from being brought or continued against manufacturers, distributors, dealers, or importers of firearms or ammunition for damages, injunctions, or other relief resulting from the misuse of their products by others. The legislation, by its terms, would result in the dismissal of the various cases against us and preclude similar cases in the future. The legislation does not preclude traditional product liability actions. There have been constitutional and other challenges to the legislation in some of the pending cases. Those challenges have led to conflicting decisions as to the constitutionality or applicability of the legislation. We cannot predict whether judges in existing proceedings will dismiss cases currently pending before them. No adjustments to municipal litigation reserves have been made as a result of the passage of this law.

NEW CASES

No new cases of a material nature were filed against us during the three months ended July 31, 2008.

CASES ON APPEAL

The rulings in the following cases are subject to certain pending appeals:

City of New York, et al. v. Arms Technology, Inc., et al., in the United States District Court for the Eastern District of New York. The complaint alleges that the defendants have created, contributed to, and maintained a public nuisance in the city of New York because of their allegedly negligent marketing and distribution practices. Plaintiff seeks injunctive relief. Defendants’ Petition for a Writ of Mandamus requiring the recusal of Judge Weinstein was denied by the Second Circuit Court of Appeals on May 21, 2004. On April 8, 2004, the trial court denied plaintiff’s Motion to Strike Defendants’ Jury Demands and granted defendants a Seventh Amendment jury. On April 12, 2004, the trial court denied defendants’ Motion to Dismiss. Our Answer to the Second Amended Complaint was filed on May 17, 2004. On June 14, 2004, the court entered an order releasing certain ATF trace data. On June 22, 2004, defendants filed a Motion to Certify the Court’s Order for Interlocutory Appeal. On July 6, 2004, the court entered an order denying an immediate separate appeal by defendants. On July 16, 2004, ATF filed a petition for Writ of Mandamus in the Second Circuit Court of Appeals, seeking review of Judge Weinstein’s June 14, 2004 order releasing certain trace data. On August 24, 2004, the Second Circuit issued an order denying ATF’s petition for Writ of Mandamus. On September 20, 2004, the court entered a protective order for confidential documents. Depositions of three of our former employees were held in June 2005. On October 26, 2005, defendants filed a Motion to Dismiss based on the PLCAA. On November 11, 2005, the court stayed the November 28, 2005 trial date. On December 2, 2005, the court denied defendants’ Motion to Dismiss finding that PLCAA is inapplicable to the claims brought by plaintiff. The court certified the matter for interlocutory appeal and continued the stay of the litigation pending determination by the Second Circuit as to the applicability of the legislation. On December 13, 2005, defendants filed their appeal to the Second Circuit Court of Appeals. On February 8, 2006, the District Court issued a Rule to Show Cause as to why the case should not be dismissed based on the language of the 2006 Appropriations Act, which provides that ATF trace data shall not be admissible in civil proceedings. A hearing was held before the court on March 3, 2006 to address whether the court has authority to consider the appropriations issue during the pendency of the Second Circuit Appeal. On March 7, 2006, the court issued an order finding that it retains jurisdiction and ordered the parties to submit briefs by April 7, 2006 to address the applicability and constitutionality of the Appropriations Act. On March 7, 2006, the Second Circuit accepted defendants’ appeal and issued a scheduling order. Defendants filed their brief in support of the appeal on May 8, 2006. Plaintiff filed its brief on July 6, 2006. On July 11, 2006, the New York Attorney General filed an amicus brief supporting the City’s cross-appeal and reversal of the portion of the district court’s decision addressing the constitutionality of the PLCAA. On April 27, 2006 during the pendency of the appeal, Judge Weinstein issued an Order holding that the 2006 Appropriations Act did not preclude the admissibility of ATF trace data in this proceeding. On May 11, 2006, defendants filed a petition for permission to file an interlocutory appeal of this order pursuant to 28 U.S.C. § 1292. The Second Circuit elected to stay any decision on whether to accept this interlocutory appeal pending resolution of the PLCAA appeal. Oral argument was held before the Second Circuit on September 21, 2007. On April 20, 2008, the Second Circuit affirmed the District Court’s decision with respect to the constitutionality of the PLCAA, and reversed as to the denial of defendants’ motion to dismiss on the basis of the claim restricting provisions of the PLCAA. On June 16, 2008, plaintiff filed a petition seeking rehearing before the Second Circuit. On August 20, 2008, the Second Circuit denied plaintiff’s petition for a rehearing. Plaintiff has ninety days to file a petition for writ of certiorari to the United States Supreme Court.

PENDING CASES

In re Smith & Wesson Holding Corp. Securities Litigation. This case is a consolidation of the following three cases: *William Hwang v. Smith & Wesson Holding Corp., et al.; Joe Cranford v. Smith & Wesson Holding Corp., et al.; Joanne Trudelle v. Smith & Wesson Holding Corp., et al.* It is pending in the United States District Court for the District of Massachusetts (Springfield), and is a purported securities class action lawsuits brought individually and on behalf of all persons who purchased the securities of our company between June 15, and December 6, 2007. The putative plaintiffs seek unspecified damages against us, certain of our officers, and our directors for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. On February 11, 2008, the plaintiffs in each of the above-referenced actions filed motions for consolidation of the actions and to appoint lead class plaintiffs and lead counsel pursuant to the Private Securities Litigation Reform Act of 1995 (the “PSLRA”). The Oklahoma Firefighters Pension and Retirement System was appointed Lead Plaintiff of the putative class. On May 30, 2008, Lead Plaintiff Oklahoma Firefighters Pension and Retirement System filed a Consolidated Class Action Complaint seeking unspecified damages against us and several officers and directors for alleged violations of Sections 10(b) and 20(a) of the Exchange Act (the “Exchange Act”). On August 28, 2008, we and the named officers and directors moved to dismiss the Consolidated Amended Complaint because it fails to state a claim under the federal securities laws and the Private Securities Litigation Reform Act of 1995. Plaintiffs have 45 days after that filing to submit their opposition to the Court.

Aaron Sarnacki v. Smith & Wesson Holding Corp., et al.; Ben Mahnkey v. Smith & Wesson Holding Corp., et al. in the Superior Court for the Commonwealth of Massachusetts, Hampden County. The two cases cited above are purported derivative actions brought by plaintiffs on behalf of our company against certain of our officers and directors. The complaints seek to assert state-law claims, including alleged breach of fiduciary duties, waste of corporate assets, and unjust enrichment arising from our earnings guidance in June 2007 and September 2007, our reduction of earnings guidance in October 2007 and December 2007, our decision in January 2008 to suspend further guidance and not to confirm prior guidance until certain market conditions settled, and certain sales of our stock. The putative plaintiffs seek unspecified damages on behalf of our company from the individual defendants and recovery of their attorneys' fees. On March 24, 2008, the parties submitted a joint motion to consolidate these two actions, which was granted by the Court. On April 22, 2008, the plaintiffs filed their Consolidated Derivative Complaint, which sets forth substantially the same allegations as the original complaints. On May 23, 2008, we and the individual defendants moved to dismiss the Consolidated Derivative Complaint. Thereafter, the parties agreed on July 8, 2008 that the individual defendants' motions to dismiss are stayed until such time as our motion to dismiss is resolved by the Court. On July 11, 2008, Plaintiffs served their opposition to our motion. We filed our reply to that opposition on August 4, 2008. No hearing date has been scheduled as of this time.

