

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-QSB**

Quarterly Report of Small Business Issuers under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarter Ended July 31, 2001

Commission File No. 029015

**SAF-T-HAMMER 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.)

14500 North Northsight, Suite 221,  
Scottsdale, Arizona  
(Address of principal executive offices)

85260  
(Zip Code)

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

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

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

Class  
Common stock, \$.001 par value

Outstanding as of September 14, 2001  
17,931,355

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

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**SAF-T-HAMMER CORPORATION**  
**FORM 10-QSB**  
**FOR THE QUARTER ENDED JULY 31, 2001**

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**PART I: FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**Saf-T-Hammer Corporation**  
**Consolidating Unaudited Balance Sheet — July 31, 2001**

<b>Assets:</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 27,057,426
Accounts receivables	4,756,598
Inventory	22,794,520
Other current assets	10,232,552
Due from Tomkins Corporation	2,699,500
<b>Total current assets</b>	<b>67,540,596</b>
<b>Property, plant and equipment, net</b>	<b>8,604,689</b>
<b>Intangibles, net</b>	<b>4,893,019</b>
<b>Other assets</b>	<b>5,372</b>
<b>Total assets</b>	<b>\$ 81,043,676</b>
<b>Liabilities and Stockholders’ Deficit</b>	
<b>Current liabilities:</b>	
Accounts payables and accrued expenses	\$ 19,110,894
Note payable, Individual, net of debt issue cost of \$3 million	2,000,000
Note payable, Tomkins	10,000,000
Deferred income	237,878
<b>Total current liabilities</b>	<b>31,348,772</b>
<b>Non-current liabilities:</b>	
Deferred tax liability	10,422,329
Other non-current liabilities	11,164,911
Note payable, Tomkins	30,000,000
<b>Total non-current liabilities</b>	<b>51,587,240</b>
<b>Total liabilities</b>	<b>82,936,012</b>

<b>Stockholders' Deficit:</b>	
Common stock	16,327
Additional paid in capital	9,770,973
Accumulated deficit	(11,679,637)
<b>Total stockholders' deficit</b>	<b>(1,892,336)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 81,043,676</b>

See accompanying notes to consolidated financial statements.

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Saf-T-Hammer Corporation  
**Consolidating Unaudited Statement of Operations**

	Three months ended July 31,	
	2001	2000
	(Unaudited)	(Unaudited)
Net sales	\$ 11,236,069	\$ —
Cost of sales	10,824,483	—
Gross profit	411,586	—
Operating expenses:		
Research and development and other	143,677	79,831
Selling, general and administrative	3,814,290	550,837
	3,957,967	630,668
Loss from operations	(3,546,381)	(630,668)
Interest expense, net	2,698,929	—
Loss before taxes	(6,245,310)	(630,668)
Provision for (benefit from) income taxes	(125,000)	—
Net loss	\$ (6,120,310)	\$ (630,668)
Weighted average number of shares outstanding — basic and diluted	18,308,529	10,293,776
Net loss per share, basic and diluted	\$ (0.33)	\$ (0.06)

See accompanying notes to consolidated financial statements.

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**SAF-T-HAMMER CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

	Three months ended	
	July 31, 2001	July 31, 2001
<b>Cash flows provided by (used for) operating activities:</b>		
Net loss	\$ (6,120,310)	\$(630,668)
<b>Adjustments to reconcile net loss to net cash provided by (used for) operating activities:</b>		
Depreciation and amortization	447,517	13,574
Amortization of income tax benefit arising from business combination	(125,000)	—
Stock compensation for services rendered	—	7,500
Interest	2,000,000	166,834
<b>Changes in operating assets and liabilities:</b>		
<b>(Increase) decrease in assets:</b>		
Accounts receivables	2,980,823	—
Inventory	1,486,118	—
Prepaid expense and other current asset	2,083,770	(21,192)
<b>Increase (decrease) in liabilities:</b>		
Accounts payable and accrued expenses	(2,737,535)	(30,874)
Deferred income	(1,374,829)	—
Total adjustments	4,760,864	135,842
Net cash used for operating activities	(1,359,446)	(494,826)
<b>Cash flows used for investing activities:</b>		
Net cash and cash equivalents acquired from business combination	28,598,168	—
Payments to acquire property and equipment	(350,407)	(20,906)
Net cash provided by (used for) investing activities	28,247,761	(20,906)
<b>Cash flows provided by (used for) financing activities:</b>		
Proceeds from notes payable, related parties, net	—	46,975
Payments on loans payable	(500,000)	—
Proceeds from sale of common stock	—	667,525
Proceeds from exercise of warrants to acquire common stock	600,000	—
Net cash provided by financing activities	100,000	714,500
<b>Net increase in cash</b>	<b>26,988,316</b>	<b>198,768</b>
Cash, beginning of year/period	69,110	387,932
<b>Cash, end of period</b>	<b>\$27,057,426</b>	<b>\$ 586,700</b>

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**Supplemental disclosure of non-cash financing and investing activities:**

Issuance of stock for services	\$ —	\$ 7,500
Warrants issued to raise debt to acquire Smith & Wesson Corp.	\$ 5,000,000	\$ —
Payments on behalf of the Company to acquire Smith & Wesson Corp.	\$ 5,000,000	\$ —
Note issued to Tomkins as consideration to acquire Smith & Wesson Corp.	\$10,000,000	\$ —
Conversion of debt	\$ —	\$250,000

A summary of net cash and cash equivalents arising from the acquisition of Smith & Wesson Corp. is as follows:

**Acquisition cost:**

Cash paid on May 11, 2001	\$ 5,000,000
Note payable, Tomkins, due May 11, 2002	10,000,000
Total consideration given up	15,000,000

**As of May 11, 2001:**

**Fair values of assets acquired (unaudited):**

Accounts receivables	(7,733,517)
Inventory	(24,258,858)
Collateralized cash deposits	(5,150,000)
Other current assets	(1,287,519)
Due from Tomkins Corporation	(7,699,500)
Receivable from Walther USA, LLC	(689,343)
Property, plant and equipment, at Fair Value	(8,608,110)
Intangibles, at Fair Value	(16,500,000)
Adjustment for negative goodwill allocation to Intangibles	11,545,044
	(60,381,803)

**Fair values of liabilities assumed (unaudited):**

Accounts payables and accrued expenses	21,252,449
Deferred income	1,612,707
Deferred tax liability, at FV	10,547,329
Other non-current liabilities	10,567,486
Note payable, Tomkins	30,000,000
	73,979,971

<b>Net cash and cash equivalents acquired</b>	<b>\$ 28,598,168</b>
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See accompanying notes to unaudited financial statements.

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**SAF-T-HAMMER CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED JULY 31, 2001**

NOTE 1 – BASIS OF PRESENTATION

Organization and Business Activity

Prior to incorporation as Saf-T-Hammer Corporation in 1998, the Company existed as De Oro Mines, Inc. De Oro Mines, Inc. was incorporated on June 17, 1991 in the State of Nevada. Its original Articles of Incorporation provided for 1,000,000 shares of common stock with a par value of \$0.01 per share.

On August 15, 1996, the shareholders of the Company authorized the recapitalization of the Company and the amendment of its Articles of Incorporation to allow the corporation to issue up to 100,000,000 shares of a single class of Common Stock with a par value of \$0.001. The amended Articles were duly adopted as stated and were filed on October 16, 1996 with the State of Nevada. From its inception, De Oro Mines, Inc. was in the development stage and was primarily engaged in the business of developing mining properties. During 1992, De Oro lost its remaining assets and settled its liabilities, and from that date forward remained dormant.

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

Pursuant to Accounting Principles Board Opinion No. 16, "Accounting for Business Combinations," Saf-T-Hammer, Inc. was the acquirer and De Oro Mines, Inc., the acquiree, and accordingly, this transaction was accounted for as a reverse merger since effective control of the Company was with the officer/shareholders of Saf-T-Hammer, Inc.

The primary asset of Saf-T-Hammer Corporation is a childproof gun safety device that the Company plans to manufacture and sell throughout the world. Currently, the Company is in the product development stage and has a patent pending for rights to the childproof gun safety device.

Interim Financial Statements

The accompanying unaudited interim consolidated financial statements of Saf-T-Hammer Corporation, for the respective periods presented reflect all adjustments (consisting of normal recurring accruals) which, in the opinion of management, are

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necessary for a fair presentation of the results for the interim periods presented. These financial statements have been prepared in accordance with the instructions to Form 10-QSB and Article 10 of Regulation SB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the Company's annual audited financial statements for the year ended December 31, 2000. In addition, the Company filed a Form 8-K on May 29, 2001 and a Form 8-K/A on July 30, 2001, disclosing significant material transactions and pro forma financial information relating to a business combination and debt financing arrangement, which are hereby referenced. Operating results for the three months ended July 31, 2001 are not necessarily indicative of the results that may be expected for the new full fiscal year ending April 30, 2002.