Cary Green v. Smith & Wesson Holding Corp., et al. in the United States District Court for the District of Nevada. This action is also a purported derivative action brought by plaintiffs on behalf of our company against certain of our officers and directors. The complaints seek to assert claims substantially identical to those asserted in the earlier-filed Massachusetts Superior Court actions, based on substantially identical allegations. The putative plaintiffs seek unspecified damages on behalf of our company from the individual defendants, and recovery of their attorneys' fees. On April 29, 2008, the parties submitted, and the Court entered, a joint stipulation to stay this action in its entirety until 30 days after the United States District Court for the District of Massachusetts issues a ruling on any motion to dismiss the complaint filed in *In re Smith & Wesson Holding Corp. Securities Litigation.*

Paul "Rob" Lewis v. Smith & Wesson Corp., et. al., in the Superior Court of Washington, King County, in the state of Washington. The complaint, filed on March 20, 2007, alleges that plaintiff sustained eye injuries on or about April 23, 2004, while using a Smith & Wesson 9mm pistol. The plaintiff seeks unspecified damages against us, the ammunition manufacturer, and the sellers of the firearm and ammunition. The complaint alleges negligence, design and manufacturing defects, failure to warn, and breach of warranty. On April 30, 2007, we filed an answer to the plaintiff's complaint denying all allegations of liability. On May 1, 2007, a co-defendant filed a Motion for Change of Venue. The Court denied the motion for change of venue. The ammunition manufacturer filed for, and was granted, summary judgment, leaving us and the seller of the firearm as the remaining defendants in the case. In granting summary judgment in favor of the ammunition manufacturer, however, the trial court also ruled that the remaining defendants could not claim, argue or attempt to attribute fault, at trial, directly or indirectly, express or implied, on the part of the manufacturer of the ammunition plaintiff was using at the time of the incident at issue in the case. On August 29, 2008, the Washington Court of Appeals heard a petition for discretionary review filed on our behalf challenging this ruling. On September 2, 2008, the Washington Court of Appeals denied our petition for discriminary review. On September 4, 2008, the seller of the firearm and the ammunition settled with the plaintiff, leaving us as the only remaining defendant in the case. The trial of this matter is set to begin on September 8, 2008.

Securities and Exchange Commission ("SEC") Investigation

The SEC is conducting an investigation to determine whether there were violations of the federal securities laws in connection with matters relating to the restatement of our consolidated financial statements for fiscal 2002 and the first three quarters of fiscal 2003. Although we have fully cooperated with the SEC in this matter, the SEC may determine that we have violated federal securities laws. We cannot predict when this investigation will be completed or its outcome. If the SEC determines that we violated federal securities laws, we may face sanctions, including monetary penalties and injunctive relief. In addition, we are incurring legal costs for our company as well as a result of reimbursement obligations for several of our current and former officers. We continue to be in discussions with the SEC and intend to continue to cooperate fully with the SEC. On May 8, 2008, we received notice that it is the intent of the Division of Enforcement Staff of the SEC to recommend that the SEC authorize administrative cease-and-desist proceedings against us to prohibit any future violations of the periodic reporting, record keeping, and internal controls provisions of the federal securities laws. The Staff is not recommending the imposition of any monetary sanctions or remedies against us. The purported violations arose from accounting adjustments made by us for fiscal 2002 and the first three quarters of fiscal 2003, which resulted in our restatement of our 2002 quarterly and fiscal year-end financial statements, and our quarterly report for the period ended January 31, 2003. We do not believe that the Staff's current recommendation, if ultimately authorized by the SEC, will have any material impact on our financial position.

Bureau of Alcohol, Tobacco, Firearms & Explosives ("BATF") Audit

The BATF is asserting various violations by us of the Gun Control Act of 1968 and its attendant rules and regulations following an on-premises inspection of our Springfield, Massachusetts facility. These alleged violations relate to inventory, record keeping, and reporting obligations. The BATF has significant authority, including the authority to revoke our firearm importer and manufacturer licenses for willful violations. We are cooperating fully with the BATF to resolve compliance issues that may have been raised.

Environmental Remediation

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

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

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

We had reserves of $626,000 as of July 31, 2008 ($577,000 as non-current) for remediation of the sites referred to above and believe 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 impracticable. Our estimate of these costs is based upon currently enacted laws and regulations, currently available facts, experience in remediation efforts, existing technology, and the ability of other potentially responsible parties or contractually liable parties to pay the allocated portions of any environmental obligations. When the available information is sufficient to estimate the amount of liability, that estimate has been used; when the information is only sufficient to establish a range of probable liability and no point within the range is more likely than any other, the lower end of the range has been used. We may not have insurance coverage for our currently identified environmental remediation costs. We have not recognized any gains from probable recoveries or other gain contingencies. The environmental reserve was calculated using undiscounted amounts based on independent environmental remediation reports obtained.

Pursuant to the merger agreement signed December 15, 2006, effective January 3, 2007, we completed the acquisition of Bear Lake Acquisition Corp. and its subsidiaries, including Thompson/Center Arms Company, Inc., for $102 million in cash. Under the agreement, the former stockholders of Bear Lake Acquisition Corp. have indemnified us for losses arising from, among other things, environmental conditions related to its manufacturing activities. Of the purchase price, $8.0 million has been placed in an escrow account, a portion of which will be applied to environmental remediation at the manufacturing site in Rochester, New Hampshire. It is not presently possible to estimate the ultimate amount of all remediation costs and potential uses of the escrow. We believe the likelihood of environmental remediation costs exceeding the amount available in escrow to be remote.

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

Deferred Compensation

Post-Retirement Pension Plan — We have a senior executive supplemental retirement plan ("executive plan") for certain Thompson/Center Arms officers, which covered four current and former executives at July 31, 2008. Benefits under this plan are paid monthly (currently monthly benefit is $3,063 and is adjusted annually based on the percent change in the CPI for all Urban Consumers) for ten years following the retirement of an officer or director. This is an unfunded, non-qualified and non-contributory Plan under which all future obligations are paid by us. As of July 31, 2008, $711,001 has been accrued in the financial statements, based upon the present value of the estimated future obligation using a discount rate of 3.98% and the remaining months of commitment or in the case of the current executive, the expected retirement date. Estimated future benefit payments by fiscal year are as follows: 2009 — $110,267, 2010 — $125,581, 2011 — $110,267, 2012 — $110,267, 2013 — $110,267, and thereafter — $251,163.

Suppliers

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

Contracts

Employment Agreements — We have entered into employment agreements with certain officers and managers to retain their services in the ordinary course of business.

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

Outstanding Letters of Credit — We had open letters of credit aggregating $3,782,556 as of July 31, 2008, with a workers' compensation bond for self insurance of $3,500,000 making up the majority of this amount.

(12) Stockholders' Equity:

Common Stock

During the three months ended July 31, 2008, options or warrants were exercised and common stock issued as follows:

(a) We issued 18,000 shares of common stock having a market value of $95,010 to current and former employees upon the exercise of options granted to them while employees of our company. The purchase price of these shares was $38,305.

(b) In May 2008, we completed a stock offering of 6,250,000 shares of common stock, which yielded net proceeds of $32,062,532. We used the funds received from this offering to reduce certain of our long term debt obligations (see Note 4).

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Earnings per Share

The following table provides a reconciliation of the income/(loss) amounts and weighted average number of common and common equivalent shares used to determine basic and diluted earnings per share for the three months ended July 31, 2008 and 2007:

	For the Three Months Ended July 31,					
	2008			2007		
	Net Income/(Loss)	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings	$ 2,253,675	45,462,424	$ 0.05	$ 4,690,491	39,954,492	$ 0.12
Effect of dilutive stock options and warrants	—	1,132,812	—	—	1,617,235	(0.01)
Effect of assumed conversion of convertible debt	—	—	—	427,808	6,485,084	—
Diluted earnings	$ 2,253,675	46,595,236	$ 0.05	$ 5,118,299	48,056,811	$ 0.11

For the three months ended July 31, 2008, 6,485,084 shares of our common stock issuable upon conversion of the $80.0 million convertible notes were excluded from the computation of diluted earnings per share because the effect would be antidilutive.

Stock Warrants Issued and Repurchased

On September 12, 2005, we issued warrants to purchase 1,200,000 shares of our common stock to investors as part of a private placement offering. We also issued warrants to purchase 120,000 shares of our common stock to the placement agent. The warrants issued to investors had an expiration date of September 2006, and all warrants were exercised prior to expiration. In June 2007, the placement agent exercised warrants to purchase 50,000 shares of our common stock on a net exercise cashless basis, netting 34,857 shares. The remaining warrants to purchase 70,000 shares of our common stock expire September 12, 2010.