### Change of Fiscal Year End

On June 29, 2001, the Company changed its fiscal year end from December 31 to April 30. Accordingly, pursuant to Regulation § 240.13a-10 (Rule 13a-10) "Transition reports" of the 1934 Act, the required consolidated financial statements for the transition period from January 1, 2001 to April 30, 2001 have previously been filed with the Securities and Exchange Commission on Form 10-QSB.

### NOTE 2 – ACQUISITION OF SMITH & WESSON CORP.

#### The Acquisition

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

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

The Purchase Price was the result of arm's length negotiations between the Company and Tomkins.

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### Acquisition Note

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

### Tomkins Note

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

- (a) Commencing on May 11, 2001, the new due date was extended by ten years to May 11, 2011.
- (b) Unpaid principal balance shall be paid in 84 equal monthly payments commencing on May 11, 2004.
- (c) Until paid in full, dividends declared and paid to the Company shall not exceed \$600,000 for the twelve month period ended May 11, 2002, and not exceed \$1,800,000 for annual periods thereafter.
- (d) Until the payment of \$10 million under the Acquisition Note owed by the Company to Tomkins, Smith & Wesson shall not, either directly or indirectly, incur, assume, guaranty, or otherwise become liable to any indebtedness, except in the ordinary course of business.
- (e) Smith & Wesson shall not liquidate, wind-up or dissolve any business assets, including tangible and intangible assets.
- (f) In the event of default by the Company on the Acquisition Note, or default by Smith & Wesson on the Tomkins Note, the Tomkins Note shall be accelerated and become due and payable in full immediately.

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## The Loan

The initial payment of \$5 million was obtained as a loan from an individual, pursuant to a Promissory Note & Loan Agreement dated May 6, 2001 between the Company and this individual (the "Note"). Interest accrues on the Note at a rate of 12% per annum and matures on May 15, 2002. Pursuant to the terms of the Note, the Company prepaid the annual interest of \$600,000 on the latter of five business days after the consummation of the Acquisition or May 15, 2001. Related to this loan, the Company also issued warrants to purchase, in aggregate, approximately 8.7 million shares at exercise prices ranging from \$0.40 per share to \$2.00 per share. Using the Black Scholes Option pricing model, debt issue costs of \$5 million (value of 8.7 million shares up to the loan value) has been netted against the proceeds of the loan. This debt issue costs is being amortized over the life (1 year) of the note using the effective interest method into interest expense pursuant to EITF-00-27. During the three months ended July 31, 2001, the Company amortized \$2,000,000 into expense.

The Note is secured by a pledge of all of the issued and outstanding stock of Smith & Wesson, as evidenced by a Stock Pledge Agreement dated and effective as of May 11, 2001 between the Company and this individual (the "Pledge Agreement").

### Promissory Note and Loan Agreement

Effective May 15, 2001, Smith & Wesson entered into an agreement to loan the Company an aggregate of \$1,600,000. This loan is secured by all assets of the Company, including intangible assets, bears interest payable monthly at prime plus 1% per annum, and is due by May 15, 2002.

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

### RESULT OF OPERATIONS

#### Net Sales

Net sales for the three months ended July 31, 2001 were \$11,236,069 compared to no sales for the three months ended July 31, 2000. Substantially all of this increase is attributable to the acquisition May 11, 2001 of Smith & Wesson Corp. ("SW"), as detailed in the Company's Form 8K/A, filed July 30, 2001 with the Securities and Exchange Commission.

#### Gross Profit

Gross profit for the three months ended July 31, 2001 was \$411,586 compared to none for the three months ended July 31, 2000. Gross profit as a percentage of sales was 3.7% for the three months ended July 31. The change in Gross profit between periods is due to the application of purchase accounting to the acquisition of SW and the resulting step up in basis of SW inventory.

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#### Research and Development and Other Expenses

Research and development and other expenses for the three months ended July 31, 2001 were \$143,677 compared to \$79,831 for the three months ended July 31, 2000. This increase of 80% reflects additional projects, including gun safety and technology, which the Company has undertaken as well as the purchase of SW.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended July 31, 2001 were \$3,814,290 compared to \$550,837 for the three months ended July 31, 2000. This increase of 592.5% is mostly reflective of the inclusion of the results of operations of the acquired entities, as mentioned above.

#### Interest Expense

Interest expense, net of interest income for the three months ended July 31, 2001 was \$2,698,929 compared to no interest expense or interest income for the corresponding period of the previous year. The increase in net interest expense in the three months ended July 31, 2001 is attributable to the acquisition of SW, mainly the \$15 million of debt entered into according to the terms of the acquisition agreement.

#### Income Taxes

For the three months ended July 31, 2001 there is a tax benefit of \$125,000, resulting from the amortization of the deferred tax liability arising out of the SW acquisition pursuant to Statement of Financial Accounting Standards No. 109. There was no tax expense in the three months ended July 31, 2000.

### LIQUIDITY AND CAPITAL RESOURCES

The Company has cash and cash equivalents of \$27,057,426 at July 31, 2001.

Cash used for operating activities for the three months ended July 31, 2001 was \$1,359,446 compared to net cash used by operating activities of \$494,826 in the three months ended July 31, 2000. The increased use of cash reflects the increased operations of the acquired entity as compared to pre-acquisition operations at July 31, 2000.

Cash provided by investing activities was \$28,247,761 in the three months ended July 31, compared to cash used for investing activities of \$20,906 in the three months ended July 31, 2001. Substantially all of the cash provided by investing activities in the current period related to the net cash and cash equivalents acquired in the business combination.

Cash provided by financing activities was \$100,000 in the three months ended July 31, 2001, representing proceeds from the exercise of warrants reduced by payments made on loans. For the three months ended July 31, 2000, cash provided by financing activities was \$714,500, the majority of which was from the

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In connection with the acquisition of Smith & Wesson, the Company issued a \$10 million note to Tomkins (the "Tomkins Note") as a portion of the purchase price. The Tomkins note is due on May 11, 2002 and bears interest at 9% per annum. The Company also issued a \$5 million note to Colton Melby, presently a director of the Company (the "Melby Note"), in order to obtain the funds necessary to make the initial payment for Smith & Wesson. The Melby Note note is due on May 15, 2002 and bears interest at 12% per annum, which interest has been paid through the due date.

Also in connection with the acquisition of Smith & Wesson, the Company agreed to guaranty the obligations of Smith & Wesson under an existing \$30 million note to Tomkins. The note bears interest at 9% per annum and is to be paid by Smith & Wesson in 84 equal monthly payments commencing May 11, 2004. As part of the guaranty, the Company agreed to certain restrictions on the transfer of capital and assets from Smith & Wesson to the Company.

Effective May 15, 2001, the Company issued a \$1,600,000 promissory note to Smith & Wesson. Interest on the note is payable monthly at prime plus 1% per annum and the note is due on May 15, 2002. The note is secured by all of the assets of the Company.

Additional sources of liquidity, such as debt or equity financings, will be required to meet the Company's capital needs with respect to the repayment of the Company's indebtedness. Management is seeking to obtain financing from various sources. There can be no assurance that additional capital will be available to the Company on reasonable terms, if at all.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTORS

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

### Declining Handgun Market

Over the last few years the handgun industry has had a significant decline in production and sales of handguns. In concert with the rest of the industry, the

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Company's sales have also declined substantially over the last few years. Possible causes may include a saturated marketplace, the enactment of tougher gun laws and the adverse trade and consumer reaction to the settlement agreements reached with certain governmental agencies. A continued decline in the handgun market in general and in the production and sale of handguns by the Company in particular would likely have a material adverse effect on the Company's business, financial condition and results of operations.

### Lawsuits

The Company's subsidiary Smith & Wesson is a defendant in numerous lawsuits relating to its production, marketing and distribution of handguns. A number of these suits are products liability suits alleging defects in the design and manufacture of Smith & Wesson's products. In addition, Smith & Wesson is a defendant in several suits brought by state and local governments seeking substantial damages as well as injunctive relief that could materially restrict the Company's production and distribution of firearms. Adverse results in these lawsuits could have a material adverse effect on the Company's business, financial condition and results of operations.

### Government Regulation and Settlements

The Company's business of producing and marketing firearms and firearm parts is governed by various federal, state and local laws and regulations. The Company's subsidiary Smith & Wesson has previously entered into settlement agreements with certain federal and local agencies which place restrictions on the production, marketing and distribution of Smith & Wesson's firearms products. These restrictions materially impair the Company's ability to compete with other firearm manufacturers who are not subject to such restrictions. Any changes in local, state or federal laws or regulations regarding the manufacture and distribution of firearms could have a material adverse effect on the Company's business, financial condition and results of operations.

### Competition

The firearms market is highly competitive and is dominated by a small number of well-known companies. These companies compete on product image, quality, innovation, price and customer service and support. Negative competitive developments could have a material adverse effect on the Company's business, financial condition and results of operations.

### Debt Financing and Restrictive Covenants

The Company incurred substantial indebtedness to finance the acquisition of Smith & Wesson. As a result, the Company is highly leveraged and subject to substantial repayment obligations. In addition, the terms of the debt financing contain restrictions on the transfer of capital and assets from Smith & Wesson to the



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Company and Smith & Wesson to create liens, incur additional indebtedness and sell or otherwise dispose of assets. The Company's debt and accompanying restrictions could negatively impact the Company's ability to meet its debt repayment obligations, as well as potentially limit the Company's ability to obtain additional financing for working capital or other purposes. Such limitations may make the Company more vulnerable to adverse economic conditions and could impair the Company's ability to compete.

Need for Additional Financing

The Company has limited available funds, which may not be adequate to fund the Company's operations and service its debt obligations. The Company's future success may be dependent upon the Company's ability to raise additional capital. In light of the Company's current debt and restrictive covenants, there is no assurance that additional financing may be obtained on terms acceptable to the Company, if at all. The failure of the Company to raise additional capital would likely have a material adverse effect on the Company's financial condition.

Integration

The future success of the Company is dependent upon the Company's ability to successfully integrate its business, operations and products with those of Smith & Wesson. If the Company is unable to successfully integrate its management and operations, or is unable to successfully integrate its safety products into Smith & Wesson's product lines and marketing channels, such inability could negatively impact the Company's business, financial condition and results of operations.

Reliance On Outside Suppliers

The Company purchases its die molds, raw materials and all of its other unprocessed products from outside suppliers. There is no guarantee that these suppliers will be able to continue to meet the Company's needs, nor that the Company will be able to find alternative sources for such goods at reasonable prices, if at all. The inability to procure necessary raw materials and other supplies at reasonable prices could have a material adverse effect on the Company's business, financial condition and results of operations.

**PART II – OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Part II, Item 1 of the Company's Form 10-QSB for the transition period from January 1, 2001 to April 30, 2001 is hereby incorporated by reference.

**ITEM 2. CHANGES IN SECURITIES**

(c) Recent Sales of Unregistered Securities

The Company issued the following warrants:

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1. In consideration for making a short-term loan to the Company in the amount of \$500,000, the Company issued to two unrelated parties Common Stock Purchase Warrants, each dated February 5, 2001. These warrants allow each holder to purchase up to 625,000 shares of the Company's Common Stock, par value \$.001 per share ("Common Stock") at an exercise price of \$.40 per share, subject to adjustment as set forth therein. The warrants are exercisable immediately and expire two years from the date of issuance. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), with respect to the issuance of these warrants.

2. In consideration for making a \$5 million loan to the Company (the "Melby Loan"), the Company issued to Colten Melby, a director of the Company, a Common Stock Purchase Warrant dated May 6, 2001 (the "Melby Warrant"). The Melby Warrant allows Mr. Melby to purchase up to 7,094,500 shares of Common Stock at an exercise price of \$.40 per share, subject to adjustment as set forth therein. The Melby warrant is exercisable immediately and expires six years from the date of issuance. The Company relied upon Section 4(2) of the Securities Act with respect to the issuance of the Melby Warrant.

3. Also in consideration for the Melby Loan, the Company issued Common Stock Purchase Warrants, each dated May 11, 2001, to three affiliates of Mr. Melby (the "Affiliate Warrants"). The Affiliate Warrants allow each holder to purchase up to 300,000 shares of Common Stock at an exercise price of (a) \$.80 per share if exercised on or before May 21, 2001, (b) \$2.00 per share if exercised from May 22, 2001 through June 30, 2001, and (c) \$5.00 per share if exercised after June 30, 2001. The Affiliate Warrants are exercisable immediately and expire one year from the date of issuance. The Company relied upon Section 4(2) of the Securities Act with respect to the issuance of the Affiliate Warrants.

4. As a portion of a finder's fee for arranging the Melby Loan, the Company issued Common Stock Purchase Warrants, each dated May 11, 2001, to two unrelated parties (the "Finders Warrants"). The Finders Warrants expire one year from the date of issuance and allow each holder to purchase up to 354,725 shares of Common Stock at an exercise price of \$1.00 per share. The Company relied upon Section 4(2) of the Securities Act with respect to the issuance of the Finders Warrants.

5. In consideration for past services to the Company, including services rendered in connection with the acquisition of Smith and Wesson, the Company issued a Common Stock Purchase Warrant, dated May 11, 2001, to Mitchell Saltz, Chief Executive Officer and a director of the Company and a director of Smith

& Wesson (the "Saltz Warrant"). The Saltz Warrant entitles Mr. Saltz to purchase up to 5,000,000 shares of Common Stock at an exercise price of \$.89 per share, subject to adjustment as set forth therein. The Saltz Warrant is exercisable immediately and expires five years from the date of issuance. The Company relied upon Section 4(2) of the Securities Act with respect to the issuance of the Saltz Warrant.

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

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits:

- 10.19 Promissory Note & Loan Agreement, dated as of May 15, 2001, between the Company and Smith & Wesson Corp.
- 10.20 Security Agreement, dated as of May 15, 2001, between the Company and Smith & Wesson Corp.
- 10.21 Special Order Agreement, dated May 11, 1999, between Smith & Wesson Corp. and Schrader-Bridgeport International Inc.
- 10.22 Master Supply Agreement, dated August 1, 2001, between Smith & Wesson Corp. and Remington Arms Company, Inc.

(b) Reports on Form 8-K:

The Company filed the following Reports on Form 8-K on the following dates:

- 1. Form 8-K, filed on May 29, 2001, reporting under Item 2 thereof the acquisition of Smith & Wesson Corp. and excluding the related financial information.
- 2. Form 8-K/A, filed on July 30, 2001, reporting under Item 2 thereof the acquisition of Smith and Wesson Corp. and including under Item 7 thereof (i) the audited financial statements of Smith & Wesson Corp. at April 28, 2001 and for the two years then ended, and (ii) the unaudited pro forma consolidated condensed financial statements of the Company for the three months ended March 31, 2001 and the year ended December 31, 2000.

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- 3. Form 8-K, filed on August 13, 2001, reporting under Item 8 thereof the change in the Company's fiscal year end from December 31st to April 30th.

**SIGNATURES**

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

Dated this 14th day of September, 2001.

SAF-T-HAMMER CORPORATION, a Nevada  
corporation

By:           /s/ Mitchell A. Saltz          

Mitchell A. Saltz, CEO, Director

EXHIBIT INDEX

<u>Number</u>	<u>Description</u>
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## PROMISSORY NOTE &amp; LOAN AGREEMENT

\$1,600,000

Dated As Of  
May 15, 2001  
Scottsdale, Arizona

1. LOAN; ADVANCEMENT OF FUNDS. Subject to receipt of the funds to be advanced to it hereunder, SAF-T-HAMMER CORPORATION, a Nevada corporation (the "Company"), hereby promises to pay to the order of SMITH & WESSON CORPORATION, at 2100 Roosevelt Avenue, Springfield, Massachusetts 01102-2208, ("Registered Holder"), or at such other place as it shall designate to the Company in writing, in lawful money of the United States of America, the principal amount of One Million Six Hundred Thousand Dollars (\$1,600,000) and to pay interest (computed on the basis of a 365-day year and the actual number of days elapsed) on the unpaid principal amount hereof at the Interest Rate (as defined below). The Company promises to pay the said principal sum and interest in accordance with the terms of this Note (the "Note"). The Registered Holder agrees to advance to the Company One Million Six Hundred Thousand Dollars (\$1,600,000) (the "Funds") on May 15, 2001. The date of receipt by the Company or pursuant to its direction of the Funds shall be the "Advancement Date."

2. ISSUANCE OF NOTE. This Note and the related documents have been issued by the Company pursuant to the authorization of the Board of Directors of the Company. The Note, together with any notes from time to time issued in replacement thereof, whether pursuant to transfer and assignment or otherwise, are collectively referred to herein as the "Note."

3. PAYMENT. Interest shall be payable on or before the 15th day of each month beginning June 15th and be computed at the rate of the Prime Rate (as defined below) plus one (1) percent per annum (the "Interest Rate") on the outstanding principal balance of this Note for the period from the Advancement Date until the date of such principal is fully repaid (the "Repayment Date"). Unless earlier repaid, on May 15, 2002 (the "Termination Date"), the Company shall pay the Registered Holder all unpaid principal and interest on this Note. The Company may prepay this Note, in whole or in part, at any time. "Actual Interest Amount" shall mean the amount of interest computed at the Interest Rate on the outstanding balance of the Note, from time to time, for the period from the Advancement Date through the Repayment Date. The "Repayment Date" shall mean the date the outstanding balance of this Note is fully repaid. The Interest Rate shall automatically increase to fifteen percent (15%) per annum without notice or act by any party upon an Event of Default (as defined below). The "Prime Rate" shall be the prime rate of interest announced in Phoenix, Arizona, by Citibank N.A., or its successor.