The following outlines the activity related to the warrants for the periods indicated:

	For the three months ended July 31,			
	2008		2007	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Warrants outstanding, beginning of the period	70,000	$ 4.36	120,000	$ 4.36
Warrants exercised during the period	—	—	(50,000)	$ 4.36
Warrants outstanding, end of the period	70,000	$ 4.36	70,000	$ 4.36
Warrants exercisable, end of the period	70,000	$ 4.36	70,000	$ 4.36
Weighted average remaining life	2.1 years		3.1 years	

Incentive Compensation and Employee Stock Purchase Plans

We have two Incentive Stock Plans (“the ISPs”): the 2001 Stock Option Plan and the 2004 Incentive Stock Plan. New grants under the 2001 Stock Option Plan were not made following the approval of the 2004 Incentive Stock Plan at our September 13, 2004 annual meeting of stockholders. All new grants covering all participants will be issued under the 2004 Incentive Stock Plan. The 2004 Incentive Stock Plan authorizes the issuance of the lesser of (1) 15% of the shares of our common stock outstanding from time to time; or (2) 10,000,000 shares of our common stock. The plan allows for granting of options to acquire common stock, the granting of restricted common stock and deferred stock, the granting of restricted stock units, the granting of stock appreciation rights, and the granting of dividend equivalents. The Board of Directors, or a committee established by the board, administers the ISPs, selects recipients to whom awards are granted, and determines the grants to be awarded. Options granted under the ISPs are exercisable at a price determined by the board or committee at the time of grant, but in no event less than fair market value of our common stock on the date granted. Grants of options may be made to employees and directors without regard to any performance measures. All options issued pursuant to the ISPs are nontransferable and subject to forfeiture. Unless terminated earlier by our Board of Directors, the 2004 Incentive Stock Plan will terminate on the earlier of (1) ten years from the date of the later to occur of (i) the original date the plan was approved by our Board of Directors or our stockholders, whichever is earlier, or (ii) the date an increase in the number of shares reserved for issuance under the plan is approved by our Board of Directors (so long as such increase is also approved by our stockholders), and (2) at such time as no shares of common stock remain available for issuance under the plan and our company has no further rights or obligations with respect to outstanding awards under the plan. The date of grant of an award is deemed to be the date on which the Board of Directors or board committee authorizes the granting of such award. Generally, awards vest over a period of three years. The awards are exercisable for a period of ten years. The plan also allows for grants of awards to non-employees, which the board has granted in the past. During the three months ended July 31, 2007, no grants were made to purchase shares.

The number of shares and weighted average exercise prices of options granted under the ISPs and an employee grant outside of the ISPs for the three months ended July 31, 2008 and 2007 are as follows:

	For the Three Months Ended July 31,			
	2008		2007	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of period	2,247,262	$ 3.88	2,576,362	$ 2.36
Granted during period	528,000	5.55	—	—
Exercised during period	(18,000)	2.13	(196,801)	2.39
Canceled/forfeited during period	(3,334)	4.65	(6,666)	4.46
Options outstanding, end of period	2,753,928	$ 4.21	2,372,895	$ 2.73
Options exercisable, end of period	1,799,929	$ 2.82	1,757,078	$ 2.69

A summary of stock options outstanding, vested, and exercisable at July 31, 2008 follows:

	Outstanding			Vested and Exercisable	
	Number Outstanding at July 31, 2008	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at at July 31, 2008	Weighted Average Exercise Price
Range of Exercise Prices					
$0.81 — $1.47	976,500	4.95 years	$ 1.19	776,500	$ 1.12
$1.48 — $5.28	1,108,095	7.30 years	3.60	853,429	3.10
$5.29 — $15.00	669,333	9.19 years	9.62	170,000	9.17
$0.81 — $15.00	2,753,928	6.93 years	$ 4.21	1,799,929	$ 2.82

We have an Employee Stock Purchase Plan ("ESPP"), which authorizes the sale of up to 10,000,000 shares of our common stock to employees. The ESPP commenced on June 24, 2002 and continues in effect for a term of ten years unless sooner terminated. Offering periods are six months in duration, and the purchase price is 85% of the fair market value of our common stock on the offering date or on the purchase date, whichever is lower. A participant may elect to have payroll deductions made on each payday during the offering period in an amount not less than 1% and not more than 20% (or such greater percentage as the board may establish from time to time before an offering date) of such participant's compensation on each payday during the offering period. The last day of each offering period will be the purchase date for such offering period. An offering period commencing on April 1 ends on the next September 30. An offering period commencing on October 1 ends on the next March 31. The Board of Directors has the power to change the duration and/or the frequency of offering and purchase periods with respect to future offerings and purchases without stockholder approval if such change is announced at least five days prior to the scheduled beginning of the first offering period to be affected. The maximum number of shares an employee may purchase during each purchase period is 12,500 shares. All options and rights to participate in the ESPP are nontransferable and subject to forfeiture in accordance with the ESPP guidelines. In the event of certain corporate transactions, each option outstanding under the ESPP will be assumed or an equivalent option will be substituted by the successor corporation or a parent or subsidiary of such successor corporation. During the three months ended July 31, 2008 and 2007, no shares were purchased under the ESPP.

During the year ended April 30, 2005, we adopted SFAS No. 123(R), "Share-Based Payment," which requires the measurement of the cost of employee services received in exchange for an award of an equity instrument based on the grant-date fair value of the award. We elected the modified retrospective application method in adopting SFAS 123(R), which resulted in the restatement of prior period amounts in order to present comparable compensation data. In accordance with SFAS 123(R), we have calculated the fair value of our stock options and warrants issued to employees using the Black-Scholes model at the time the options and warrants were granted. That amount is then amortized over the vesting period of the option or warrant. With our ESPP, fair value is determined at the beginning of the purchase period and amortized over the term of the offering period.

The following assumptions were used in valuing our options granted during the three-month periods ended July 31, 2008 and 2007:

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	For the Three Months Ended July 31, 2008	2007*
Stock option grants:		
Risk-free interest rate	3.99%	N/A
Expected term	9.00 years	N/A
Expected volatility	73.0%	N/A
Dividend yield	0%	N/A

* No options were granted during the three months ended July 31, 2007.

We estimate expected volatility using historical volatility for the expected term. The fair value of each stock option or ESPP purchase was estimated on the date of the grant using the Black-Scholes option pricing model. The weighted-average fair value of stock options granted during the three months ended July 31, 2008 was $5.55. There were 528,000 options granted during the three months ended July 31, 2008. There were no options granted during the three months ended July 31, 2007. The total stock-based compensation expense related to SFAS 123(R), including stock options, employee stock purchase plan, and restricted stock unit awards, was $1,116,315 and $857,215 for the three months ended July 31, 2008 and 2007, respectively. Stock-based compensation expense is included in general and administrative expenses.

During the three months ended July 31, 2008, we did not grant any restricted stock units, or RSUs, to current employees. The aggregate fair market value of our RSU grants is being amortized to compensation expense over the vesting period (three years). Compensation expense recognized related to grants of RSUs was $597,552 for the three months ended July 31, 2008. During the three months ended July 31, 2008, we issued 158,639 shares of common stock under RSUs that had vested during the three months with a total market value of $810,953. As of July 31, 2008, there was $1,948,337 of unrecognized compensation cost related to unvested RSUs. This cost is expected to be recognized over a weighted average of 1.1 years.

Stockholder Rights Plan

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

In general, until the earlier to occur of (i) 10 days following a public announcement that a person or group of affiliated or associated persons (with certain exceptions) has acquired beneficial ownership of 15% or more of the outstanding shares of Common Stock or (ii) 10 business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person or group of affiliated persons becomes an Acquiring Person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of 15% or more of the then outstanding shares of Common Stock, the Rights will be evidenced, with respect to any of the Common Stock certificates outstanding as of the Record Date, by such Common Stock certificates together with a copy of a summary describing the Rights. As of July 31, 2008, we have not had any such changes which would have resulted in the execution of the stockholder rights plan.