4. SECURITY AGREEMENT. This Note is secured pursuant to the terms of that certain Security Agreement between the Registered Holder and the Company, dated concurrently with this Note (the "Security Agreement"). The collateral pursuant to the Security Agreement shall be referred to as the "Collateral."

5. REPRESENTATIONS AND COVENANTS OF THE COMPANY. The Company represents, warrants and covenants the following:

(a) As of the date of this Note, the Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Nevada and the Company has all requisite corporate power and authority to carry on its business as presently conducted, and to carry out the transactions contemplated in this Note and the other agreements contemplated herein. The Company has duly authorized and executed this Note and shall duly authorize and execute any related documents required to be delivered by the Company hereafter.

(b) The Company shall not make any material change in the business of the Company nor any change in the principal place of business of the Company.

(c) Except for any security interests held by the Registered Holder, the Company has fee simple title to the Collateral free from any lien, security interest, encumbrance or claim ("Lien").

(d) The Company will, at the Company's expense, keep the Collateral free from any other Liens and defend and hold the Registered Holder harmless from any action, which may adversely affect the Registered Holder's security interest or the Company's title to the Collateral.

(e) The Company will execute and/or deliver to the Registered Holder all documents the Registered Holder reasonably considers necessary or convenient to perfect and maintain Registered Holder's security interest in the Collateral and its proceeds, including, but not limited to, uniform commercial code financing statements. The Registered Holder may file or record in the appropriate public offices in all jurisdictions in which the Collateral may be located and all such documents required or permitted by law to be filed or recorded.

(f) Without the prior written consent of Smith & Wesson, the Company agrees that the Company shall not cause itself, nor permit itself to:

(i) convey, sell, lease or sub-lease (as lessor or sublessor), transfer or otherwise dispose of, or grant a Lien over, in one transaction or a series of transactions, all or any part of its business, assets or property of any kind whatsoever, whether real, personal or mixed and whether tangible, intangible or contingent, whether now owned or hereafter acquired until the Note has been repaid;

(ii) liquidate, wind-up or dissolve itself, or suffer any liquidation or dissolution of, in one transaction or a series of transactions, all or any part of its business, assets or property of any kind whatsoever, whether real, personal or mixed and whether tangible, intangible or contingent, whether now owned or hereafter acquired, until the Note has been repaid; and

(g) The Company will pay before delinquency all taxes, governmental charges, assessments or liens now or hereafter imposed on the Collateral;

6. NEGATIVE COVENANTS OF THE COMPANY. The Company shall not, without the prior written consent of Smith & Wesson:

- (a) Sell, lease or transfer any portion of the Collateral;
- (b) Guaranty the Indebtedness of any third party;
- (c) Make any capital expenditure in excess of \$500,000;

7. EVENTS OF DEFAULT. The following shall each constitute an "Event of Default" by the Company under this Note:

(a) default in the due and punctual payment of interest upon or principal of the Note as and when the same becomes due and payable either at maturity or otherwise; or

(b) with respect to any other covenant or agreement contained in the Note, failure on the part of the Company to duly observe or perform covenants or agreements; which failure then remains uncured for a period of fifteen (15) days after notice from the party claiming the default; or

(c) a decree or order by a court having jurisdiction has been entered adjudging the Company as bankrupt or insolvent, or approving a petition seeking reorganization of the Company under any applicable bankruptcy law and such decree or order has continued undischarged or unstayed for a period of sixty (60) days; or a decree or order of a court having jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or of all or substantially all of its property, or for the winding-up or liquidation of its affairs, has been entered, and has remained in force undischarged or unstayed for a period of thirty (30) days; or

(d) the Company institutes proceedings to be adjudicated a voluntary bankrupt, or consents to the filing of a bankruptcy proceeding against it, or files a petition or answer or consent seeking reorganization under applicable law, or consents to the filing of any such petition or to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or substantially all of its property, or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due; or if the Company shall suffer any writ of attachment or execution or any similar process to be issued or levied against it or any significant part of its property which is not released, stayed, bonded or vacated within sixty (60) days after its issue or levy; or if the Company takes corporate action in furtherance of any of the aforesaid purposes or conditions; or

(e) any declared default of the Company under any Indebtedness that gives the holder the right to accelerate such Indebtedness, which Indebtedness is not cured within fifteen (15) days after any applicable grace or cure periods and which is in excess of \$200,000; or

(f) any material adverse change in the business, operations, assets, liabilities or financial condition of the Company which is not cured within fifteen (15) days after the Registered Holder has provided the Company with written notice thereof; or

(g) the adoption of any plan of liquidation, dissolution or winding up of the Company, or the involuntary occurrence thereof.

Unless the principal of the Note has already become due and payable, upon an Event of Default, unless such Event of Default has already been remedied, the Registered Holder by notice in writing to the Company, may declare the principal of the Note then outstanding and the interest accrued thereof, if not already due and payable and if not already paid, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable.

8. TRANSFERABILITY. This Note is not transferable, in whole or in part without the prior written consent of the Company (in its reasonable discretion), except that the Registered Holder may, upon thirty (30) days prior written notice to the Company but without the prior written consent of the Company, assign all but not less than all of this Note to an entity as to which the Registered Holder is the beneficial owner of a least a majority of the equity therein and the Registered Holder has voting control thereover (a "Permitted Transferee").

9. REMEDIES CUMULATIVE. The rights, powers and remedies given to the payee under this Note shall be in addition to all rights, powers and remedies given to it by virtue of any document or instrument executed in connection herewith, or any statute or rule of law.

10. NON-WAIVER. Any forbearance, failure or delay by the payee in exercising any right, power or remedy under this Note, any documents or instruments executed in connection therewith or otherwise available to the payee shall not be deemed to be a waiver of such right, power or remedy, nor shall any single or partial exercise of any right, power or remedy preclude the further exercise thereof.

11. MODIFICATIONS AND WAIVERS. No modification or waiver of any provision of this Note or any documents or instruments executed in connection therewith is effective unless it is in writing and signed by the payee, and any such modification or waiver shall apply only in the specific instance for which given.

12. ATTORNEY'S FEES. If this Note shall not be paid when due and shall be placed by the Registered Holder hereof in the hands of an attorney for collection, through legal proceedings or otherwise, or in the event the Registered Holder fails to perform as required hereby and an action is brought by the non-breaching party with respect thereto, the breaching party shall pay attorney's fees to the non-breaching party hereof, together with reasonable costs and expenses of collection or enforcement incurred in connection with any such action.

13. ENFORCEMENT; SPECIFIC PERFORMANCE.

(a) In case any one or more Events of Default of the Company or in the event of a breach or default by the Registered Holder hereunder shall occur and be continuing, in addition to the Registered Holder's rights and remedies under the Security Agreement, the non-breaching party may proceed to protect and enforce the rights of such non-breaching party by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law.

(b) The parties hereto expressly agree that they may not have adequate remedies at law if the parties do not perform their obligations under this Note. Upon a breach of the terms or covenants of this Note by either party, the other party shall, each in addition to all

other remedies, be entitled to obtain injunctive relief, and an order for specific performance of the obligations hereunder.

14. CHOICE OF LAW. This Note and the rights and obligations of the parties hereto, shall be governed, construed and interpreted according to the laws of the State of Massachusetts. The Company agrees that any final judgment after exhaustion of all appeals or the expiration of time to appeal in any such action or proceeding shall be conclusive and binding, and may be enforced in any federal or state court in the United States by suit on the judgment or in any other manner provided by law. Nothing contained in this Note shall affect or limit the right of the Registered Holder to serve any process or notice or motion or other application in any other manner permitted by law, or limit or affect the right of the Registered Holder to bring any action or proceeding against the Company or any of its property in the courts of any other jurisdiction. The Company hereby consents to the jurisdiction of the federal courts whose districts encompass any part of the City of Springfield, Massachusetts or the state courts of the State of Massachusetts sitting in the City of Springfield in connection with any dispute arising under this Note, and hereby waives, to the maximum extent permitted by law, any objection, including any objections based on forum non conveniens, to the bringing of any such proceeding in such jurisdictions.

15. WRITTEN CONSENT OF SMITH & WESSON NOT NECESSARY UNDER CERTAIN CIRCUMSTANCES. Notwithstanding anything else contained herein to the contrary, the prior written consent of Smith & Wesson shall not be required with respect to the matters described in Sections 5 and 6 of this Note if, after the Company gives Smith & Wesson written notice of the proposed matter (which notice shall summarize the proposed transaction), ten (10) business days elapse without the Company receiving a written notice from Smith & Wesson stating that it is withholding such consent.

16. PAYEE DEFINED. The term "payee" as used herein shall be deemed to include the payee and its successors, endorsees and assigns.

17. WAIVER OF PRESENTMENT, ETC. The Company hereby waives presentment, demand for payment, protest, notice of protest and notice of non-payment hereof.

18. CONSTRUCTION. The terms of this Note constitute the written expression of the mutual agreement of the parties and shall be construed neutrally and not for or against either party. Whenever a noun or pronoun is used in this Note in the singular and when required by the context, the same shall include the plural, and the masculine gender shall include the feminine and neuter genders and vice versa. The term "person" shall include any individual, entity, trust or association. The headings in this Note are inserted for convenience; the provisions of this Note shall control in determining the intent hereof.

19. HOLIDAYS. If this Note or any installment hereof becomes due and payable on a Saturday, Sunday or public holiday under the laws of the State of Arizona, the due date hereof shall be extended to the next succeeding business day and interest shall be payable at the Interest Rate during such extension. All payments received by the Registered Holder shall be applied first to the payment of all accrued interest payable hereunder.

20. NOTICES. Except as otherwise expressly provided for herein, all notices, requests and other communications to any party hereunder shall be in writing (including



facsimile or similar writing) and shall be given to such party at its address or facsimile number set forth below, or such other address or facsimile number as such party may hereinafter specify for the purpose (in the case of the Company, by notice in accordance herewith to the Registered Holder or, in the case of the Registered Holder, by notice in accordance herewith to the Company). Each such notice, request or other communication shall be effective (i) if given by facsimile, when such facsimile is transmitted to the facsimile number specified in this SECTION 20 or, (ii) if given by mail, 48 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid or, (iii) if given by any other means, when delivered at the address specified in this SECTION 20. Notices shall be addressed as follows:

If to the Company:  
Saf-T-Hammer Corporation  
14500 N. Northsight Boulevard, Suite 221  
Scottsdale, AZ 85260  
Attn: Mitch Saltz, CEO  
Facsimile No.: (480) 949-9747

If to the Registered Holder:  
Smith & Wesson  
2100 Roosevelt Avenue  
Attn: John Kelly, CFO

If a notice or communication is delivered in the manner provided above, it is duly given, whether or not the addressee receives it.

IN WITNESS WHEREOF, the parties have caused this Promissory Note & Loan Agreement to be effective as of the date first written above.

SAF-T-HAMMER CORPORATION, a Nevada corporation

By: /s/ Mitchell A. Saltz  
-----  
Name: Mitchell A. Saltz  
-----  
Title: CEO  
-----

Agreed to and accepted by:

By: /s/ John A. Kelly  
-----  
Smith & Wesson Corporation,  
a Delaware corporation

## SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Agreement") is effective as of the 15th day of May, 2001, by Saf-T-Hammer Corporation, a Nevada corporation ("Debtor"), whose corporate headquarters' address is 14500 N. Northsight Boulevard, Suite 221, Scottsdale, Arizona 85260, in favor of Smith & Wesson Corporation, a Delaware corporation ("Secured Party"), whose corporate headquarters' address is 2100 Roosevelt Avenue, Springfield, Massachusetts 01102.

1. Security Interest. Debtor hereby grants to Secured Party a security interest (hereinafter called the "Security Interest") in all of Debtor's right, title and interest in the property and property rights more fully described on Exhibit A attached hereto and incorporated herein by reference (collectively, the "Collateral").

2. Obligation Secured. The Security Interest shall secure, in such order of priority as Secured Party may elect:

(a) Payment in cash of all principal, interest and any other fees, late charges and attorneys' fees related to the Promissory Note & Loan Agreement of even date herewith executed by Debtor in the original principal amount of One Million Six Hundred Thousand Dollars (\$1,600,000.00) (the "Note"), and all addenda, modifications and amendments thereto, if any; and

(b) Payment, performance and observance by Debtor of each covenant, condition, provision and agreement contained herein and of all monies expended or advanced by Secured Party pursuant to the terms hereof, or to preserve any right of Secured Party hereunder, or to protect or preserve the Collateral or any part thereof; and

(c) Any and all other obligations of Debtor to Secured Party arising in any manner in connection with the issuance of and performance under the Note.

(collectively, the "Obligation").

3. Use; Location.

(a) The Collateral is and will be primarily used for business of Debtor.

(b) Debtor's records concerning the Collateral will be kept at Debtor's address set forth at the beginning of this Agreement.

4. Representations and Warranties of Debtor. Debtor hereby represents and warrants that:

(a) Debtor: (i) is duly organized, validly existing and in good standing under the laws of the State of Nevada; (ii) is qualified to do business and is in good standing under the laws of the state in which the Collateral is located and in each state in which it is doing business; (iii) has full power and authority to own its properties and assets and to carry on its business as now conducted; and (iv) is fully authorized and permitted to execute and deliver this Agreement and to enter into any transactions

evidenced by any portion of the Collateral. The execution, delivery and performance by Debtor of this Agreement and all other documents and instruments relating to the Obligation will not result in any breach of the terms and conditions or constitute a default under any agreement or instrument under which Debtor is a party or is obligated. Debtor is not in default in the performance or observance of any covenants, conditions or provisions of any such agreement or instrument.

(b) Debtor is the owner of the Collateral.

(c) The Collateral is, and is intended to be, used, produced or acquired by Debtor for use primarily for the purpose set forth in Section 3 above.

(d) To the knowledge of Debtor, each account included in the Collateral is genuine and enforceable in accordance with its terms against the party named therein which is obligated to pay the same ("Obligor").

#### 5. Covenants of Debtor.

(a) Except in the normal course of business, Debtor shall not sell, transfer, assign, or otherwise dispose of any Collateral or any interest therein without obtaining the prior written consent of Secured Party. Although proceeds of Collateral are covered by this Agreement, this shall not be construed to mean that Secured Party consents to any sale of the Collateral.

(b) Debtor shall pay when due all taxes, assessments and other charges that may be levied or assessed against the Collateral.

(c) Debtor shall give Secured Party immediate written notice of any change in the location of: (i) Debtor's chief office; or (ii) Debtor's records concerning the Collateral.

(d) Debtor shall keep records concerning the Collateral in accordance with generally accepted accounting principles. Secured Party shall have reasonable access to Debtor's records and shall have the right to make extracts therefrom or copies thereof.

(e) Debtor, at its sole cost and expense, shall protect and defend this Agreement, all of the rights of Secured Party hereunder, and the Collateral against all claims and demands of other parties other than Permitted Liens. Debtor shall promptly notify Secured Party of any levy, distraint or other seizure by legal process or otherwise of any part of the Collateral and of any threatened or filed claims or proceedings that might in any way affect or impair the terms of this Agreement.

(f) The Security Interest, at all times, shall be perfected, and shall be prior to any other interests in the Collateral other than Permitted Liens (as defined below). Debtor shall act and perform as necessary and shall execute, file and record all security agreements, financing statements, deeds of trust, mortgages, continuation statements and other documents reasonably requested by Secured Party to establish, maintain and continue the perfected Security Interest. Debtor, on demand, shall promptly pay all costs and expenses of filing and recording, including the costs of any searches, deemed

necessary by Secured Party from time to time to establish and determine the validity and the continuing priority of the Security Interest.

(g) If Debtor shall fail to pay any taxes, assessments, expenses or charges, to keep all of the Collateral free from other security interests, encumbrances or claims, or to perform otherwise as required herein, Secured Party may advance the monies necessary to pay the same, or to so perform; Secured Party is hereby authorized to enter upon any property in the possession or control of Debtor for such purposes.

(h) All rights, powers and remedies granted Secured Party herein, or otherwise available to Secured Party, are for the sole benefit and protection of Secured Party, and Secured Party may exercise any such right, power or remedy at its option and in its sole and absolute discretion without any obligation to do so. In addition, if under the terms hereof, Secured Party is given two or more alternative courses of action, Secured Party may elect any alternative or combination of alternatives at its option and in its sole and absolute discretion. All monies advanced by Secured Party under the terms hereof and all amounts paid, suffered or incurred by Secured Party in exercising, any authority granted herein, including reasonable attorneys' fees, shall be added to the Obligation, shall be secured by the Security Interest, shall bear interest at the highest rate payable on any of the Obligation until paid, and shall be due and payable by Debtor to Secured Party immediately without demand.

(i) Debtor, upon reasonable demand, shall promptly deliver to Secured Party all invoices, shipping or delivery records, purchase orders, contracts, endorsements or other items related to the Collateral. Debtor shall notify Secured Party immediately of any default by any Obligor in the payment or performance of its Obligations with respect to any collateral.