(13) Income Taxes

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

We comply with the provisions of Financial Accounting Standards Board (“FASB”) Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109.” FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognizing, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. At July 31, 2008, we had unrecognized tax benefits of approximately $976,000, most of which, if recognized, would favorably impact the effective tax rate. Included in our accrual at July 31, 2008 is approximately $221,000 of accrued interest and penalties related to uncertain tax positions.

The full value of our unrecognized tax benefits has been classified as non-current income tax liabilities because a payment of cash is not anticipated within one year of the balance sheet date. In fiscal 2009, we expect to incur additional interest on outstanding tax accounts partially offset by the resolution of one state nexus issue. We don’t expect either change to be material. Interest and penalties related to income tax liabilities are included in income tax expense.

With limited exception, we are subject to U.S. federal, state and local, or non-U.S. income tax audits by tax authorities for several years. We are currently under income tax examination by a number of state and federal tax authorities and anticipate these audits will be completed by the end of fiscal 2009.

(14) Recent Accounting Pronouncements

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended July 31, 2008 and 2007

Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 141 (revised), "Business Combinations," ("SFAS 141R"). SFAS 141R changes the accounting for business combinations, including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs, and the recognition of changes in the acquirer's income tax valuation allowance. SFAS 141R is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51." SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. We have do not expect the adoption of SFAS No. 160 to have a material impact on our consolidated financial statements.

In December 2007, the FASB ratified the consensus reached by the EITF in EITF Issue No. 07-01, "Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property." The EITF concluded that a collaborative arrangement is one in which the participants are actively involved and are exposed to significant risks and rewards that depend on the ultimate commercial success of the endeavor. Revenues and costs incurred with third parties in connection with collaborative arrangements would be presented gross or net based on the criteria in EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," and other accounting literature. Payments to or from collaborators would be evaluated and presented based on the nature of the arrangement and its terms, the nature of the entity's business, and whether those payments are within the scope of other accounting literature. The nature and purpose of collaborative arrangements are to be disclosed along with the accounting policies and the classification and amounts of significant financial statement amounts related to the arrangements. Activities in the arrangement conducted in a separate legal entity should be accounted for under other accounting literature; however required disclosure under EITF Issue No. 07-01 applies to the entire collaborative agreement. This Issue is effective for fiscal years beginning after December 15, 2008, and is to be applied retrospectively to all periods presented for all collaborative arrangements existing as of the effective date. We do not expect the adoption of EITF No. 07-01 to have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities — an Amendment of FASB Statement No. 133." This statement requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. It also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS No. 133 have been applied and the impact that hedges have on an entity's financial position, financial performance and cash flows. This statement is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We do not expect the adoption of SFAS No. 161 to have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position ("FSP") 142-3, "Determination of the Useful Life of Intangible Assets." FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, as well as interim periods within those fiscal years. We are currently in the process of evaluating the impact of adopting this pronouncement.

In May 2008, the FASB issued FSP No. APB 14-a, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)." This staff position requires that entities with convertible debt instruments that may be settled entirely or partially in cash upon conversion should separately account for the liability and equity components of the instrument in a manner that reflects the issuer's economic interest cost. The effect of the proposed new rules for the debentures is that the equity component would be included in the paid-in-capital section of shareholders' equity on an entity's consolidated balance sheet and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of convertible debt. The FSP will be effective for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years, with retrospective application required. Early adoption is not permitted. We are currently evaluating the proposed new rules and the impact on our financial condition and results of operations.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." We do not expect SFAS No. 162 to have a material impact on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts." This statement requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This statement is effective for fiscal years beginning after December 15, 2008 and will have no effect on our financial condition or results of operations.

In June 2008, the FASB ratified EITF Issue 07-05, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an

Entity's Own Stock," which addresses the accounting for certain instruments as derivatives under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Under this new pronouncement, specific guidance is provided regarding requirements for an entity to consider embedded features as indexed to the entity's own stock. This Issue is effective for fiscal years beginning after December 15, 2008. We are currently in the process of evaluating the impact of adopting this pronouncement.

Recently Adopted Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS No. 157 did not have any impact on our financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement 115" that permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The following balance sheet items are within the scope of SFAS No. 159:

- recognized financial assets and financial liabilities unless a special exception applies;
- firm commitments that would otherwise not be recognized at inception and that involve only financial instruments;
- non-financial insurance contracts; and
- most financial instruments resulting from separation of an embedded non-financial derivative instrument from a non-financial hybrid instrument.

SFAS No. 159 was effective for fiscal years beginning after November 2007. The adoption of SFAS No. 159 did not have any impact on our financial position, results of operations, or cash flows.

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

Overview

Please refer to the Overview found in the Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended April 30, 2008. This Overview sets forth key management objectives and key performance indicators used by management as well as key industry data tracked by management.

First Quarter Fiscal 2009 Highlights

Net product sales for the three months ended July 31, 2008 were $78.0 million, a $3.6 million, or 4.9%, increase over net product sales of $74.4 million for the three months ended July 31, 2007. Firearms sales, our core business, increased for the three months by $3.0 million, or 4.2%, over the three months ended July 31, 2007. Within the firearm category, pistol sales grew by 18.4%, driven by continued consumer market and law enforcement adoption of the M&P polymer product line. Walther products grew at a 19.9% rate based largely on performance of the PPS sub-compact handgun launched part way through last year. Tactical rifle sales continued to grow, increasing by 11.0% in the quarter.

We believe the distributor inventory correction and cautious purchasing for the 2008 hunting season relative to long guns continued into the first quarter. Our black powder products were particularly affected in the first quarter, with net sales off by 55%. This was partially offset by bolt-action rifle sales which did not begin shipping until later in the prior year. The impact was also felt in black powder accessories which decreased by $640,000, or 18.4% for the quarter. Shotgun sales declined by $921,000, or 89.2%, for the quarter. Last year we began our initial shipments of this new product line. The shotgun market was particularly soft during last year's hunting season, particularly for the fixed action and semi-auto categories, the two segments that we entered in fiscal 2008.

Gross profit as a percentage of net revenue was 32.3% for the three months ended July 31, 2008 compared with 36.4% for the three months ended July 31, 2007. The decline in gross profit and the lower gross margin was mostly attributable to hunting product revenues, particularly weak black powder rifle sales. In light of the lower activity, we reduced production levels and closed our New Hampshire facility for one week during the quarter. The lower production levels resulted in unfavorable absorption variances. In addition, the product mix within our long gun line had an unfavorable impact on gross margin. In addition to the above issues, we incurred about $900,000 in promotion costs in the quarter compared with no such costs in the first quarter of last year.

Net income for the three months ended July 31, 2008 was $2.3 million, or $0.05 per fully diluted share, compared with $4.7 million, or $0.11 per fully diluted share, for the three months ended July 31, 2007.

Results of Operations

Net Product and Services Sales

The following table sets forth certain information relating to net product and services sales for the three months ended July 31, 2008 and 2007:

	2008	2007	$ Change	% Change
Revolvers	$20,237,977	$19,568,981	$ 668,996	3.4%
Pistols	20,771,309	17,545,132	3,226,177	18.4%
Walther	7,070,691	5,896,702	1,173,989	19.9%
Hunting Rifles	12,069,979	13,628,188	(1,558,209)	-11.4%
Tactical Rifles	4,942,530	4,451,908	490,622	11.0%
Shotguns	111,942	1,033,396	(921,454)	-89.2%
Premium Products	4,316,899	3,613,162	703,737	19.5%
Parts & Accessories	3,576,199	4,384,661	(808,462)	-18.4%
Total Firearms	73,097,526	70,122,130	2,975,396	4.2%
Handcuffs	1,732,442	1,418,649	313,793	22.1%
Specialty Services	1,832,366	1,704,194	128,172	7.5%
Other	1,370,597	1,166,735	203,862	17.5%
Non-Firearms	4,935,405	4,289,578	645,827	15.1%
Total	$78,032,931	$74,411,708	$ 3,621,223	4.9%

We recorded net product and services sales of $78,032,931 for the three months ended July 31, 2008, an increase of $3,621,223, or 4.9%, over the three months ended July 31, 2007. Firearms sales increased by $2,975,396, or 4.2%, over the comparable three months last year, primarily as a result of the strong sales in most hand gun product lines. Non-firearm sales for the three months ended July 31, 2008 increased by $645,827, or 15.1%, over the three months ended July 31, 2007, resulting from increased foundry revenues from our Rochester, New Hampshire facility as well as higher handcuff sales.

Revolver sales were $20,237,977 for the three months ended July 31, 2008, a $668,996, or 3.4% increase over the three months ended July 31, 2007. The revolver order backlog was $3,923,686 at July 31, 2008.

Pistol sales of $20,771,309 were $3,226,177, or 18.4%, higher for the three months ended July 31, 2008 than for the three months ended July 31, 2007. Both the Sigma (at 44.3%) and the M&P (at 27.3%) showed significant increases over the comparable period last year. Our M&P polymer pistol continues to win over 80% of the test and evaluations in which we participated. The pistol order backlog was $11,466,829 at July 31, 2008.

We are the exclusive U.S. distributor of Walther firearms. Walther firearms sales increased by $1,173,989, or 19.9%, for the three months ended July 31, 2008 over the three months ended July 31, 2007. Walther sales for the quarter continue to be boosted by strong performance by the PPS sub-compact pistol, which was introduced in early fiscal 2008 in 9mm and .40 S&W. Walther order backlog was $5,174,490 at July 31, 2008.

Hunting rifle sales were $12,069,979 for the three months ended July 31, 2008, a $1,558,209, or 11.4%, decrease from the three months ended July 31, 2007. The distributor inventory correction that began in mid-fiscal 2008 and cautious purchases for the 2008 hunting season continued to affect this product line. The hunting rifle order backlog was $6,667,518 at July 31, 2008.

Sales of our M&P 15 rifles were $4,942,530 for the three months ended July 31, 2008, a $490,622, or 11.0%, increase over the three months ended July 31, 2007. M&P 15 sales were helped by a strong consumer promotion. On the law enforcement side, 185 police and security agencies to date have either selected the M&P 15 or approved the M&P 15 for on-duty use. The backlog for tactical rifles was $7,780,583 at July 31, 2008.

We began shipments of our fixed-action and semi-automatic shotguns in April 2007. The shotgun market was especially weak during the fall 2007 hunting season, particularly in these categories. Sales of shotguns for the three months ended July 31, 2008 were $111,942, a $921,454, or 89.2%, decrease from the three months ended July 31, 2007. The shotgun order backlog was $63,320 at July 31, 2008.

Premium Products, which includes our Performance Center and Engraving services, increased by $703,737, or 19.5%, for the three months ended July 31, 2008 to $4,316,899 from the three months ended July 31, 2007. The increase reflects strong performance by the M&P Pro Series model and three new series of Classic revolvers that became available in July. Premium Products had an order backlog of $1,222,654 at July 31, 2008.

The decrease in parts and accessories sales from $4,384,661 for the three months ended July 31, 2007 to $3,576,199 for the three months ended July 31, 2008 was correlated to the decline in demand for hunting rifles.

Sales through our sporting goods distribution channel were approximately $64,787,000 for the three months ended July 31, 2008, a decrease of 0.4% over the comparable quarter last year. Law enforcement sales and federal government sales were approximately $6,426,000, a 17.5% increase over the three months ended July 31, 2007. International sales for the three months ended July 31, 2008 of $6,819,000 were up 73.9% from the comparable period last year with shipments to Trinidad, Turkey, Japan, Korea, Australia, and Thailand.

Licensing Revenue

The following table sets forth certain information relating to licensing revenue for the three months ended July 31, 2008 and 2007:

	2008	2007	$ Change	% Change
Licensing revenue	$446,588	$429,840	$16,748	3.9%

Licensing revenue for the three months ended July 31, 2008 increased by $16,748, or 3.9%, over the three months ended July 31, 2007. During the three months ended July 31, 2008, there were no new licensing agreements entered into nor were there any terminations of agreement with existing licensees.

Cost of Revenue and Gross Profit

The following table sets forth certain information regarding cost of revenue and gross profit for the three months ended July 31, 2008 and 2007:

	2008	2007	$ Change	% Change
Cost of revenue	$53,103,443	$47,632,762	$ 5,470,681	11.5%
% of net revenue	67.7%	63.6%		
Gross profit	25,376,076	27,208,786	$(1,832,710)	-6.7%
% of net revenue	32.3%	36.4%		

Gross profit for the three months ended July 31, 2008 decreased by $1,832,710, or 6.7%, from the three months ended July 31, 2007. Sales of long guns continue to be weaker than anticipated with black powder products and accessories significantly impacted. We reduced our production levels and implemented a one-week shutdown in our Rochester, New Hampshire facility during the quarter in order to control inventory levels, creating unfavorable absorption variances. In addition, in order to spur sales in the weak economy, we incurred an additional $900,000 of promotion costs in the first quarter of fiscal 2009 that was not incurred during the same period in fiscal 2008.

Gross profit, as a percentage of net product and services sales and license revenue, decreased from 36.4% for the three months ended July 31, 2007 to 32.3% for the three months ended July 31, 2008.

Operating Expenses

The following table sets forth certain information regarding operating expenses for the three months ended July 31, 2008 and 2007:

	2008	2007	$ Change	% Change
Research and development, net	$ 774,963	$ 412,537	$ 362,426	87.9%
Sales and marketing	7,703,206	6,650,446	1,052,760	15.8%
General and administrative	10,649,021	10,336,871	312,150	3.0%
Operating expenses	$19,127,190	$17,399,854	$1,727,336	9.9%
% of net revenue	24.4%	23.2%		

Operating expenses for the three months ended July 31, 2008 increased by $1,727,336, or 9.9%, over the three months ended July 31, 2007. General and administrative expense increased $312,150, or 3.0%, as a result of $143,798 in higher professional fees, $317,236 in higher bad debt reserves, $259,100 in higher stock-based compensation expense, and $137,690 in higher depreciation and amortization, which were partially offset by reduced management incentive. Sales and marketing expenses increased by $1,052,760 as a result of $894,389 in increased advertising expense related both to promotional advertising as well as timing related to the annual NRA show. Research and development increased $362,426 primarily as a result of an engineering focus on new product development.

Operating expenses, as a percentage of net product and services sales and license revenue, increased by 1.2% to 24.4% for the three months ended July 31, 2008 compared with the three months ended July 31, 2007.

Income from Operations

The following table sets forth certain information regarding income from operations for the three months ended July 31, 2008 and 2007:

	2008	2007	$ Change	% Change
Income from operations	$6,248,886	$9,808,932	$(3,560,046)	-36.3%
% of net revenue	8.0%	13.1%		

Income from operations was $6,248,886 for the three months ended July 31, 2008, a $3,560,046, or 36.3%, decrease from operating income of $9,808,932 for the three months ended July 31, 2007. The decrease was due to lower gross margins associated with unfavorable absorption and weak product mix in our Rochester, New Hampshire facility, increased sales promotion costs, and an increase in operating expenses.

Other Expense

The following table sets forth certain information regarding other expense for the three months ended July 31, 2008 and 2007:

	2008	2007	$ Change	% Change
Other expense	$(640,352)	$(37,166)	$(603,186)	1623.0%

Other expense totaled $640,352 for the three months ended July 31, 2008, a $603,186, or 1,623.0%, increase from the three months ended July 31, 2007 of $37,166. Foreign exchange losses for the three months ended July 31, 2008 totaled $624,995 compared with $64,105 for the three months ended July 31, 2007. The exchange activity resulted from inventory purchases from Walther, which are billed in euros. Of the large foreign exchange loss, a small portion is due to mark-to-market on existing contracts and the majority relates to settlement at a rate worse than the rate anticipated when contracts were established.

Interest Income

The following table sets forth certain information regarding interest income for the three months ended July 31, 2008 and 2007:

	2008	2007	$ Change	% Change
Interest income	$58,174	$20,692	$37,482	181.1%

Interest income of $58,174 for the three months ended July 31, 2008 represented a decrease of $37,482 from the three months ended July 31, 2007.