#### 6. Notification and Payments; Collection of Collateral; Use of Collateral by Debtor.

(a) Secured Party, after the occurrence of any Event of Default (as hereinafter defined) with notice to Debtor, may notify any or all Obligors of the existence of the Security Interest and may direct the Obligors to make all payments on the Collateral to Secured Party. All agents used in such collections shall be agents of Debtor and not agents of Secured Party. Unless Secured Party notifies Debtor in writing that it waives one or more of the requirements set forth in this sentence, any payments or other proceeds of Collateral received by Debtor, before or after notification to Obligors, shall be held by Debtor in trust for Secured Party in the same form in which received, shall not be commingled with any assets of Debtor and shall be turned over to Secured Party not later than the next business day following the day of receipt. In addition, Debtor shall promptly notify Secured Party of the return to or possession by Debtor of goods underlying any Collateral; Debtor shall hold the same in trust for Secured Party and shall dispose of the same as Secured Party directs.

(b) Secured Party, after the occurrence of an Event of Default and without notice to Debtor, may demand, collect and sue on the Collateral (either in Debtor's or Secured Party's name), enforce, compromise, settle or discharge the Collateral and endorse Debtor's names on any instruments, documents, or chattel paper pertaining to

the Collateral; Debtor hereby irrevocably appoints Secured Party its attorney-in-fact for all such purposes.

7. Preservation of Rights. Debtor shall be solely responsible for taking any and all actions to preserve rights against all Obligors; Secured Party shall not be obligated to take any such actions whether or not the Collateral is in Secured Party's possession.

8. Events of Default; Remedies.

(a) The occurrence of any of the following events or conditions shall constitute and is hereby defined to be an "Event of Default":

(i) The occurrence of a breach or default under the Note.

(ii) Any levy or execution upon, or judicial seizure of, any portion of the Collateral which is not cured within ninety (90) days.

(iii) Any attachment or garnishment of, or the existence or filing of any lien or encumbrance against, any portion of the Collateral which is not released within ninety (90) days.

(iv) The institution of any legal action or proceedings to enforce any lien or encumbrance upon any portion of the Collateral that is not dismissed within ninety (90) days after its institution.

(v) Any failure or neglect to perform or observe any of the terms, provisions or covenants of this Agreement, after notice of and a reasonable period to cure the same.

(b) Upon the occurrence of any Event of Default and at any time while such Event of Default is continuing, Secured Party shall have the following rights and remedies and may do one or more of the following:

(i) Declare all or any part of the Obligation to be immediately due and payable, and the same, with all costs and charges, shall be collectible thereupon by action at law.

(ii) Without further notice or demand and without legal process, take possession of the Collateral wherever found and, for this purpose, enter upon any property occupied by or in the control of Debtor. Debtor, upon demand by Secured Party, shall assemble the Collateral and deliver it to Secured Party or to a place designated by Secured Party that is reasonably convenient to both parties.

(iii) Pursue any legal or equitable remedy available to collect the Obligation, to enforce its title in and right to possession of the Collateral and to enforce any and all other rights or remedies available to it.

(iv) Upon obtaining possession of the Collateral or any part thereof, after notice to Debtor, sell such Collateral at public or private sale either with or without having such Collateral at the place of sale. The proceeds of such sale, after deducting therefrom all expenses of Secured Party in taking, storing, repairing and selling the Collateral (including reasonable attorneys' fees) shall be

applied to the payment of the Obligation, and any surplus thereafter remaining shall be paid to Debtor or any other person that may be legally entitled thereto. In the event of a deficiency between such net proceeds from the sale of the Collateral and the total amount of the Obligation, Debtor, upon demand, shall promptly pay the amount of such deficiency to Secured Party.

(c) Secured Party, so far as may be lawful, may purchase all or any part of the Collateral offered at any public or private sale made in the enforcement of Secured Party's rights and remedies hereunder.

(d) Any demand or notice of sale, disposition or other intended action hereunder or in connection herewith, whether required by the Uniform Commercial Code or otherwise, shall be deemed to be commercially reasonable and effective if such demand or notice is given to Debtor at least fifteen (15) days prior to such sale, disposition or other intended action, in the manner provided herein for the giving of notices.

(e) Debtor shall pay all costs and expenses, including without limitation costs of Uniform Commercial Code searches, court costs and reasonable attorneys' fees, incurred by Secured Party in enforcing payment and performance of the Obligation or in exercising the rights and remedies of Secured Party hereunder. All such costs and expenses shall be secured by this Agreement and by all deeds of trust and other lien and security documents securing the Obligation. In the event of any court proceedings, court costs and attorneys' fees shall be set by the court and not by jury and shall be included in any judgment obtained by Secured Party.

(f) In addition to any remedies provided herein for an Event of Default, Secured Party shall have all the rights and remedies afforded a secured party under the Uniform Commercial Code and all other legal and equitable remedies allowed under applicable law. No failure on the part of Secured Party to exercise any of its rights hereunder arising upon any Event of Default shall be construed to prejudice its rights upon the occurrence of any other or subsequent Event of Default. No delay on the part of Secured Party in exercising any such rights shall be construed to preclude it from the exercise thereof at any time while that Event of Default is continuing. Secured Party may enforce any one or more rights or remedies hereunder successively or concurrently. By accepting payment or performance of any of the Obligation after its due date, Secured Party shall not thereby waive the agreement contained herein that time is of the essence, nor shall Secured Party waive either its right to require prompt payment or performance when due of the remainder of the Obligation or its right to consider the failure to so pay or perform an Event of Default.

(g) In the event of the commencement of a bankruptcy case by or against Debtor or involving any of the Collateral, Secured Party, to the extent not already provided for herein, shall be entitled to recover, and Debtor shall be obligated to pay, Secured Party's reasonable attorneys' fees and costs incurred in connection with: (a) any determination of the applicability of the bankruptcy laws to the terms of this Agreement or Secured Party's rights hereunder; (b) any attempt by Secured Party to enforce or preserve its rights under the bankruptcy laws, or to prevent Debtor or any other person

from seeking to deny Secured Party its rights thereunder; (c) any effort by Secured Party to protect, preserve, or enforce its rights against the Collateral, or seeking authority to modify the automatic stay of 11 U.S.C. Section 362 or otherwise seeking to engage in such protection, preservation, or enforcement; of (d) any civil proceeding(s) arising under the bankruptcy laws, or arising in or related to a case under the bankruptcy laws.

#### 9. Miscellaneous Provisions.

(a) The acceptance of this Agreement by Secured Party shall not be considered a waiver of or in any way to affect or impair any other security that Secured Party may have, acquire simultaneously herewith, or hereafter acquire for the payment or performance of the Obligation, nor shall the taking by Secured Party at any time of any such additional security be construed as a waiver of or in any way to affect or impair the Security Interest; Secured Party may resort, for the payment or performance of the Obligation, to its several securities therefor in such order and manner as it may determine.

(b) Without notice or demand, without affecting the obligations of Debtor hereunder or the personal liability of any person for payment or performance of the Obligation, and without affecting the Security Interest or the priority thereof, Secured Party, from time to time, may: (i) extend the time for payment of all or any part of the Obligation or otherwise change the terms of all or any part of the Obligation; (ii) take and hold other security for the payment or performance of the Obligation and enforce, exchange, substitute, subordinate, waive or release any such security; (iii) join in any extension or subordination agreement; or (iv) release any part of the Collateral from the Security Interest. Debtor hereby agrees to cooperate and assist Secured Party in achieving all of the aforementioned purposes.

(c) Debtor waives and agrees not to assert: (i) any right to require Secured Party to proceed against any guarantor, to proceed against or exhaust any other security for the Obligation, to pursue any other remedy in any particular order or manner; (ii) the benefits of any legal or equitable doctrine or principle of marshaling; (iii) the benefits of any statute of limitations affecting the enforcement hereof; (iv) demand, diligence, presentment for payment, protest and demand, and notice of extension, dishonor, protest, demand and nonpayment, relating to the Obligation; and (v) any benefit of, and any right to participate in, any other security now or hereafter held by Secured Party.

(d) The terms herein shall have the meanings in and be construed under the Uniform Commercial Code as enacted in the State of Arizona. This Agreement shall be governed by and construed according to the laws of the State of Arizona without regard to conflicts of law principles. Each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be void or invalid, the same shall not affect the remainder hereof which shall be effective as though the void or invalid provision had not been contained herein.

(e) No modification, rescission, waiver, release or amendment of any provision of this Agreement shall be made except by a written agreement executed by a duly authorized officer of Debtor and Secured Party.

(f) No setoff or claim that Debtor now has or may in the future have against Secured Party shall relieve Debtor from paying or performing the Obligation.

(g) All notices required or permitted to be given hereunder shall be in writing and may be given in person or by United States mail, by delivery service or by electronic transmission. Any notice directed to a party to this Agreement shall become effective upon the earliest of the following: (i) actual receipt by that party; (ii) delivery to the designated address of that party, addressed to that party; or (iii) if given by certified or registered United States mail, three days after deposit with the United States Postal Service, postage prepaid, addressed to that party at its designated address. The designated addresses of the parties shall be as follows:

DEBTOR: Saf-T-Hammer Corporation  
14500 N. Northsight Boulevard, Suite 221  
Scottsdale, Arizona 85260  
Attn: Mitch Saltz, CEO

SECURED PARTY: Smith & Wesson Corporation  
2100 Roosevelt Avenue  
Springfield, MA 01102-2208  
Attn: John Kelly, CFO

(h) An executed copy of this Agreement or any financing statement relating hereto shall be sufficient for filing or recording as financing statement.

(i) Time is of the essence hereof. This Agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their heirs, personal representatives, successors and assigns. The provisions hereof shall apply to the parties according to the context thereof and without regard to the number or gender of words or expressions used.

(j) "Permitted Liens" shall mean the Security Interest granted hereunder.

In Witness Whereof, these presents are executed as of the date indicated above.

SECURED PARTY:  
SMITH & WESSON CORP., a Delaware corporation

DEBTOR:  
SAF-T-HAMMER CORPORATION, a Nevada corporation

By: /s/ John A. Kelly  
-----

By: /s/ Mitchell A. Saltz  
-----

Its: Chief Financial Officer  
-----

Its: CEO  
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## EXHIBIT A

## COLLATERAL

A. All equipment of Debtor, whether now owned or hereafter acquired and wherever located, including, but not limited to, all present and future machinery, vehicles, furniture, fixtures, manufacturing equipment, farm machinery and equipment, shop equipment, office and record keeping equipment, parts, and tools;

B. All general intangibles of Debtor, whether now owned or hereafter acquired, including, but not limited to, applications for patents, patents, copyrights, trademarks, trade secrets, good will, trade names, customer lists, permits and franchises, and the right to use Debtor's name;

C. All inventory of Debtor, whether now owned or hereafter acquired and wherever located, including, without limitation, all inventory wherever located in which Debtor now has or hereafter may acquire any right, title or interest, including, without limitation, all goods and other personal property now or hereafter owned by Debtor which are held for sale or lease or are furnished or are to be furnished under a contract of service or which constitute raw materials, stock-in-trade, work in process or materials used or consumed or to be used or consumed in Debtor's business, or in the processing, packaging or shipping of the same, and all finished goods;

D. Each and every right of Debtor to the payment of money, including, but not limited to, all present and future debt instruments, chattel paper, accounts, loans and obligations receivable, and tax refunds, whether such right to payment now exists or hereafter arises, whether such right to payment arises out of a sale, lease or other disposition of goods or other property by Debtor, out of a rendering of services by Debtor, out of a loan by Debtor, out of the overpayment of taxes or other liabilities of Debtor, or otherwise arises under any contract or agreement, whether such right to payment is or is not already earned by performance, and howsoever such right to payment may be evidenced, together with all other rights and interests (including all liens and security interests) which Debtor may at any time have by law or agreement against any account debtor or other obligor obligated to make any such payment or against any of the property of such account debtor or other obligor;

E. All of Debtor's right, title and interest in and to any fixtures;

Together with all substitutions and replacements for and products of any of the foregoing property and together with all proceeds of the sale, lease or other disposition of any and all of the foregoing property, any and all proceeds of insurance thereon and, in the case of all Tangible Collateral, together with all accessions and, together with (i) all accessories, attachments, additions, parts, equipment and repairs now or hereafter attached or affixed to or used in connection with any such collateral, and (ii) all warehouse receipts, bills of lading and other documents of title now or hereafter covering such collateral.

[Logo]  
SCHRADERBRIDGEPORT

Special Order Agreement

By means of this Special Order Agreement dated May 11, 1999, Smith & Wesson (Seller) agrees to supply the following items to Schrader-Bridgeport (Buyer) in the quantities and at the prices detailed on the attached schedule. The Buyer shall purchase the detailed items only from the seller. The term of this agreement shall be from July 1, 1999, to June 30, 2005 inclusive. The following terms and conditions shall govern the duties and rights of this agreement.

TERMS & CONDITIONS

I. PRICE:

[CONFIDENTIAL PORTION DELETED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION]

II. DELIVERY:

- A. The "deliver by" date on each Schrader-Bridgeport purchase order is the date delivery is required on your dock. Production may be delivered immediately upon receipt of a purchase order. Delivery may be made five (5) days prior to the specified delivery date.

III. QUALITY:

A. All items supplied under this agreement will be in conformance to Schrader-Bridgeport blue print dimensions at the revision level for each part detailed on the attached schedule. In the event components are manufactured to an obsolete revision level Schrader-Bridgeport will accept responsibility.

IV. FORECASTING:

Schrader-Bridgeport will provide an annual forecast, which will authorize Smith & Wesson to purchase raw materials. [CONFIDENTIAL PORTION DELETED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION]

V. LEADTIME:

Lead-time shall be mutually agreed to by both parties upon transfer of equipment that supports both parties' success in this activity. Lead times beyond the initial transitioning will be the production forecast/delivery schedule.

Schrader-Bridgeport Int'nl Inc.

Smith & Wesson

/s/ Gregory M. Gehring

/s/ John A. Kelly

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Authorized Signature 8-19-99

Authorized Signature 5/28/99

Schrader Bridgeport International, Inc.  
1609 Airport Road  
Monroe, North Carolina 28110  
Tel: (704) 292-7919  
Fax: (704) 289-3543  
Contact: Darwin Hadley "Purchasing Manager"  
Rep: N/A

Part: All  
Desc: Various  
Average weight: various  
Order Qty. Various

[CONFIDENTIAL PORTION DELETED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION]

## REMINGTON

Remington Arms Company, Inc.  
14 Hoefler Avenue - Ilion, New York 13357

## MASTER SUPPLY AGREEMENT

This Supply Agreement Number S&W060801 is hereby entered into on this 1st day of August, 2001 between Remington Arms Company, Inc., Ilion, New York, and Smith & Wesson Corporation hence forth referred to as "Supplier".

This Agreement shall remain effective for a period of 3 years from date first production quantities are delivered to Remington, commencing on or before January 1st, 2002 and ending on December 31st, 2004.

## 1.0 GENERAL PROVISIONS

1.1 Exhibit "A" and all referenced drawings specifications and documents attached hereto constitute Remington requirements and are hereby made a part of this Master Supply Agreement.

1.2 Any modification and / or changes to this Agreement must be made in writing and agreed to by mutual consent of both Remington and the Supplier before becoming effective. Under no circumstances shall verbal instructions be accepted.

1.3 [CONFIDENTIAL PORTION DELETED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION] In the event of any conflict between the standard terms and the provisions of this Agreement, the later shall govern.

1.4 Pursuant to this Agreement Remington intends to purchase each item specified in Exhibit "A" over the term of this Agreement. This Agreement does not give the supplier authority to produce and deliver any items set forth in Exhibit "A".

Supplier's authority to produce and deliver an item against this Agreement must be authorized by official Purchase Orders or purchase order revision from Remington, which will "release for production" specific receivers and quantities. Each release against this Agreement must reference the Purchase Order Number. To this extent, Remington liability shall be limited to each specific release and will not become effective until such time said release is communicated to the Supplier.

1.5  
Remington Purchasing has the authority to issue a "Purchase Order" against this Agreement. [CONFIDENTIAL PORTION DELETED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION] All transactions and invoicing must be processed directly with the user plant.

1.6  
Supplier warrants that he has sufficient capacity (equipment, facilities, tooling, manpower, etc.) to produce and meet Remington requirements specified in Exhibit "A" herein. In the event capacity constraints do occur, Supplier agrees to take immediate action to rectify the problem in a manner to assure continuity of supply is maintained. Supplier shall be responsible for any costs associated with capacity issues.

1.7  
Any purchase order release made pursuant to this Agreement shall not be assigned, transferred or sub-contracted to a third party without expressed written consent of Remington Management. In the event Remington Management gives the Supplier specific consent such permission shall not abrogate Suppliers obligations and responsibilities under the terms of this Agreement.

2.0 PRICING

2.1  
The net price charged by the Supplier and to be paid by Remington for each individual "Production Release" against this Agreement shall be in accordance with the price schedule as set forth in Exhibit "A" hereof. [CONFIDENTIAL PORTION DELETED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION]

2.2  
During the term of this Agreement Remington may with adequate advanced notification, add requirements, quantities and parts to Exhibit "A" if agreed to by supplier. [CONFIDENTIAL PORTION DELETED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION]

## 3.0 CHANGES

## 3.1

Remington may at any time by giving Supplier written notice, make changes in specifications, drawings, additions and /or modifications to Exhibit "A" delivery schedules or quantities, packaging, method of shipment, and delivery destination. Supplier shall in good faith and without delay after proper approval by both parties incorporates such changes that are properly documented within a reasonable time frame that is consistent with Remington requirements.