Interest Expense

The following table sets forth certain information regarding interest expense for the three months ended July 31, 2008 and 2007:

	2008	2007	$ Change	% Change
Interest expense	$2,051,278	$2,233,969	$(182,691)	-8.2%

Interest expense decreased for the three months ended July 31, 2008 by $182,691 as a result of issuance of 6,250,000 shares of our common stock in May 2008 that enabled us to eliminate our $28.0 million acquisition line of credit as well as to reduce our real estate loan by $4.4 million. A one-time write off of $485,000 in debt acquisition costs related to the cancellation of the acquisition line of credit and the increase in our short term borrowing associated with lower cash generated from operations offset a large portion of the savings. Total debt outstanding at July 31, 2008 was $108,410,576 compared with $127,693,627 at April 30, 2008.

Income Taxes

The following table sets forth certain information regarding income tax expense for the three months ended July 31, 2008 and 2007:

	2008	2007	$ Change	% Change
Income tax expense	$1,361,755	$2,867,998	$(1,506,243)	-52.5%

Income tax expense of $1,361,755 for the three months ended July 31, 2008 represented a decrease of $1,506,243 from $2,867,998 for the three months ended July 31, 2007 because of the reduction in operating profit. The effective rates for the three months ended July 31, 2008 and 2007 were 36.77% and 37.04%, respectively. The effective tax rate excludes the impact of the FIN 48 adjustment (Note 13).

Net Income

The following table sets forth certain information regarding net income and the related per share data for the three months ended July 31, 2008 and 2007:

	2008	2007	$ Change	% Change
Net income	$2,253,675	$4,690,491	$(2,436,816)	-52.0%
Net income per share				
Basic	$ 0.05	$ 0.12	$ (0.07)	-58.3%
Diluted	$ 0.05	$ 0.11	$ (0.06)	-54.5%

The decrease in net income for the three months ended July 31, 2008 from the three months ended July 31, 2007 resulted from lower gross margins driven by unfavorable absorption and unfavorable product mix in our Rochester, New Hampshire facility, increased sales promotion costs, and an increase in operating expenses.

Liquidity and Capital Resources

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

The following table sets forth certain information relative to cash flow for the three months ended July 31, 2008 and 2007:

	2008	2007	$ Change	% Change
Operating activities	$ (14,524,006)	$ (9,736,083)	$ (4,787,923)	49.2%
Investing activities	(1,099,245)	(6,123,862)	5,024,617	-82.0%
Financing activities	12,629,637	12,802,996	(173,359)	-1.4%
Total	$ (2,993,614)	(3,056,949)	$ 63,335	-2.1%

On an annual basis, operating activities represent the principal source of our cash flow; however, seasonal factors require short-term borrowings for operating and investing activities.

Due to the cyclicality of the hunting business, we expect to use significant cash resources in operations during our first fiscal quarter. In the first three months of fiscal 2009, we used $14,524,006 in cash from operating activities, $4,787,923 more than for the first three months of fiscal 2008. Net income of $2,253,675, depreciation and amortization of $4,033,617, and stock-based compensation expense of $1,116,315 were all more than offset by an increase in working capital from April 30, 2008. In the first three months of fiscal 2009, accounts receivable increased $7,082,852 over the April 30, 2008 balance primarily due to the long term dating programs that are typically run from early spring to late summer in the hunting product lines. In addition, inventories increased $5,483,024 partially as a result of the slow down in the hunting market as well as due to the normal seasonal build in order to meet expected demand in future quarters when demand normally exceeds our production capacity and in order to fulfill orders already received that have delayed shipping terms. Accounts payable decreased from April 30, 2008 by $6,164,597 due primarily to the payment of outstanding invoices related to construction in progress commitments at year end. Finally, accrued expenses declined $4,607,599 from April 30, 2008 primarily due to payment of consumer pull programs that were outstanding at year end. In fiscal 2009, management has delayed payment of the 2008 profit sharing until the second quarter, which has partially offset the impact of other negative cash items.

Cash used for investing activities decreased by $5,024,617 for the three months ended July 31, 2008 from the three months ended July 31, 2007. Capital spending for the three months ended July 31, 2008 was $1,109,994 compared with $6,116,462 for the three months ended July 31, 2007, a decrease of $5,006,468. We expect to spend approximately $8.0 million on capital expenditures in fiscal 2009, a significant decrease from the $14.0 million spent in fiscal 2008. The major capital expenditures will focus on improving production efficiencies, tooling for new product offerings, and various projects designed to increase capacity and upgrade manufacturing technology.

Cash provided by financing activities was $12,629,637 for the three months ended July 31, 2008. In May 2008, we completed a stock offering of 6,250,000 shares of common stock, which yielded proceeds of $32,062,532 and allowed us to repay $28 million in debt that had been incurred to finance a portion of the Thompson/Center Arms acquisition. Short term bank borrowings totaled $17.8 million at July 31, 2008 compared with $9.1 million in borrowings at July 31, 2007. The increase was attributable to higher working capital requirements and lower cash from operations. We repaid $5,022,962 of the long-term notes payable to TD BankNorth, our primary bank, during the three months ended July 31, 2008. As of July 31, 2008, we had $1,365,242 in cash and cash equivalents on hand.

On December 15, 2006, we issued an aggregate of $80,000,000 of senior convertible notes (the “Notes”) maturing on December 15, 2026 to qualified institutional buyers pursuant to the terms and conditions of a securities purchase agreement. We used the net proceeds from the Notes, together with $28.0 million from our acquisition line of credit, to fund our acquisition of Bear Lake Acquisition Corp. and its subsidiaries, including Thompson/Center Arms, on January 3, 2007.

The Notes bear interest at a rate of 4% per annum payable on June 15 and December 15 of each year at an annual rate of 4% of the unpaid principal amount. The Notes are convertible into shares of our common stock, initially at a conversion rate of 81.0636 shares per $1,000 principal amount of Notes, or a total of 6,485,084 shares, which is equivalent to an initial conversion price of $12.336 per share. The Notes may be converted at any time. On or after December 15, 2009 until December 15, 2011, we may redeem all or a portion of the Notes only if the closing price of our common stock exceeds 150% of the then applicable conversion price of the Notes for no fewer than 20 trading days in any period of 30 consecutive trading days. After December 15, 2011, we may redeem all or a portion of the Notes. Noteholders may require us to repurchase all or part of their Notes on December 15, 2011, December 15, 2016, or December 15, 2021 and in the event of a fundamental change in our company.

The Notes are our general unsecured obligations, ranking senior in right of payment to our subordinated indebtedness and ranking pari passu with all other unsecured and unsubordinated indebtedness. Until such time, following the effectiveness of the registration statement we filed covering the resale of the Notes and the common stock issuable upon conversion of the Notes, that the closing price of our common stock exceeds 200% of the then applicable conversion price of the Notes for at least 30 trading days in any period of 40 consecutive trading days, we agreed not to incur any additional indebtedness in excess of the greater of (1) $62,000,000 available under our existing credit facility with our senior lender, and (2) three times LTM EBITDA (as defined in the Indenture covering the Notes) at the time such additional debt is incurred and including any amounts outstanding under our credit facility.

Given the restrictions on additional indebtedness on the Notes, any future acquisitions may have to be financed through other means. Our future capital requirements will depend on many factors, including our rate of growth, the timing and extent of new product introductions, the expansion of sales and marketing activities, and the amount and timing of acquisitions of other companies. We cannot assure you that further equity or debt financing will be available to us on acceptable terms or at all. We believe that the available borrowings under our credit facilities are adequate for our current needs and at least for the next 12 months.

Other Matters

Critical Accounting Policies

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting policies are disclosed in Note 3 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended April 30, 2008. The most significant areas involving our judgments and estimates are described in the Management’s Discussion and Analysis of Financial Conditions and Results of Operations in our Annual Report on Form 10-K for the year ended April 30, 2008, to which there have been no material changes. Actual results could differ from estimates made.

Recent Accounting Pronouncements

Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 141 (revised), “Business Combinations,” (“SFAS 141R”). SFAS 141R changes the accounting for business combinations, including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs, and the recognition of changes in the acquirer’s income tax valuation allowance. SFAS 141R is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51." SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. We have do not expect the adoption of SFAS No. 160 to have a material impact on our consolidated financial statements.

In December 2007, the FASB ratified the consensus reached by the EITF in EITF Issue No. 07-01, "Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property." The EITF concluded that a collaborative arrangement is one in which the participants are actively involved and are exposed to significant risks and rewards that depend on the ultimate commercial success of the endeavor. Revenues and costs incurred with third parties in connection with collaborative arrangements would be presented gross or net based on the criteria in EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," and other accounting literature. Payments to or from collaborators would be evaluated and presented based on the nature of the arrangement and its terms, the nature of the entity's business, and whether those payments are within the scope of other accounting literature. The nature and purpose of collaborative arrangements are to be disclosed along with the accounting policies and the classification and amounts of significant financial statement amounts related to the arrangements. Activities in the arrangement conducted in a separate legal entity should be accounted for under other accounting literature; however required disclosure under EITF Issue No. 07-01 applies to the entire collaborative agreement. This Issue is effective for fiscal years beginning after December 15, 2008, and is to be applied retrospectively to all periods presented for all collaborative arrangements existing as of the effective date. We do not expect the adoption of EITF No. 07-01 to have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities — an Amendment of FASB Statement No. 133." This statement requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. It also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS No. 133 have been applied and the impact that hedges have on an entity's financial position, financial performance and cash flows. This statement is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We do not expect the adoption of SFAS No. 161 to have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position ("FSP") 142-3, "Determination of the Useful Life of Intangible Assets." FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, as well as interim periods within those fiscal years. We are currently in the process of evaluating the impact of adopting this pronouncement.

In May 2008, the FASB issued FSP No. APB 14-a, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)." This staff position requires that entities with convertible debt instruments that may be settled entirely or partially in cash upon conversion should separately account for the liability and equity components of the instrument in a manner that reflects the issuer's economic interest cost. The effect of the proposed new rules for the debentures is that the equity component would be included in the paid-in-capital section of shareholders' equity on an entity's consolidated balance sheet and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of convertible debt. The FSP will be effective for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years, with retrospective application required. Early adoption is not permitted. We are currently evaluating the proposed new rules and the impact on our financial condition and results of operations.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." We do not expect SFAS No. 162 to have a material impact on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts." This statement requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This statement is effective for fiscal years beginning after December 15, 2008 and will have no effect on our financial condition or results of operations.

In June 2008, the FASB ratified EITF Issue 07-05, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock," which addresses the accounting for certain instruments as derivatives under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Under this new pronouncement, specific guidance is provided regarding requirements for an entity to consider embedded features as indexed to the entity's own stock. This Issue is effective for fiscal years beginning after December 15, 2008. We are currently in the process of evaluating the impact of adopting this pronouncement.

Recently Adopted Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS No. 157 did not have any impact on our financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement 115" that permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The following balance sheet items are within the scope of SFAS No. 159:

- recognized financial assets and financial liabilities unless a special exception applies;
- firm commitments that would otherwise not be recognized at inception and that involve only financial instruments;
- non-financial insurance contracts; and
- most financial instruments resulting from separation of an embedded non-financial derivative instrument from a non-financial hybrid instrument.

SFAS No. 159 was effective for fiscal years beginning after November 2007. The adoption of SFAS No. 159 did not have any impact on our financial position, results of operations, or cash flows.

Restatement/SEC Inquiry

In August 2003, we amended various reports previously filed with the SEC to modify certain accounting matters related to our acquisition of Smith & Wesson Corp. We restated our Form 10-KSB Report for the fiscal year ended April 30, 2002 as well as our Form 10-QSB Reports for the quarters ended July 31, 2001 and 2002, October 31, 2001 and 2002, and January 31, 2002 and 2003. The Form 10-KSB Report for the fiscal year ended April 30, 2003 was filed in December 2003 and included restated financial statements for fiscal 2002. The amended Form 10-QSB Reports for the July and October quarters were filed in January 2004, and the amended Form 10-QSB Reports for the January quarters were filed in March 2004. The SEC is conducting an informal inquiry regarding the circumstances surrounding the restatement. We are cooperating fully with the SEC in this inquiry. The inquiry is still ongoing. On May 8, 2008, we received notice that it is the intent of the Division of Enforcement Staff of the SEC to recommend that the SEC authorize administrative cease-and-desist proceedings against us to prohibit any future violations of the periodic reporting, record keeping, and internal controls provisions of the federal securities laws. The Staff is not recommending the imposition of any monetary sanctions or remedies against us. The purported violations arose from accounting adjustments made by us for fiscal 2002 and the first three quarters of fiscal 2003, which resulted in our restatement of our 2002 quarterly and fiscal year-end financial statements, and our quarterly report for the period ended January 31, 2003. We do not believe that the Staff's current recommendation, if ultimately authorized by the SEC, will have any material impact on our financial position.

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

On December 10, 2007, we purchased six euro participating forward option contracts to minimize the fluctuations in exchange rates when purchasing finished goods and components from a European supplier. Participating forward options provide full protection against the depreciation of the U.S. dollar and partial benefit from the appreciation of the U.S. dollar. The last of the option contracts expired on June 30, 2008. As of July 31, 2008, we had no forward contracts outstanding. During the three months ended July 31, 2008, we experienced a net gain of $95,000 on hedging transactions that were executed during the period. The fair market value of outstanding derivatives was an asset of $68,000 as of July 31, 2007.

Item 4. *Controls and Procedures*

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. As defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We formed a disclosure committee in the fall of 2002 that includes senior financial, operational, and legal personnel charged with assisting the Chief Executive Officer and Chief Financial Officer in overseeing the accuracy and timeliness of the periodic reports filed under the Exchange Act and in evaluating regularly our disclosure controls and procedures.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of July 31, 2008, our disclosure controls and procedures are effective at a reasonable assurance level in that they were reasonably designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act (i) is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and (ii) is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

NEW CASES

No new cases of a material nature were filed against us during the three months ended July 31, 2008.

CASES ON APPEAL

The rulings in the following cases are subject to certain pending appeals:

City of New York, et al. v. Arms Technology, Inc., et al., in the United States District Court for the Eastern District of New York. The complaint alleges that the defendants have created, contributed to, and maintained a public nuisance in the city of New York because of their allegedly negligent marketing and distribution practices. Plaintiff seeks injunctive relief. Defendants' Petition for a Writ of Mandamus requiring the recusal of Judge Weinstein was denied by the Second Circuit Court of Appeals on May 21, 2004. On April 8, 2004, the trial court denied plaintiff's Motion to Strike Defendants' Jury Demands and granted defendants a Seventh Amendment jury. On April 12, 2004, the trial court denied defendants' Motion to Dismiss. Our Answer to the Second Amended Complaint was filed on May 17, 2004. On June 14, 2004, the court entered an order releasing certain ATF trace data. On June 22, 2004, defendants filed a Motion to Certify the Court's Order for Interlocutory Appeal. On July 6, 2004, the court entered an order denying an immediate separate appeal by defendants. On July 16, 2004, ATF filed a petition for Writ of Mandamus in the Second Circuit Court of Appeals, seeking review of Judge Weinstein's June 14, 2004 order releasing certain trace data. On August 24, 2004, the Second Circuit issued an order denying ATF's petition for Writ of Mandamus. On September 20, 2004, the court entered a protective order for confidential documents. Depositions of three of our former employees were held in June 2005. On October 26, 2005, defendants filed a Motion to Dismiss based on the PLCAA. On November 11, 2005, the court stayed the November 28, 2005 trial date. On December 2, 2005, the court denied defendants' Motion to Dismiss finding that PLCAA is inapplicable to the claims brought by plaintiff. The court certified the matter for interlocutory appeal and continued the stay of the litigation pending determination by the Second Circuit as to the applicability of the legislation. On December 13, 2005, defendants filed their appeal to the Second Circuit Court of Appeals. On February 8, 2006, the District Court issued a Rule to Show Cause as to why the case should not be dismissed based on the language of the 2006 Appropriations Act, which provides that ATF trace data shall not be admissible in civil proceedings. A hearing was held before the court on March 3, 2006 to address whether the court has authority to consider the appropriations issue during the pendency of the Second Circuit Appeal. On March 7, 2006, the court issued an order finding that it retains jurisdiction and ordered the parties to submit briefs by April 7, 2006 to address the applicability and constitutionality of the Appropriations Act. On March 7, 2006, the Second Circuit accepted defendants' appeal and issued a scheduling order. Defendants filed their brief in support of the appeal on May 8, 2006. Plaintiff filed its brief on July 6, 2006. On July 11, 2006, the New York Attorney General filed an amicus brief supporting the City's cross-appeal and reversal of the portion of the district court's decision addressing the constitutionality of the PLCAA. On April 27, 2006 during the pendency of the appeal, Judge Weinstein issued an Order holding that the 2006 Appropriations Act did not preclude the admissibility of ATF trace data in this proceeding. On May 11, 2006, defendants filed a petition for permission to file an interlocutory appeal of this order pursuant to 28 U.S.C. § 1292. The Second Circuit elected to stay any decision on whether to accept this interlocutory appeal pending resolution of the PLCAA appeal. Oral argument was held before the Second Circuit on September 21, 2007. On April 20, 2008, the Second Circuit affirmed the District Court's decision with respect to the constitutionality of the PLCAA, and reversed as to the denial of defendants' motion to dismiss on the basis of the claim restricting provisions of the PLCAA. On June 16, 2008, plaintiff filed a petition seeking rehearing before the Second Circuit. On August 20, 2008, the Second Circuit denied plaintiff's petition for a rehearing. Plaintiff has ninety days to file a petition for writ of certiorari to the United States Supreme Court.

PENDING CASES

In re Smith & Wesson Holding Corp. Securities Litigation. This case is a consolidation of the following three cases: *William Hwang v. Smith & Wesson Holding Corp., et al.; Joe Cranford v. Smith & Wesson Holding Corp., et al.; Joanne Trudelle v. Smith & Wesson Holding Corp., et al.* It is pending in the United States District Court for the District of Massachusetts (Springfield), and is a purported securities class action lawsuits brought individually and on behalf of all persons who purchased the securities of our company between June 15, and December 6, 2007. The putative plaintiffs seek unspecified damages against us, certain of our officers, and our directors for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. On February 11, 2008, the plaintiffs in each of the above-referenced actions filed motions for consolidation of the actions and to appoint lead class plaintiffs and lead counsel pursuant to the Private Securities Litigation Reform Act of 1995 (the "PSLRA"). The Oklahoma Firefighters Pension and Retirement System was appointed Lead Plaintiff of the putative class. On May 30, 2008, Lead Plaintiff Oklahoma Firefighters Pension and Retirement System filed a Consolidated Class Action Complaint seeking unspecified damages against us and several officers and directors for alleged violations of Sections 10(b) and 20(a) of the Exchange Act (the "Exchange Act"). On August 28, 2008, we and the named officers and directors moved to dismiss the Consolidated Amended Complaint because it fails to state a claim under the federal securities laws and the Private Securities Litigation Reform Act of 1995. Plaintiffs have 45 days after that filing to submit their opposition to the Court.

Aaron Sarnacki v. Smith & Wesson Holding Corp., et al.; Ben Mahnkey v. Smith & Wesson Holding Corp., et al. in the Superior Court for the Commonwealth of Massachusetts, Hampden County. The two cases cited above are purported derivative actions brought by plaintiffs on behalf of our company against certain of our officers and directors. The complaints seek to assert state-law claims, including alleged breach of fiduciary duties, waste of corporate assets, and unjust enrichment arising from our earnings guidance in June 2007 and September 2007, our reduction of earnings guidance in October 2007 and December 2007, our decision in January 2008 to suspend further guidance and not to confirm prior guidance until certain market conditions settled, and certain sales of our stock. The putative plaintiffs seek unspecified damages on behalf of our company from the individual defendants and recovery of their attorneys' fees. On March 24, 2008, the parties submitted a joint motion to consolidate these two actions, which was granted by the Court. On April 22, 2008, the plaintiffs filed their Consolidated Derivative Complaint, which sets forth substantially the same allegations as the original complaints. On May 23, 2008, we and the individual defendants moved to dismiss the Consolidated Derivative Complaint. Thereafter, the parties agreed on July 8, 2008 that the individual defendants' motions to dismiss are stayed until such time as our motion to dismiss is resolved by the Court. On July 11, 2008, Plaintiffs served their opposition to our motion. We filed our reply to that opposition on August 4, 2008. No hearing date has been scheduled as of this time.

Cary Green v. Smith & Wesson Holding Corp., et al. in the United States District Court for the District of Nevada. This action is also a purported derivative action brought by plaintiffs on behalf of our company against certain of our officers and directors. The complaints seek to assert claims substantially identical to those asserted in the earlier-filed Massachusetts Superior Court actions, based on substantially identical allegations. The putative plaintiffs seek unspecified damages on behalf of our company from the individual defendants, and recovery of their attorneys' fees. On April 29, 2008, the parties submitted, and the Court entered, a joint stipulation to stay this action in its entirety until 30 days after the United States District Court for the District of Massachusetts issues a ruling on any motion to dismiss the complaint filed in *In re Smith & Wesson Holding Corp. Securities Litigation.*

Paul "Rob" Lewis v. Smith & Wesson Corp., et. al., in the Superior Court of Washington, King County, in the state of Washington. The complaint, filed on March 20, 2007, alleges that plaintiff sustained eye injuries on or about April 23, 2004, while using a Smith & Wesson 9mm pistol. The plaintiff seeks unspecified damages against us, the ammunition manufacturer, and the sellers of the firearm and ammunition. The complaint alleges negligence, design and manufacturing defects, failure to warn, and breach of warranty. On April 30, 2007, we filed an answer to the plaintiff's complaint denying all allegations of liability. The ammunition manufacturer filed for, and was granted, summary judgment, leaving us and the seller of the firearm as the remaining defendants in the case. In granting summary judgment in favor of the ammunition manufacturer, however, the trial court also ruled that the remaining defendants could not claim, argue or attempt to attribute fault, at trial, directly or indirectly, express or implied, on the part of the manufacturer of the ammunition plaintiff was using at the time of the incident at issue in the case. On August 29, 2008, the Washington Court of Appeals heard a petition for discretionary review filed on our behalf challenging this ruling. On September 2, 2008, the Washington Court of Appeals denied our petition for discretionary review. On September 4, 2008, the seller of the firearm and ammunition settled with the plaintiff, leaving us as the only remaining defendant in the case. The trial of this matter is set to begin on September 8, 2008.

PROTECTION OF LAWFUL COMMERCE IN ARMS ACT

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

Item 6. ***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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SMITH & WESSON HOLDING CORPORATION,
a Nevada corporation

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

By: /s/ WILLIAM F. SPENGLER
William F. Spengler
Chief Financial Officer

Dated: September 9, 2008

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, Michael F. Golden, President and Chief Executive Officer, certify that:

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

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

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

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

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

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

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

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

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

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

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

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

Date: September 9, 2008

Exhibit 31.2

CERTIFICATION

I, William F. Spengler, Chief Financial Officer, certify that:

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

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

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

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

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

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

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

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

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

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

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

By: /s/ WILLIAM F. SPENGLER
William F. Spengler
Chief Financial Officer

Date: September 9, 2008

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Smith & Wesson Holding Corporation (the “Company”) for the quarterly period ended July 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael F. Golden, President and Chief Executive Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Dated: September 9, 2008

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Smith & Wesson Holding Corporation (the “Company”) for the quarterly period ended July 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William F. Spengler, Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

By: /s/ WILLIAM F. SPENGLER
William F. Spengler
Chief Financial Officer

Dated: September 9, 2008