## 3.2

At no time will Supplier accept verbal instructions to change specifications or drawings without prior authorization of the Buyer. Should the Supplier act on verbal instructions he shall do so at his own risk, and as such, assumes full responsibility and liability for any adverse consequences resulting therefrom.

## 3.3

Supplier shall make no material substitutions or modify specification requirements or manufacturing process changes other than minor tool or fixture corrections without expressed written approval of the Buyer and Remington Engineering.

## 4.0 QUALITY

## 4.1

Supplier shall not change any specification nor ship non-conforming goods without first obtaining a written deviation from the Buyer. Any goods received that are not in compliance with specification shall be rejected unless a valid deviation to the specification is on file prior to receipt of parts.

## 4.2

Supplier warrants that all parts delivered under this Agreement conform to Remington drawings, specifications, and quality requirements. All parts produced by Supplier and delivered to Remington shall be of sound materials and workmanship. Material must be fit for use intended by Remington and be equal in all respects to samples, or specifications provided hereunder; or be capable of meeting Design/Performance Test specifications as specified within this Agreement.

## 4.3

Remington must approve in writing pilot production samples before Supplier is authorized to start up production.

## 4.4

Before delivery of parts, the Supplier shall carefully inspect parts for compliance with this Agreement. Evidence of specific inspections performed, such as inspection data

sheets, sub tier certification of procured and/or manufactured items or any other pertinent data shall be submitted with each shipment when requested by the Buyer. Supplier shall keep proper records of all inspections and test performed.

4.5

Remington reserves the right to inspect any item in this Agreement at Supplier facility. Remington representative may elect to conduct inspection on a random basis, witness Suppliers' final inspection, or perform source inspection. Remington will notify the Supplier in advance of the ship date, if such inspection is required. In the event inspection is required the Supplier shall provide Remington representative all reasonable facilities and assistance to perform its duties.

4.6

If as a result of any inspection or test, the parts produced by Supplier, whether before or after delivery, are not in accordance with this Agreement, Remington may return said parts to the Supplier at their expense. Remington at it's sole option shall debit for the value of the parts plus costs incurred or have supplier immediately replace the defective parts with conforming parts.

4.7

The Supplier shall replace at his expense or give Remington full credit for any parts found to be dimensionally discrepant within twelve (12) months from the date said parts were received at Remington and stored in as received condition.

4.8

Remington may, upon prior Supplier Notification, elect to 100% inspect, repair, sort and / or rework any delivered parts that do not conform to the specifications set forth in this Agreement. In this event, the Supplier after receiving proper notification, shall reimburse Remington for all reasonable expenses incurred in connection with said decision.

4.8.1

Supplier agrees to correct quality audit recommendations made by Remington representative(s) and take appropriate action to upgrade quality processes and systems with the intent of becoming a certified Supplier.

5.0 DELIVERY

5.1

Remington shall issue purchase order releases against specific line items identified in Exhibit "A" and each release shall be in accordance with lead-times stated therein and will show required quantity, delivery dates, direct ship destination, ship mode, and invoicing instructions.



## 5.2

Line item volumes shown in Exhibit "A" constitute minimum and maximum requirements as identified in 1.5. [CONFIDENTIAL PORTION DELETED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION]

## 5.3

Time is of the essence with each line item released against Exhibit "A". Supplier agrees to deliver parts in accordance with the parameters specified in each release received from Remington. Supplier shall deliver parts released no later than the date specified and no earlier than three (3) days prior to the required delivery date. Any parts delivered more than three (3) days prior to the due date and any overshipment in excess of an agreed quantity will be returned to the Supplier at his own risk and expense. Supplier shall reimburse Remington for any expense resulting from the return or storage of any early shipments.

## 5.4

Supplier shall notify Remington in advance, if a scheduled delivery date will not be met; and, in such instances that are determined to be Supplier fault, he shall be responsible for all premium expenses incurred to meet an expedited delivery to include, but not limited to overtime hours, special air/truck shipments etc. Remington may at its option, require Supplier to reimburse it for all incremental expenses incurred as a direct result of the Suppliers late delivery.

## 5.5

Supplier shall furnish Remington with a monthly or quarterly report of all releases and shipments made against this Agreement.

## 5.6

Supplier is responsible for adequate packaging and shipment of finished parts to avoid in transit damage and ensure safe arrival at the Remington's ordering plant. Method of shipment shall be in accordance with Exhibit "A" and returnable dunnage shall be acquired at Remington's agreed to expense and will be used for all shipments.

## 5.7

Remington shall provide Supplier with a six- (6) month rolling production forecast for purposes of planning his future production. Subject is a demand forecast only and not Suppliers authority to produce and deliver any parts relating thereto. Authority to produce and deliver can only be authorized by purchase order or purchase order revision.

## 6.0 TECHNICAL SUPPORT

## 6.1

Supplier agrees to provide Remington Technical Support Personnel as may be required to work on productivity improvement projects involving such activities as process refinements and value analysis / value engineering ideas on any item identified in Exhibit "A" herein.

## 6.2

Supplier shall, upon request, make available technical personnel to assist Remington Engineering in the design and development of new production part requirements. Pursuant hereto, the Supplier shall provide at no cost to Remington, its process and manufacturing "know-how" assistance with the purpose of optimizing a cost-effective production part design.

## 6.3

Supplier agrees to support and incorporate within their Company organization systems enhancements and / or modifications, as may be required, to establish an electronic communications bridge between the Supplier and Remington that will more efficiently process activity requirements in execution of this Agreement.

## 7.1 SPECIFICATIONS

## 7.1

Specifications, as defined herein, includes drawings, quality plans, standards, performance requirements, functional requirements, dimensional tolerances, test specifications, fitness for use standards, quality control requirements and any other requirement included and made a part of Exhibit "A", which may be delivered to the Supplier from time to time during the term of this Agreement.

## 7.2

All ideas, data, designs, drawings, specifications, photographs and other engineering and manufacturing information supplied by Remington shall remain Remington property. The Supplier agrees to retain such information in confidence and not disclose it to any other person or entity and it shall not be used or incorporated into any product or item later manufactured for anyone other than Remington.

## 7.3

Any unpatented knowledge or information concerning suppliers processes or uses which Supplier may disclose to Remington employees in connection with this Agreement shall, unless specifically agreed to in writing, be deemed to have been disclosed as part of the consideration for this order. Supplier agrees not to assert any claim against Remington by reason of any use or alleged use to which such knowledge may be utilized by Remington.

## 8.0 PATTERN AND TOOLING

## 8.1

All patterns, tools, dies, jigs, fixtures, test equipment or materials furnished to the Supplier or paid for by Remington shall remain Remington property. Such property shall be plainly marked in accordance with Remington property specifications and shall be safely stored and adequately protected against possible damage and or disclosure to third parties. Supplier shall maintain all such property in the original working order and condition. The Supplier shall be responsible for any damage caused to such tooling, other than reasonable wear and tear and shall repair or replace said tooling at their expense when deemed necessary by Remington personnel.

## 9.0 TERMINATION

## 9.1

Remington may terminate this Agreement upon written notice for "non-performance" of any term or condition stated herein. In this event the Supplier shall immediately stop all work in process at the time and date said notice is received. Material in process shall be segregated from other work and identified as to level of completion and a complete accounting by materials and operation shall be conducted. Supplier shall provide Remington within 14 days of subject termination with a detail accounting and cost breakdown of the termination charges. Remington liability and obligation shall be limited to those purchase order releases against Exhibit A and/or written material authorizations.

THE TERMS AND CONDITIONS AS SET FORTH AND STATED HEREIN CONSTITUTES THE FULL AND EXCLUSIVE UNDERSTANDING AND BINDING AGREEMENT OF BOTH PARTIES AND ANY ADDITIONAL TERM OR CONDITION SHALL NOT BE BINDING ON EITHER PARTY UNLESS MUTUALLY AGREED TO IN WRITING WITH A CONFIRMING ADDENDUM ISSUED TO THIS CONTRACT.

IN WITNESS WHEREOF, THE PARTIES HERETO HAVE EXECUTED THIS MASTER SUPPLY AGREEMENT AS OF THE DAY AND YEAR INDICATED.

SUPPLIER

REMINGTON ARMS COMPANY, INC.  
ILLION, NEW YORK

ACCEPTANCE:

- - - - -

ACCEPTANCE:

- - - - -

By: /s/ David R. Guilbert

- - - - -

Title: Vice President Operations

Date: 8/1/01

- - - - -

By: /s/ Larry Kipp

- - - - -

Larry Kipp  
Title: Plant Manager

Date: 8/2/01

- - - - -

ATTACH.

EXHIBIT "A"

[CONFIDENTIAL PORTION DELETED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION]