

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 transition period from January 1, 2001 to
April 30, 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	Outstanding as of August 13, 2001
Common stock, \$.001 par value	17,931,355

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

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**SAF-T-HAMMER CORPORATION
(FORMERLY DE ORO MINES, INC.)
BALANCE SHEET —APRIL 30, 2001
(UNAUDITED)**

ASSETS

Current assets:

Cash	\$ 69,110
Accounts receivable	3,904
Inventory	21,780
Other current assets	189,460
Total current assets	284,254

Property and equipment, net of accumulated depreciation

31,752

Deposits

5,372

\$ 321,378

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

Current liabilities -

accounts payable and accrued expenses \$ 595,979

Loan payable, due July 1, 2002, bears interest at 1.75% over LIBOR and unsecured

500,000

10% Notes payable, related parties, due September 30, 2002 and unsecured

597,425

Stockholders' deficiency:

Common stock; \$0.001 par value, 100,000,000 shares authorized, 17,606,355 shares issued and outstanding 15,476

Additional paid-in capital 4,171,825

Accumulated deficit (5,559,327)

Total stockholders' deficiency (1,372,026)

\$ 321,378

See accompanying notes to unaudited financial statements.

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**SAF-T-HAMMER CORPORATION
(FORMERLY DE ORO MINES, INC.)
STATEMENTS OF OPERATIONS
(UNAUDITED)**

	Transition period *	
	Four months ended April 30, 2001	One month ended April 30, 2001
Revenues	\$ 23,368	\$ 2,217
Cost of revenues	9,305	887
Gross profit	14,063	1,330
Selling, general and administrative	\$1,593,361	\$1,147,632
Net loss	\$ (1,579,298)	\$ (1,146,302)
Weighted average number of shares outstanding - basic and diluted	16,243,054	16,850,834
Net loss per share - basic and diluted	\$ (0.10)	\$ (0.07)

* On June 29, 2001, the Company changed its fiscal year end from December 31 to April 30.

See accompanying notes to unaudited financial statements.

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**SAF-T-HAMMER CORPORATION
(FORMERLY DE ORO MINES, INC.)
STATEMENTS OF CASH FLOWS**

	Transition period *	
	Four months ended April 30, 2001	One month ended April 30, 2001
	(UNAUDITED)	(UNAUDITED)
Cash flows provided by (used for) operating activities:		
Net loss	\$(1,579,298)	\$(1,146,302)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation	20,084	6,146
Stock compensation for services rendered	364,917	364,917
Impairment of goodwill	390,102	390,102
Interest	18,300	—
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivables	(3,904)	14,111
Inventory	(21,780)	(13,360)
Prepaid expense and other current asset	(174,276)	(189,460)
Increase (decrease) in liabilities - accrued expenses	474,866	464,548
Total adjustments	1,068,309	1,037,004
Net cash used for operating activities	(510,989)	(109,298)
Cash flows used for investing activities:		
Payments to acquire property and equipment	(3,022)	(3,022)
Net cash used for investing activities	(3,022)	(3,022)
Cash flows provided by (used for) financing activities:		
Proceeds from notes payable, related parties	80,000	—
Payments on notes payable, related parties	(80,000)	—

Proceeds from loans payable	500,000	—
Net cash provided by financing activities	500,000	0

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**SAF-T-HAMMER CORPORATION
(FORMERLY DE ORO MINES, INC.)
STATEMENTS OF CASH FLOWS**

Continued

	Transition period *	
	Four months ended April 30, 2001	One month ended April 30, 2001
	(Unaudited)	(Unaudited)
Net increase/(decrease) in cash	(14,011)	(112,320)
Cash, beginning of year/period	83,121	181,430
Cash, end of period	\$ 69,110	\$ 69,110
Supplemental disclosure of non-cash financing and investing activities:		
Issuance of stock for services	\$364,917	\$ 364,917
Conversion of debt	\$159,000	\$ —

* On June 29, 2001, the Company changed its fiscal year end from December 31 to April 30

See accompanying notes to unaudited financial statements.

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**SAF-T-HAMMER CORPORATION
(FORMERLY DE ORO MINES, INC.)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE TRANSITION PERIOD FROM JANUARY 1, 2001 TO APRIL 30, 2001.

(1) 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.

(2) **Summary of Significant Accounting Policies:**

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 accompanying financial statements include the transition period from January 1, 2001 to April 30, 2001 and one month ended April 30, 2001. In addition, the three months ended March 31, 2001 and 2000 have previously been filed with the Securities and Exchange Commission on Form 10 QSB, as required for any quarterly period of the old fiscal year of December 31 that ended before June 29, 2001, the date on which the Company determined to change its fiscal year end.

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Basis of presentation:

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 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 transition period for the four months ended April 30, 2001 are not necessarily indicative of the results that may be expected for the new full fiscal year ending April 30, 2002.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation:

The accompanying financial statements include the accounts of Saf-T-Hammer Corporation and its dormant subsidiary, Lost Coast Ventures, Inc.. All significant intercompany accounts and transactions have been eliminated in consolidation.

Fair Value:

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

New Accounting Pronouncements:

In December 1999, the Securities and Exchange Commission (the Commission) issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, which is to be applied beginning with the fourth fiscal quarter of fiscal years beginning after December 15, 1999, to provide guidance related to recognizing revenue in circumstances in which no specific authoritative literature exists. The adoption by the Company in the application of the Staff Accounting Bulletin to the Company's financial statements did not have a material change in the amount of revenues the Company ultimately realized.

In March 2000, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 44 (Interpretation 44), "Accounting for Certain Transactions Involving Stock Compensation". Interpretation 44 provides criteria for the recognition of compensation expense in certain stock-based compensation arrangements that are accounted for under APB Opinion No. 25, Accounting for Stock-Based Compensation.

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Interpretation 44 is effective July 1, 2000, with certain provisions that are effective retroactively to December 15, 1998 and January 12, 2000. Interpretation 44 did not have any material impact on the Company's financial statements.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended by SFAS No. 137, is effective for fiscal years beginning after June 15, 2000. SFAS No. 133 requires the Company to recognize all derivatives as either assets or liabilities and measure those instruments at fair value. It further provides criteria for derivative instruments to be designated as fair value, cash flow and foreign currency hedges and establishes respective accounting standards for reporting changes in the fair value of the derivative instruments. Upon adoption, the Company will be required to adjust hedging instruments to fair value in the balance sheet and recognize the offsetting gains or losses as adjustments to be reported in net income or other comprehensive income, as appropriate. The Company is evaluating its expected adoption date and currently expects to comply with the requirements of SFAS 133 in fiscal year 2001. The Company does not expect the adoption will be material to the Company's financial position or results of operations since the Company does not believe it participates in such activities.

In January 2001, the Financial Accounting Standards Board Emerging Issues Task Force issued EITF 00-27 effective for convertible debt instruments issued after November 16, 2000. This pronouncement requires the use of the intrinsic value method for recognition of the detachable and imbedded equity

features included with indebtedness, and requires amortization of the amount associated with the convertibility feature over the life of the debt instrument rather than the period for which the instrument first becomes convertible. Inasmuch as all debt instruments that were entered into prior to November 16, 2000 and all of the debt discount relating to the beneficial conversion feature was previously recognized as expense in accordance with EITF 98-5, there is no impact on these financial statements. This EITF 00-27, will impact future financial statements, as the Company entered into such agreements in May 2001.

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

The Company uses the provision of FASB No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", which requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair values of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company recognized a goodwill impairment loss of approximately \$392,000 during April 2001.

Going Concern:

The Company's consolidated financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. Without realization of additional capital, it would be unlikely for the Company to

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continue as a going concern. This factor raises substantial doubt about the Company's ability to continue as a going concern.

Management recognizes that the Company must generate additional resources to enable it to continue operations. The Company intends to begin recognizing significant revenues during year 2001. Management's plans also include the sale of additional equity securities and debt financing from unrelated and related parties. However, no assurance can be given that the Company will be successful in raising additional capital.

Further, there can be no assurance, assuming the Company successfully raises additional equity and debt financing, that the Company will achieve profitability or positive cash flow. If management is unable to raise additional capital and expected significant revenues do not result in positive cash flow to meet its obligations, the Company's ability to continue as a going concern will become substantially doubtful.

Subsequent Events:

The Acquisition

Pursuant to a Stock Purchase Agreement (the "Acquisition Agreement") dated as of May 11, 2001 between Tomkins Corporation ("Tomkins") and Saf-T-Hammer Corporation ("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.

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.

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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.

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) will be netted against the proceeds of the loan. This debt issue costs will be amortized over the life (1 year) of the note using the effective interest method into interest expense pursuant to EITF-00-27.

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 due by May 15, 2002.

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

Management's discussion and analysis of the results of operations and financial condition of the Company should be read in conjunction with the Consolidated Financial Statements and related Notes thereto.

CAUTIONARY STATEMENTS:

This Quarterly Report on Form 10-QSB contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Company intends that such forward-looking statements be subject to the safe harbors created by such statutes. The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties. Accordingly, to the extent that this Quarterly Report contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of the Company, please be advised that the Company's actual financial condition, operating results and business performance may differ materially from that projected or estimated by the Company in forward-looking statements. The differences may be caused by a variety of factors, including but not limited to adverse economic conditions, intense competition, including intensification of price competition and entry of new competitors and products, adverse federal, state and local government regulation, inadequate capital, unexpected costs and operating deficits, increases in general and administrative costs, lower sales and revenues than forecast, loss of customers, customer returns of products sold to them by the Company, termination of contracts, loss of supplies, technological obsolescence of the Company's products, technical problems with the Company's products, price increases for supplies, inability to raise prices, failure to obtain new customers, litigation and administrative proceedings involving the Company, the possible acquisition of new businesses that result in operating losses or that do not perform as anticipated, resulting in unanticipated losses, the possible fluctuation and volatility of the Company's operating results, financial condition and stock price, inability of the Company to continue as a going concern, losses incurred in litigating and settling cases, adverse publicity and news coverage, inability to carry out marketing and sales plans, loss or retirement of key executives, changes in interest rates, inflationary factors and other specific risks that may be alluded to in this Quarterly Report or in other reports issued by the Company. In addition, the business and operations of the Company are subject to substantial risks that increase the uncertainty inherent in the forward-looking statements. The inclusion of forward-looking statements in this Quarterly Report should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved.

COMPANY OVERVIEW

Saf-T-Hammer Corp. ("Saf-T-Hammer" or the "Company"), is a Nevada corporation headquartered in Scottsdale, Arizona. The Company was initially formed in June 1991. The Company's principal asset are two unique products in development and the patent pending rights to two childproof gun safety devices known as the "Saf-T-Hammer" and "Saf-T-Trigger". Both devices are easily removable, external devices that enable safe storage of weapons, including loaded firearms.

A gun owner can easily engage either the Saf-T-Hammer or Saf-T-Trigger in approximately one second, thereby relieving the fear of death or injury to a child or other person due to an accidental discharge of the weapon. Upon the gun owner's return, he or she can easily

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disengage either device in about a second, as well. Thus, the Saf-T-Hammer and Saf-T-Trigger allows both safety and protection while the weapon remains loaded. The unique and salient features of the Saf-T-Hammer and Saf-T-Trigger are as follows:

- Saf-T-Hammer & Saf-T-Trigger, unlike conventional trigger locks, can be used with a loaded weapon;
- Saf-T-Hammer & Saf-T-Trigger cannot be fired when in safety mode;
- Saf-T-Hammer & Saf-T-Trigger can be removed and re-armed in less than a second;
- Saf-T-Hammer requires no keys;
- Saf-T-Hammer & Saf-T-Trigger requires no codes to remember;
- Saf-T-Hammer & Saf-T-Trigger requires no appreciable level of mechanical ability to operate;
- Saf-T-Hammer & Saf-T-Trigger cannot be broken, twisted or cut-off;
- Saf-T-Hammer & Saf-T-Trigger are cheaper than other similar gun safety devices to produce; and
- Saf-T-Hammer & Saf-T-Trigger are currently patent pending.

As a direct result of the Company's emphasis upon internal development, it has fostered two gun safety products, Saf-T-Hammer and Saf-T-Trigger that will be marketed and distributed through standard firearms industry distribution channels, catalogue outlets and direct sales. The Company's web site is www.saf-t-hammer.com.

Additionally, the Company has recently begun the development of two additional firearms related safety devices, the Maximum Security Cable and the Versa Vault.

The Maximum Security Cable™ is "shockproof" and unlike many similar products currently on the market, will not open when subjected to jarring and its heavier steel cable is virtually cut proof. As recently discovered, many cable lock devices for firearms were less than adequate. Through independent testing, the product has proven to be up to 10 times stronger than a variety of conventional cable locks currently available.

The Versa Vault™ is a handgun vault designed to provide more than 40 percent more capacity than any comparable product on the market. It offers the highest possible degree of electronic and mechanical security available and features an owner-programmable and user-friendly lighted keypad with four keys and has more than 10,000 available combinations.

The vault is designed for both vertical and horizontal installation, includes a steel mounting plate, and has a tamper alert, low battery alert and easy access for electronic backup and internal lighting. Its small 10-inch x 14-inch x 3.5-inch external dimensions provide maximum space utilization and allows the Versa Vault to be installed nearly anywhere. It has a unique internal holster that presents the firearm to the owner for maximum speed and accessibility. This holster is also removable, providing additional storage capacity depending upon the owners needs.

The Maximum Security Cable™ and the Versa Vault™ are both still under development. The Company anticipates initiating sales of these products by the third quarter of 2001.

RESULT OF OPERATIONS FOR THE TRANSITION PERIOD FROM JANUARY 1, 2001 TO APRIL 30, 2001

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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 accompanying financial statements include the transition period from January 1, 2001 to April 30, 2001 and one month ended April 30, 2001. In addition, the three months ended March 31, 2001 and 2000 have previously been filed with the Securities and Exchange Commission on Form 10 QSB, as required for any quarterly period of the old fiscal year of December 31 that ended before June 29, 2001, the date on which the Company determined to change its fiscal year end.

During April 2001, the management of the Company determined that it was no longer a development stage enterprise, as it had started to generate revenues and expects revenues to grow during 2001.

REVENUES — Revenues totaled \$23,368 during the transition period from January 1, 2001 to April 30, 2001. Towards the end of the old fiscal year ended December 31, 2000, the Company began the production and sale of its firearms related safety products, which the Company expects to grow substantially in the year 2001.

COST OF REVENUES — Cost of revenues totaled \$9,305 during the transition period from January 1, 2001 to April 30, 2001. As a percentage of net revenues, cost of revenues was approximately 40%, resulting in a gross profits of 60% during the transition period from January 1, 2001 to April 30, 2001.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES — Selling, general and administrative ("SG&A") expenses totaled \$1,593,361 during the transition period from January 1, 2001 to April 30, 2001. During the transition period from January 1, 2001 to April 30, 2001, SG&A expenses included payroll and related expenses of approximately \$230,000, marketing and advertising expenses of \$92,000, regulatory filings and investor relations of \$80,000, professional fees of \$119,000, interest of \$93,000, an impairment loss on goodwill of \$393,000, stock compensation expense of \$365,000 and general operating costs of \$221,000.

NET LOSS — Net loss amounted to \$1,579,298 during the transition period from January 1, 2001 to April 30, 2001.

NET LOSS PER SHARE — Net loss per share, basic and diluted, amounted to \$0.10 per share during the transition period from January 1, 2001 to April 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

During the transition period from January 1, 2001 to April 30, 2001, the Company had \$23,368 in revenues and \$321,378 in total assets as of April 30, 2001. The Company incurred a net loss of \$1,579,298 during the transition period from January 1, 2001 to April 30, 2001. As of April 30, 2001, the total current liabilities exceeded total current assets by \$311,725.

During the transition period from January 1, 2001 to April 30, 2001, all the 3% Convertible Debentures sold during 2000 had been converted. During the transition period from January 1, 2001 to April 30, 2001, the remaining \$159,000 of Convertible Debentures were converted into 1,799,029 shares of common stock at an average price of \$0.09 per share.

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During March 2001, the Company obtained a short term loan from an unrelated party for \$500,000. This loan is due on July 1, 2002, is unsecured and bears interest at LIBOR plus 1.75% per annum.

During May 2001, the Company entered into various material transactions which are summarized below.

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. This business combination will be accounted for using the Purchase Method of accounting pursuant to APB Opinion No. 16.

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. The Company intends to raise additional capital, through either debt or equity financing, to satisfy its obligations in relation to this Acquisition Note.

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:

- (g) Commencing on May 11, 2001, the new due date was extended by ten years to May 11, 2011.
- (h) Unpaid principal balance shall be paid in 84 equal monthly payments commencing on May 11, 2004.
- (i) 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.

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- (j) 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.
- (k) Smith & Wesson shall not liquidate, wind-up or dissolve any business assets, including tangible and intangible assets.
- (l) 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.

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 on 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) will be netted against the proceeds of the loan. This debt issue costs will be amortized over the life (1 year) of the note using the effective interest method into interest expense pursuant to EITF 98-5 and EITF 00-27. 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"). The Company intends to raise additional capital, either through debt or equity financing, to satisfy its obligations in relation to this Loan.

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 due by May 15, 2002.

The Company anticipates that it has sufficient working capital through the end of June 2002. The Company intends to raise additional working capital through either debt or equity financing. There can be no assurances that the Company will be successful in raising additional funds. Failure to raise additional funds will have a material adverse effect on the Company's results of operations.

Additionally, a slower than expected rate of acceptance of the Company's planned products, when available to the public, or lower than expected revenues generated from the Company's products, would materially adversely affect the Company's liquidity. The Company would need additional capital sooner than anticipated. The Company has no commitments for additional financing, and there can be no assurances that any such additional financing would be available in a timely manner or, if available, would be on terms acceptable to the Company.

Furthermore, any additional equity financing could be dilutive to our then-existing shareholders and any debt financing could involve restrictive covenants with respect to future capital raising activities and other financial and operational matters.

CAPITAL EXPENDITURES

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The Company's anticipated capital expenditures for the new fiscal year ended April 30, 2001, is expected to consist of development and manufacturing costs for the Company's proposed products. The Company expects to expend approximately \$500,000 towards additional inventory and samples of its products, \$500,000 in marketing materials, \$200,000 in print advertising through fiscal year 2001 in the development and initial production of its products. Currently, the Company has insufficient funds for its planned capital expenditures and will need to raise additional funds either through additional debt or equity financing. Failure to raise additional funds will adversely affect the Company's plan of operations.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, was issued in June 1998 and establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. SFAS No. 133 was initially effective for all fiscal quarters of fiscal years beginning after June 15, 1999. In July 1999, SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133, was issued which delays the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. The Company does not believe that the adoption of this new standard will have a material impact on its financial position or results of operations.

In December 1999, the SEC staff issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements, which became effective December 2000. SAB No. 101 summarizes the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The application of this SAB did not have a material effect on the Company's revenue recognition policies.

In March 2000, the Financial Accounting Standards Board (FASB) issued Interpretation No. 44 of Accounting Principles Board Opinion No. 25 Accounting for Certain Transactions Involving Stock Compensation, which, among other things, addressed accounting consequences of a modification that reduces the exercise price of a fixed stock option award (otherwise known as repricing). If the exercise price of a fixed stock option award is reduced, the award must be accounted for as variable stock option plan from the date of the modification to the date the award is exercised, is forfeited, or expires unexercised. The exercise price of an option award has been reduced if the fair value of the consideration required to be paid by the grantee upon exercise is less than or potentially less than the fair value of the consideration that was required to be paid pursuant to the award's original terms. The requirements about modifications to fixed stock option awards that directly or indirectly reduce the exercise price of an award apply to modifications made after December 15, 1998, and will be applied prospectively as of July 1, 2000. The adoption of this interpretation did not impact the Company's financial statements.

In January 2001, the Financial Accounting Standards Board Emerging Issues Task Force issued EITF 00-27 effective for convertible debt instruments issued after November 16, 2000. This pronouncement requires the use of the intrinsic value method for recognition of the detachable and imbedded equity features included with indebtedness, and requires amortization of the amount associated with the convertibility feature over the life of the debt instrument rather than the period for which the instrument first becomes convertible. Inasmuch as all debt instruments that were entered into prior to November 16, 2000 and all of the debt discount relating to the beneficial conversion feature was previously recognized as expense in accordance with EITF 98-

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5, there is no impact on these financial statements. This EITF 00-27 will impact future financial statements, as the Company entered into such agreements in May, 2001.

INFLATION

Management believes that inflation has not had a material effect on the Company's results of operations.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Saf-T-Hammer may from time to time be involved in various claims and lawsuits incidental to the operation of its business. Saf-T-Hammer is not currently involved in any such litigation that it believes could have a materially adverse effect on its financial condition or results of operations. However, Saf-T-Hammer's wholly-owned subsidiary as of May 11, 2001, Smith & Wesson, is involved in numerous lawsuits that could materially adversely affect Smith & Wesson and, therefore, materially adversely affect Saf-T-Hammer's results of operations on a consolidated basis.

In addition to certain other pending litigation to which Smith & Wesson is a party, Smith & Wesson is a defendant in approximately 42 lawsuits involving its products and is aware of certain other such claims. These lawsuits and claims fall within two categories:

(i) those that claim damages from Smith & Wesson related to allegedly defective product design which stem from a specific incident. These lawsuits and claims are based principally on the theory of "strict liability" but also may be based on negligence, breach of warranty, and other legal theories, and

(ii) those brought by cities, municipalities, counties, individuals (including certain putative class actions) and one state Attorney General against numerous firearms manufacturers, distributors and dealers seeking to recover damages allegedly arising out of the misuse of firearms by third parties in the commission of homicides, suicides and other shootings involving juveniles and adults. The complaints by municipalities seek damages, among other things, for the costs of medical care, police and emergency services, public health services, and the maintenance of courts, prisons, and other services. In certain instances, the plaintiffs seek to recover for decreases in property values and loss of business within the city due to criminal violence. In addition, nuisance abatement and/or injunctive relief is sought to change the design, manufacture, marketing and distribution practices of the various defendants. These suits allege, among other claims, strict liability or negligence in the design of products, public nuisance, negligent entrustment, negligent distribution, deceptive or fraudulent advertising, violation of consumer protection statutes and conspiracy or concert of action theories.

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Punitive damages, as well as compensatory damages, are demanded in many of the lawsuits and claims. Aggregate claimed amounts presently exceed product liability accruals and applicable insurance coverage.

The following cases were pending against the Smith & Wesson as of the filing of this transition report, which involved significant demands for compensatory and/or punitive damages:

Patrick M. Mahoney, et al. v. Beretta USA Corp., et al. (DC) in the Superior Court for the District of Columbia. Smith & Wesson learned of this complaint on July 6, 2000, but was not served until November 6, 2000. The complaint alleges a criminal using a firearm of unknown manufacture during an attempted robbery fatally injured that plaintiff's daughter. Plaintiffs seek general, special, compensatory and punitive damages to be determined by the Court. On January 9, 2001, the Court entered a stipulation and order dismissing the case without prejudice.

City of Atlanta v. Smith & Wesson, et al. in the State Court of Fulton County, Georgia. The complaint was filed on February 4, 1999. The complaint alleges that all of the defendants' guns are unreasonably dangerous because they can be fired by unauthorized users, including children, criminals, and mentally unstable persons. Compensatory and punitive damages in an amount to be determined by the Court are demanded. The Court granted the defendants' Motion to Dismiss the strict liability claims but denied the Motion to Dismiss as to the negligence claims.

City of Boston, The Boston Public Health Commission v. Smith & Wesson Corp., et al. in the Superior Court in Massachusetts. The complaint, which was filed on June 3, 1999, alleges counts of public nuisance, negligent distribution and marketing, breach of warranty and unjust enrichment against a number of firearm manufacturers and trade associations allegedly arising out of the use of firearms by juveniles, criminals and other prohibited persons in the commission of crimes. Compensatory, punitive, and special damages plus other fees and costs against each defendant, are demanded as is injunctive relief. On March 1, 2000, the Court entered an order granting Smith & Wesson's motion for entry of consent decree approving its settlement with the plaintiffs and dismissing Smith & Wesson from the suit.

Mayor Joseph P. Ganim v. Smith & Wesson Corp., et al., in the Superior Court in Bridgeport, Connecticut. The complaint, which was filed on February 5, 1999, alleges that handgun manufacturers failed to design handguns to be "self-locking" and "childproof." The complaint also alleges that these handguns are sold lacking adequate warnings. The complaint also alleges public nuisance and unjust enrichment among other theories. Damages in excess of \$15,000, plus punitive and compensatory damages, are demanded. On December 10, 1999, the Court granted the defendants' motion to dismiss. The plaintiffs filed an appeal, which is pending before the Connecticut Supreme Court.

City of Camden v. Beretta U.S.A. Corp., et al. in the Superior Court in Camden County, New Jersey. The complaint was filed on June 21, 1999. The complaint

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alleges that the defendants have created a public nuisance because of negligent marketing and distribution practices that allegedly allow guns to be purchased and used by criminals, juveniles, and other prohibited persons in the commissions of crimes. The complaint also alleges a design defect because unauthorized users, including children and adolescents can obtain and misuse guns. Compensatory, punitive, and special damages to be determined by the Court, as well as injunctive relief, are demanded.

Camden County Board of Freeholders v. Beretta U.S.A. Corp., et al. in the District Court of Camden County, New Jersey. The complaint, which was filed on June 1, 1999, alleges that handgun manufacturers have created a public nuisance because of allegedly negligent marketing and distribution practices regarding

their products. The complaint also alleges design defects in firearms because adolescents and children can obtain and misuse guns. Compensatory, punitive, and treble damages, as well as injunctive relief, are demanded. On December 5, 2000, the Court dismissed all claims against Smith & Wesson and the other defendants. The plaintiffs have filed an appeal, which is pending before the U.S. Court of Appeals for the Third Circuit.

City of Chicago and County of Cook v. Beretta U.S.A. Corp., et al, in the Circuit Court of Cook County, Illinois. The complaint, which was filed on November 12, 1998, alleges that firearms manufacturers, distributors, and dealers contribute to the sale of guns which are illegal to possess in, and which are used in the commission of violent crimes in, the City of Chicago. The complaint also alleges that certain firearms recovered by the Chicago Police Department were possessed and used illegally in the City of Chicago, allegedly creating a “public nuisance.” Allocated compensatory and punitive damages in excess of \$433 million against each defendant are demanded. The Court dismissed the case on September 15, 2000; the plaintiffs’ appeal of the dismissal is pending before the Appellate Court of Illinois.

City of Cincinnati v. Beretta U.S.A. Corp., et al. in the Court of Common Pleas in Hamilton County, Ohio. The complaint, which was filed on April 28, 1999, alleges that firearms manufacturers have failed to utilize safety devices that would prevent unauthorized users from firing guns. The complaint also alleges gun manufacturers, distributors, and dealers have marketed guns without sufficient control resulting in an illegal gun market which supplies guns to juveniles and felons, thereby creating a public nuisance. Deceptive advertising, fraud/concealment, negligent misrepresentation and unjust enrichment are also alleged. Allocated compensatory, exemplary and punitive damages, plus other costs against each defendant, are demanded as well as injunctive relief. The Court dismissed the claims against Smith & Wesson on October 7, 1999 and the Ohio Court of Appeals affirmed the dismissal. The Ohio Supreme Court has granted the plaintiffs’ request for a review of the Court of Appeals’ decision.

Mayor Michael R. White, and the City of Cleveland v. Hi-Point Firearms, et al. in the United States District Court for the Northern District of Ohio. The complaint alleges that handgun manufacturers, distributors, and trade associations have failed to

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provide adequate warnings with the firearms, and have failed to incorporate safety devices that would prevent unauthorized users from firing the guns. The complaint also alleges unjust enrichment, nuisance abatement, and public nuisance claims. Actual and punitive damages, plus other costs against each defendant, are demanded, as is injunctive relief. The Court has denied the Defendants’ Motion to Dismiss and the case is in the discovery stage.

Dennis W. Archer, Mayor of the City of Detroit, et al. v. Arms Technology, Inc., et al. in the Circuit Court for the County of Wayne in Michigan. The complaint, which was filed on April 26, 1999, alleges that firearms manufacturers, distributors, and dealers are negligent and have created a public nuisance by allegedly making firearms easily available to unauthorized firearms users. Compensatory and exemplary damages plus other fees and costs allocated against each defendant and injunctive relief are demanded. The Court granted defendants’ Motion to Dismiss on the issue of negligence but denied their Motion on the issue of public nuisance.

City of Gary, Indiana, by its Mayor, Scott L. King v. Smith & Wesson Corp., et al. in Lake Superior Court, Indiana. The complaint, which was filed on April 27, 1999, alleges that the defendants have created a public nuisance due to their negligent marketing and distribution practices, which allegedly enables guns to be purchased by juveniles, criminals, and other prohibited persons. The complaint also alleges design defects in firearms due to allegedly inadequate warnings and lack of safety devices. Compensatory, punitive, general and special damages, as well as preliminary and permanent injunctive relief, are demanded. The Court dismissed all claims against Smith & Wesson on January 11, 2001. Although the plaintiffs subsequently filed an amended complaint, the Court also dismissed the amended complaint on March 13, 2001. The plaintiffs have filed an appeal with the Indiana Court of Appeals.

People of the State of California, by and through attorneys for the cities of Los Angeles, Compton, Inglewood, and West Hollywood, et al. v. Arcadia Machine & Tool, et al. in the Superior Court of the State of California, County of San Diego. The complaint was filed on May 25, 1999. The complaint alleges that handgun manufacturers, distributors, retailers and trade association have allegedly created a public nuisance by allegedly contributing to juveniles and criminals obtaining handguns. The complaint also alleges a violation to the California Business and Professions Code in that handgun manufacturers, distributors, retailers, and trade associations have allegedly failed to implement safety features that would allegedly prevent unauthorized users from using guns. Injunctive and declaratory relief is demanded.* The case is in the discovery stage.

People of the State of California ex. rel. the County of Los Angeles, et al. v. Arcadia Machine Tool, et al. in the Superior Court, County of San Diego, California. The complaint, which was filed on August 6, 1999, alleges a violation of the California Business and Professions Code in that handgun manufacturers, distributors,

* The City of Los Angeles, Los Angeles County, and San Francisco cases have been consolidated as JCCP 4095 in the Superior Court of San Diego County.

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retailers and trade associations have created a public nuisance and have contributed to the juveniles, criminals, and unauthorized users obtaining handguns. The complaint also alleges that handgun manufacturers have failed to incorporate reasonable safety features that allegedly would prevent felons, minors or other unauthorized users from using handguns. Preliminary damages to be determined by the Court are demanded, as well as permanent injunctive relief. * This case is in the discovery stage.

Alex Penelas, Mayor of Miami-Dade County v. Arms Technology, Inc., et al. in the Circuit Court in Miami-Dade County, Florida. The complaint was filed on January 25, 1999. That complaint asserts claims in negligence, strict liability, negligent entrustment, and public nuisance against a number of firearms manufacturers and trade associations for the costs of governmental services and decrease of property values arising out of the criminal, suicidal and accidental misuse of firearms. The suit also seeks imposition of a “Constructive Trust” and the entry of an injunction. The Court dismissed the case on December 13, 1999 and the Florida Court of Appeals affirmed the dismissal. The plaintiffs sought certification of an appeal to the Florida Supreme Court, but the Court of Appeals denied the motion for certification. Subsequently, the plaintiffs filed an application to invoke discretionary jurisdiction with the Florida Supreme Court, which has not yet issued a decision.

Mayor Marc H. Morial and the City of New Orleans v. Smith and Wesson Corp. et al, in the Civil District Court for the Parish of Orleans, Louisiana. The complaint alleges that firearms manufacturers produce products without certain “safety devices” which result in criminals using their products illegally. Civil conspiracy among firearms manufacturers is also alleged. General, punitive, and compensatory damages are demanded from each defendant in an amount to be proven at trial. The Louisiana Supreme Court dismissed this case on April 13, 2001.

City of New York, et al. v. Arms Technology, Inc. et al., in the United States District Court for the Eastern District of New York. The complaint was filed on June 20, 2000. The complaint alleges that the defendants have created, contributed to, and maintained a public nuisance to the City of New York because of their allegedly negligent marketing and distribution practices. The complaint also alleges that the defendants have failed to design firearms with safety devices, and have allegedly failed to provide adequate warnings. Plaintiffs seek injunctive relief, compensatory, general and punitive damages, plus other costs to be determined by the Court. The parties are currently conducting discovery.

Mayor James Sharpe, and the City of Newark, New Jersey v. Arcadia Machine & Tool, et al. in the Superior Court of New Jersey in Essex County, New Jersey. The complaint was filed on June 9, 1999. The complaint alleges that firearms manufacturers and their agents have allegedly failed to implement safety features that would allegedly prevent unauthorized or unintended users from using the guns. The complaint also alleges that gun manufacturers and their agents have allegedly created

* The City of Los Angeles, Los Angeles County, and San Francisco cases have been consolidated as JCCP 4095 in the Superior Court of San Diego County.

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a public nuisance by making it easy for juveniles, felons, and other unauthorized users to obtain guns through illegal markets. Punitive and exemplary damages to be determined by the Court are demanded.

City of Philadelphia, et al. v. Beretta U.S.A. Corp., et al., in the United States District Court for the Eastern District of Pennsylvania. The complaint, which was filed on April 11, 2000, alleges that defendants have created, contributed to, and maintained a public nuisance by their marketing and distribution of handguns. The complaint also alleges defendants have over-supplied the handgun market, allegedly making it possible for illegal purchasers to obtain handguns. Plaintiffs seek injunctive relief and unstated compensatory and punitive damages to be determined by the Court. This case was removed to federal court on May 12, 2000 and that court subsequently dismissed the case. The plaintiffs filed an appeal, which is pending before the United States Court of Appeals for the Third Circuit.

City of St. Louis, Missouri v. Henry J. Cernicek, et al., in the Circuit Court of the City of St. Louis, Missouri. The complaint alleges that firearms manufacturers, distributors, dealers, sellers, agents and trade associations have failed to utilize safety devices which would prevent unauthorized users from firing guns and causing a “public nuisance.” The complaint also alleges negligence in design and warnings, civil conspiracy and unjust enrichment. Allocated compensatory and punitive damages, plus other fees against each defendant, are demanded as well as an order to “abate” the nuisance. The case was removed to federal court on November 29, 2000 and the defendants’ Motion to Dismiss is pending before that court.

City of San Francisco, et al. v. Arcadia Machine & Tool, Inc. et al., in the Superior Court of San Diego County, California. The complaint was filed on May 25, 1999. The complaint alleges that firearms manufacturers, distributors, and trade associations have created a public nuisance and have contributed to minors, criminals, and other unauthorized users obtaining handguns. The complaint also alleges a violation of the California Business and Professions Code in that the defendants have allegedly failed to incorporate reasonable safety features that would allegedly prevent minors, criminals, or other unauthorized users from using the guns. Injunctive and declaratory relief is demanded. * This case is in the discovery stage.

District of Columbia, and Bryant Lawson v. Beretta U.S.A. Corp., et al., in the Superior Court for the District of Columbia. The complaint, which was filed on January 20, 2000, alleges defendants have manufactured, imported, and sold “assault weapons” that have been criminally brought into the District of Columbia, and have failed to exercise reasonable marketing and distribution of firearms, thereby creating a public nuisance to the District of Columbia. The complaint also alleges that Lawson was shot near his home as he was fleeing three armed men using an unspecified firearm. Compensatory, exemplary, punitive damages, and injunctive relief are demanded.

* The City of Los Angeles, Los Angeles County, and San Francisco cases have been consolidated as JCCP 4095 in the Superior Court of San Diego County.

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Edward H. McNamara, Wayne County Executive, et al. v. Arms Technology, Inc., et al. in the Circuit Court for the County of Wayne in Michigan. The complaint, which was filed on April 26, 1999, alleges that firearms manufacturers, distributors, and dealers are negligent and have created a public nuisance allegedly by making firearms easily available to juveniles, criminals, and other unauthorized firearms users. Compensatory damages in excess of \$200 million and exemplary damages in excess of \$200 million allocated against each defendant are demanded as well as equitable relief. The Court granted the defendants’ Motion to Dismiss on the issue of negligence, but denied their Motion on the issue of public nuisance. This case has been consolidated with the City of Detroit case.

Mayor James H. Sills, Jr., et al. v. Smith & Wesson Corp., et al., in the Superior Court of the State of Delaware in and for New Castle County. The complaint, which was filed on September 29, 1999, alleges that defendants have allegedly caused harm to the plaintiffs and the City of Wilmington due to the manufacture, marketing, promotion, negligent distribution and sale of firearms. Complaint also alleges dangerous design, lack of safety features, and inadequate warnings, which allegedly make handguns dangerous because unauthorized users can fire them. Compensatory and punitive damages, plus other fees and costs to be determined by the Court are demanded. The Court has dismissed the claims that are based on negligent marketing and distribution, unjust enrichment, and public nuisance. Discovery has been stayed until the plaintiffs can establish their damages.

Anthony Ceriale, Special Administrator of the Estate of Michael Ceriale, Deceased v. Smith & Wesson Corp., et al. in the Circuit Court of Cook County, Illinois. The complaint, which was filed on May 20, 1999, alleges that Chicago Police Officer Michael Ceriale was shot with a handgun by a gang member while

conducting narcotics surveillance. The complaint, brought as a putative class action against a number of manufacturers and distributors, alleges firearms manufacturers have created a public nuisance resulting in illegal possession and use by unauthorized persons. Damages plus other costs and fees against one or more handgun manufacturers are demanded. The Court granted the defendants' Motion to Dismiss the negligence claims and denied the Motion to Dismiss the public nuisance claims. Discovery has begun on the class certification issue but is stayed pending resolution of the defendants' interlocutory appeal to the Illinois Court of Appeals.

Obrellia Smith, Administratrix of the Estate of Salada Smith, Deceased, individually and on behalf of a class of similarly situated persons v. Navegar, Inc. et al., in the Circuit Court of Cook County, Illinois. The complaint, which was filed on November 20, 1998, alleges that the plaintiff's decedent was murdered with a handgun by a gang member. The complaint also alleges that firearms manufacturers have created a "public nuisance" by intentionally supplying handguns to the underground market for use by gang members and juveniles. Damages plus fees and costs to be determined by the Court are demanded. The parties are currently conducting discovery.

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Stephen Young, Special Administrator of the Estate of Andrew Young, individually and on behalf of a class of similarly situated persons v. Bryco Arms, et al., in the Circuit Court of Cook County, Illinois. The complaint, which was filed on June 8, 1998, alleges that Mario Ramos and a juvenile gang member with a handgun killed the plaintiff's decedent. The complaint also alleges that firearms manufacturers have created a "public nuisance" by "oversupplying" the handgun market resulting in illegal possession and use by gang members and juveniles. Damages plus fees and costs to be determined by the Court are demanded. The Court granted the defendants' Motion to Dismiss the negligence claims and denied the Motion to Dismiss the public nuisance claims. Discovery has begun on the class certification issue but is stayed pending resolution of the defendants' interlocutory appeal to the Illinois Court of Appeals.

Gladys Gerena, Administratrix of the Estate of Shawn Johnson, Deceased, and Individually; Kenneth McLaughlin, III vs. Accu-tek et al., in the United States District Court, Eastern District of New York. The complaint, which was filed on July 9, 1997, alleges that on or about September 1, 1995, Johnson suffered a fatal criminal assault, and on or about June 30, 1996, McLaughlin suffered injuries as a result of an intentional criminal act by unnamed assailants. Both instances occurred utilizing products allegedly manufactured by some of or all 61 defendants, allegedly including Smith & Wesson. Compensatory, exemplary, and punitive damages in an amount to be determined at trial are demanded. One of the plaintiffs and Smith & Wesson have signed a stipulation to dismiss Smith & Wesson from the McLaughlin claims; however, the judge has not yet signed the stipulation. This case has been stayed pending a decision by the U.S. Court of Appeals for the Second Circuit in Hamilton, et al. v. Accu-tek, et al.

Monalisa Harris, Administratrix and Individually, v. American Arms., et al., in the U.S. District Court for the Eastern District of New York. The complaint, which was filed on August 4, 1998, alleges that on August 10, 1996 the plaintiff's decedent was injured as a result of a criminal shooting by persons unknown using a firearm manufactured and sold by persons unknown. Actual, compensatory, and punitive damages to be determined by the Court are demanded. This case has been stayed pending a decision by the U.S. Court of Appeals for the Second Circuit in Hamilton, et al. v. Accu-tek, et al.

National Association for the Advancement of Colored People, et al. v. AcuSport Corporation, et al., in the District Court for the Eastern District of New York. The complaint was filed on July 15, 1999. The complaint alleges that defendants have allegedly failed to regulate, supervise, and control marketing, distribution, and sales practices of handguns, which has allegedly resulted in a disproportionate number of injuries and deaths of members of the NAACP. The complaint also alleges that defendants allegedly fail to incorporate safety devices to prevent or reduce improper use. Injunctive relief only is sought; no monetary damages are claimed. This case is in the discovery stage.

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Iris Prosper, Guardian Ad Litem of Erica Prosper, Yessenia Prosper and April Prosper, infants, and Iris Prosper, Individually vs. Accu-tek et al., in the United States District Court, Eastern District of New York. The complaint, which was filed on May 13, 1997, alleges that on or about May 16, 1994, the plaintiff's decedent was intentionally injured by a criminal utilizing a product allegedly manufactured by some of or all 61 defendants, allegedly including the Company. Compensatory, exemplary and punitive damages in an amount to be determined at trial are demanded.

Kim Ricchuetto, Administratrix of the Estate of Raymond M. Ricchuetto, Deceased v. Beretta U.S.A. Corp. et al., in the Supreme Court for the State of New York, County of Monroe. This complaint was filed on October 4, 2000 and asserts a claim for wrongful death based on the allegedly negligent marketing, distribution, and sale of firearms by the defendants. This case is in the discovery stage.

James Foster-el, et al. v. Beretta, U.S.A. Corp., et al., in the Superior Court for the District of Columbia. The complaint was filed on June 20, 2000. The case has been removed to federal court. The complaint alleges that an assailant utilizing a handgun of unknown manufacture fatally injured the plaintiff's wife during a neighborhood dispute. Plaintiffs seek general, special, compensatory, and punitive damages, injunctive relief, and other costs to be determined by the Court.

Laura Wallace, Individually and as Representative of the Estate of Andre Wallace, et al. v. Beretta U.S.A. Corp., et al., in the Superior Court for the District of Columbia. The complaint was filed on February 7, 2001; it asserts personal injury claims as to three of the plaintiffs and wrongful death claims on behalf of the other two plaintiffs. The complaint alleges that the defendants negligently marketed and distributed firearms, causing personal injuries and death.

Peter Edward Fudali v. Smith & Wesson Corp., et al., in the Frederick County Circuit Court in Maryland. The complaint was filed on March 4, 1999 and stems from an incident that occurred on March 8, 1996. The complaint alleges that Fudali's Model 29 .44 Magnum revolver discharged unexpectedly while he was preparing to shoot the revolver in his neighbor's backyard, causing fragments of metal and burning gun powder to strike him in the forehead and eye. The complaint asserts claims for negligence and strict liability and seeks damages plus other costs and fees. The Court has entered an order granting summary judgment in favor of Smith & Wesson; however, Smith & Wesson is waiting for the Court's ruling on certification of the dismissal as a final order.

Jamaal Anwar K. Wright v. Smith & Wesson Corp., et al., in the Madison County Circuit Court in Indiana. The complaint was filed on May 28, 1999. It alleges that while Wright was at a graduation party on October 30, 1997 he was shot by Shantrelle Leon Patterson using a Smith & Wesson semi-automatic pistol loaded with Remington ammunition. The plaintiff has alleged that Smith & Wesson knew or should have known that the pistol would be used by Patterson to

injure the plaintiff and that Smith & Wesson negligently produced and manufactured a product that was capable of being used to kill and injure people. The complaint seeks damages for

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injuries allegedly suffered by Wright. The Court has entered an order dismissing all claims against Smith & Wesson with prejudice. This order is not yet final and counsel representing Smith & Wesson expects a certification petition to be presented.

Royce D. Ryan, a minor, by his parent and natural guardian, Lori Ryan v. Smith & Wesson Corp., et al., in the Court of Common Pleas of Philadelphia County, Pennsylvania. This lawsuit was filed on April 14, 2000. The complaint alleges that Ryan was shot in the head with a Smith & Wesson 9mm pistol and seriously injured at the home of Jared McMunn, a fourteen year old neighbor, when McMunn retrieved the pistol from his parents' dresser drawer and, believing the pistol to be unloaded, pointed it at Ryan and pulled the trigger. The complaint asserts claims for negligence and strict liability and alleges that the pistol was defective because it lacked design features to prevent it from being fired by an unauthorized user. The complaint also seeks compensatory and punitive damages on behalf of Royce Ryan. This case is now in the discovery stage.

Jeffrey Maxwell v. Smith & Wesson Corp., et al., in the Court of Common Pleas of Franklin County, Ohio. The complaint was filed on May 14, 1999 and seeks damages for injuries allegedly sustained by Maxwell on May 15, 1997. The complaint alleges that Maxwell was attempting to unload a Smith & Wesson Model 5906 9mm pistol late at night while sitting in his parked vehicle. The complaint alleges that Maxwell pulled back the slide after removing the magazine but the round in the chamber did not eject and that, upon releasing the slide, the pistol discharged. Maxwell's complaint asserts claims for negligence, strict liability, and breach of warranty relating to the design, development, research, testing, manufacture and distribution of the handgun. This case is now in the discovery stage. Smith & Wesson has received an order from the Court setting this matter for trial on September 17, 2001.

Darrell Bowling v. Smith & Wesson Corp., et al., in the Circuit Court in Perry County, Kentucky. The complaint was filed on June 9, 2000 and seeks damages for personal injuries allegedly sustained by Bowling on June 12, 1999. The plaintiff claims that Kelly Frank Miller, a convicted felon, who was in possession of a Smith & Wesson Model 36 revolver, shot him. The complaint originally asserted strict liability and negligence claims. However, the plaintiff amended the complaint on July 6, 2000 to withdraw the traditional tort claims and the plaintiff has elected to proceed on a theory of public nuisance by arguing that the manufacture, distribution, and sale of firearms has created an unreasonable danger to the public. Smith & Wesson filed a Motion to Dismiss on July 24, 2000 and subsequently argued that motion before Judge Combs. The Court has not yet ruled on the Motion to Dismiss.

Willie K. Wilson v. Smith & Wesson Corp., et al., in the Circuit Court for Oakland County in Michigan. The complaint was filed on May 11, 2000 and seeks damages for injuries allegedly sustained by the plaintiff on December 19, 1986. It is alleged that Wilson, who was five years old at the time of the incident, retrieved his father's Smith & Wesson .357 Magnum handgun from under a bed and suffered a self-inflicted wound to his hand. After reaching the age of majority, Wilson filed suit

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against Smith & Wesson and his father. The complaint asserts theories of negligence and strict liability based on, among other things, a failure to design the handgun with a mechanical safety and external locking feature to prevent unauthorized access to the firearm. On April 5, 2001, the Court dismissed all claims against Smith & Wesson based on the plaintiff's failure to cooperate in providing discovery.

Christopher M. Myers v. Smith & Wesson Corp., et al., in the District Court of Worth County, Iowa. The complaint was filed on September 8, 2000 and seeks unspecified damages for personal injuries that Myers allegedly sustained on September 9, 1998. The complaint alleges that Myers, who was apparently employed as a deputy sheriff at the time, stopped a car driven by Jake Russell Giles because he thought the vehicle matched the description of one involved in a nearby robbery. The complaint further alleges that Myers could not defend himself when Giles fired at him because his Smith & Wesson Sigma Series pistol did not fire when he pulled the trigger. This case is currently in the discovery stage.

Anya Sobodinska and Simon G. Kublanov v. Smith & Wesson Corp., et al., in the United States District Court for the Southern District of New York. The complaint was filed on October 17, 2000 and seeks unspecified damages for personal injuries allegedly sustained by the plaintiff on June 23, 1997. According to the complaint, Kublanov, who is Sobodinska's husband, accidentally shot his wife while retrieving his Smith & Wesson .38 caliber revolver from the safe in his office. Plaintiff's suit appears to be based on a theory that the revolver lacked an adequate load indicator or other feature to warn users that the cylinder contains live rounds. This case is currently in the discovery stage.

Oren Gorden v. Smith & Wesson Corp., et al., in the Territorial Court of the Virgin Islands, District of St. Croix. The complaint was filed on January 19, 2001 and seeks compensatory damages for personal injuries allegedly sustained by Oren Gorden. Gorden alleges that he owns a Smith & Wesson handgun that malfunctioned and exploded when he tried to fire it. Smith & Wesson has filed an answer denying all allegations of liability and the parties are proceeding with discovery.

Tenedora Tuma, S.A. v. Smith & Wesson Corp., in the Civil and Commercial Court of the First District of the Court of First Instance of the National District, Santo Domingo, Dominican Republic. The plaintiff commenced this suit by submitting a request for a preliminary reconciliation hearing. After two preliminary reconciliation hearings, the Reconciliation Committee issued a Certificate of Lack of Agreement. Thereafter, a Summons and Notice of Claim was issued to Smith & Wesson on January 17, 2000. The plaintiff alleges Smith & Wesson terminated its distributor agreement without just cause and seeks damages of \$20 million Dominican Republic Pesos plus interest for allegedly violating Dominican Republic Law 173 for the Protection of Importers of Merchandise and Products. This case is in the discovery stage.

George Jureidini v. Smith & Wesson Corp., et al., in the Civil Court of First Instance Commercial Dispute Division, Beirut, Lebanon. The complaint was filed on

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June 29, 1999 and seeks \$750,000 in damages. The plaintiff alleges that Smith & Wesson wrongfully terminated his distributor agreement for the territory of Lebanon.

Diamond Products Marketing, Inc. v. Walther USA, a division of Smith & Wesson Corp., in the United States District Court for the Middle District of Florida, Orlando Division. The complaint was filed on July 21, 2000 and seeks damages and injunctive relief. The complaint asserts claims of patent infringement, tortious interference with business relationships or expectancy, and conversion of trade secrets. The plaintiff alleges that Walther USA, LLC manufactured and marketed a product that infringes its patent for a device used to mount a small flashlight to a handgun and that the allegedly infringing product appeared in one of Walther USA's catalogs. The case has reached the discovery stage.

Lisa Gjelaj v. Smith & Wesson Academy, et al., before the Commonwealth of Massachusetts Commission Against Discrimination. The complaint was filed on December 27, 2000 and seeks unspecified relief. The plaintiff alleges that an instructor at the Smith & Wesson Academy in Springfield, Massachusetts discriminated against her on account of her gender and sexually harassed her at various times during a two-week firearms training program held in June of 2000.

Smith & Wesson Corp. v. Springfield Conservation Commission, filed January 11, 2001, in Hampden County Superior Court, Massachusetts. A portion of Smith & Wesson's property located at 2100 Roosevelt Avenue known as the Fire Pond is contaminated with petroleum and metals. On November 8, 2000, the Springfield Conservation Commission issued an Order of Conditions that denied approval for Smith & Wesson's plans to bring the Fire Pond into compliance with environmental laws by capping portions of the sediments in the Fire Pond, as recommended by its environmental consultants. The Commission proposed instead that Smith & Wesson remediate by means of dredging. Smith & Wesson filed this suit seeking a judgment that the Commission's action was unlawful and should be set aside and that the Commission should issue an order approving Smith & Wesson's plan to bring the Fire Pond into compliance with environmental laws by capping. If Smith & Wesson's appeal of the Commission's order is unsuccessful, the cost of remediating the Fire Pond could increase substantially from Smith & Wesson's current estimates.

ITEM 2. CHANGES IN SECURITIES

(c) Recent Sales of Unregistered Securities

In March 2000, the Company issued convertible debentures with a face value of \$1,000,000, in reliance on Rule 504 of Regulation D promulgated under the Securities Act of 1933. The debentures are convertible into common stock at the discretion of the holder at a 25% discount. As of December 31, 2000, \$841,000 of the Debentures have been converted into 2,651,658 shares of common stock at an average price of \$0.317 per share. During January 2001, the remaining \$159,000 of the Debentures were converted into 1,799,029 shares of common stock at an average price of \$0.088 per share.

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In March of 2001, Saf-T-Hammer obtained a short-term loan from an unrelated party for \$500,000. In consideration for the making of this loan, Saf-T-Hammer issued warrants to purchase 4,500,000 shares of Saf-T-Hammer's common stock, par value of \$.001 per share, at the exercise price of \$.40 per share subject to adjustment as set forth in the warrants. Saf-T-Hammer relied upon Section 4(2) of the Securities Act of 1933 with respect to the issuance of these warrants.

In March, 2001, Saf-T-Hammer issued warrants to two unrelated parties to purchase an aggregate of 300,000 shares of Saf-T-Hammer's common stock, par value of \$.001 per share, at the exercise price of \$.50 per share subject to adjustment as set forth in the warrants. These warrants were issued as payment of a finder's fee for arranging the \$500,000 short-term loan described above. The form of the warrant issued is attached to this report as Exhibit 4.9. Saf-T-Hammer relied upon Section 4(2) of the Securities Act of 1933 with respect to the issuance of these warrants.

The initial payment of \$5 million for the acquisition of Smith & Wesson was obtained as a loan (the "Loan") from Colton Melby, who is currently a director of Saf-T-Hammer. In consideration for the making of the Loan, Saf-T-Hammer issued to Mr. Melby a Common Stock Purchase Warrant dated May 6, 2001 (the "Warrant"). The Warrant is exercisable immediately, expires six years after the date of issuance, and entitles Mr. Melby to purchase 7,094,500 shares of Saf-T-Hammer's common stock, par value of \$.001 per share, at the exercise price of \$.40 per share subject to adjustment as set forth in the Warrant. Saf-T-Hammer relied upon Section 4(2) of the Securities Act of 1933 with respect to the issuance of the Warrant.

Warrants were also issued to three affiliates of Mr. Melby in connection with the Loan. Each such warrant expires one year from the date of issuance and entitles the holder to purchase 300,000 shares of Saf-T-Hammer common stock, par value \$.001 per share at the 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 anytime after June 30, 2001 through the expiration date. Saf-T-Hammer relied upon Section 4(2) of the Securities Act of 1933 with respect to the issuance of these warrants.

Saf-T-Hammer paid a finders fee to two unrelated third parties for arranging the Loan from Mr. Melby. The finder's fee consisted of a cash payment of \$250,000 to each finder and a warrant to purchase 354,725 shares of common stock at the exercise price of \$1.00 per share in favor of each of the two individuals. Saf-T-Hammer relied upon Section 4(2) of the Securities Act of 1933 with respect to the issuance of these warrants.

On May 11, Saf-T-Hammer issued a warrant to Mitchell Saltz, who is a director of Saf-T-Hammer and Smith & Wesson, and the CEO of Saf-T-Hammer. The warrant is exercisable immediately, expires five years after the date of issuance, and entitles Mr. Saltz to purchase 5,000,000 shares of Saf-T-Hammer's common stock, par value of \$.001 per share, at the exercise price of \$.89 per share subject to adjustment as set forth in the warrant. The warrant was issued as a bonus to Mr. Saltz in consideration of past services to Saf-T-Hammer, including his role in the acquisition of Smith & Wesson. Saf-T-Hammer relied upon Section 4(2) of the Securities Act of 1933 with respect to the issuance of this warrant.

On May 11, Saf-T-Hammer issued a warrant to Robert L. Scott, who is a director of Saf-T-Hammer and Smith & Wesson, and the President of Saf-T-Hammer and Smith & Wesson. The warrant is exercisable immediately, expires five years after the date of issuance, and entitles Mr. Scott to purchase 5,000,000 shares of Saf-T-Hammer's common stock, par value of \$.001 per share, at the exercise price of \$.89 per share subject to adjustment as set forth in the warrant. The warrant was issued as a bonus to Mr. Scott in consideration of past services to Saf-T-Hammer, including his role in the acquisition of Smith & Wesson. Saf-T-Hammer relied upon Section 4(2) of the Securities Act of 1933 with respect to the issuance of this warrant.

[Table of Contents](#)**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**

4.7	Form of Common Stock Purchase Warrant dated March 19, 2001 and issued to binders in connection with \$500,000 short-term loan.
10.2	Trademark Agency Agreement between UMAREX Sportwaffen, GmbH and Smith & Wesson dated March 11, 2000.
10.3	Agreement between Smith & Wesson, Carl Walther USA, LLC, and UMAREX Sportwaffen, GmbH dated as of August 1, 1999.
10.4	Operating Agreement of Walther USA, LLC between Carl Walther USA, LLC and Smith & Wesson dated as of January 21, 2000.
10.5	Trademark License Agreement between UMAREX Sportwaffen, GmbH K.G. and Gutmann Cutlery, Inc. dated as of July 1, 2000.
10.6	Executive Employment Agreement between Smith & Wesson and Robert L. Scott dated as of May 11, 2001.

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10.7	Smith & Wesson Sales Representative Agreement between Smith & Wesson and Bonanza International, Inc. dated as of October 23, 1999.
10.8	Trademark License Agreement between Smith & Wesson and Olympic Optical Company dated as of November 1, 1995.
10.9	Trademark License Agreement between Smith & Wesson and Taylor Cutlery dated as of December 1, 1995.
10.10	Employment Agreement between Smith & Wesson and George C. Colclough dated February 1, 2001.
10.11	Letter Agreement between Smith & Wesson and George C. Colclough dated May 14, 2001.
10.12	Agreement between Smith & Wesson and Western Massachusetts Electric Company dated July 6, 1998.
10.13	Agreement between Smith & Wesson and Western Massachusetts Electric Company dated December 18, 2000.
10.14	Settlement Agreement between Smith & Wesson, the Department of the Treasury, and the Department of Housing and Urban Development dated March 17, 2000.
10.15	Letter Agreement between Smith & Wesson, the Department of the Treasury, and the Department of Housing and Urban Development dated May 2, 2000.
10.16	Settlement Agreement between Smith & Wesson, the City of Boston, and the Boston Public Health Commission.
10.17	Trademark License Agreement between UMAREX Sportwaffen, GmbH and Smith & Wesson dated August 1, 1996.
10.18	Trademark License Agreement between Smith & Wesson and Canadian Security Agency, Inc. dated May 31, 1996.

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B. Reports on Form 8-K

On May 29, 2001, the Company filed a report on Form 8-K relating to its acquisition of Smith & Wesson Corp. On July 30, 2001, the Company filed an amendment to this Form 8-K/A to file the financial statements required by Item 7 of Form 8-K.

On August 13, 2001, the Company filed a report on Form 8-K reporting a change in the Company's fiscal year end.

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 13th day of August, 2001.

SAF-T-HAMMER CORPORATION, a
Nevada corporation

By: /s/ Mitchell A. Saltz
Mitchell A. Saltz, CEO, Director

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INDEX TO EXHIBITS

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NEITHER THIS WARRANT NOR THE STOCK FOR WHICH IT MAY BE EXERCISED HAS BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("SECURITIES ACT"), OR ANY OTHER FEDERAL OR STATE SECURITIES LAW, AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF EXCEPT AS EXPRESSLY PROVIDED HEREIN. WITHOUT LIMITING THE FOREGOING, THIS WARRANT MAY NOT BE TRANSFERRED FOR A PERIOD OF TWELVE (12) MONTHS AFTER THE DATE OF ISSUANCE OF THIS WARRANT UNLESS PERMITTED BY THE TERMS OF THIS WARRANT AND APPLICABLE LAW.

[SAF-T-HAMMER LOGO]

SAF-T-HAMMER CORPORATION

COMMON STOCK PURCHASE WARRANT

No. _____

This certifies that, for value received, _____ ("Holder"), is entitled to subscribe for and purchase from Saf-T-Hammer Corporation, a Nevada corporation ("Company"), _____ shares, subject to adjustment as set forth in ARTICLE II below ("Warrant Shares"), of Common Stock of the Company, par value \$0.001 per share ("Common Stock"), at the exercise price of \$0.50 per share, which price is subject to adjustment as set forth in ARTICLE II below ("Exercise Price"), at any time and from time to time beginning on the date of this Warrant as set forth below ("Exercise Date"), and ending on the date that is two (2) years after the date of this Warrant ("Expiration Date"), upon written notice from the Holder to the Company ("Notice") and subject to the terms provided herein.

This warrant is subject to the following provisions, terms and conditions:

ARTICLE I.

EXERCISE; RESERVATION OF SHARES

Section 1.01 Warrant Exercise. The rights represented by this Warrant may be exercised by the Holder at any time and from time to time prior to the expiration of this Warrant, upon Notice, by the surrender at the principal office of the Company of this Warrant together with a duly executed subscription in the form annexed hereto ("Subscription Form") and accompanied by payment, in certified or immediately

available funds, of the Exercise Price for the number of Warrant Shares specified in the Subscription Form. The shares so purchased shall be deemed to be issued to the Holder as the record owner of such shares as of the close of business on the date on which this Warrant shall be exercised as hereinabove provided. No fractional shares or scrip representing fractional shares shall be issued upon exercise of this Warrant and the number of shares that shall be issued upon such exercise shall be rounded to the nearest whole share without the payment or receipt of any additional consideration.

Section 1.02 Certificates. Certificates for the shares purchased pursuant to Section 1.01 shall be delivered to the Holder within a reasonable time after the rights represented by this Warrant shall have been so exercised, and a new Warrant in the name of the Holder representing the rights, if any, that shall not have been exercised prior to the Expiration Date with respect to this Warrant shall also be delivered to such Holder within such time, with such new Warrant to be identical in all other respects to this Warrant. The term "Warrant," as used herein, includes any Warrants into which this Warrant may be divided or combined and any subsequent Warrants issued upon the transfer or exchange or reissuance upon loss hereof.

Section 1.03 Reservation of Shares. The Company represents, warrants, covenants and agrees:

(a) That all shares of Common Stock that may be issued upon exercise of this Warrant will, upon issuance, be validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof; and

(b) That during the period the rights represented by this Warrant may be exercised, the Company will at all times have authorized, and reserved for the purpose of issue and delivery upon exercise of the rights evidenced by this Warrant, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant.

ARTICLE II.

ADJUSTMENTS

Section 2.01 Adjustment Events.

(a) Capital Events. If any reorganization or reclassification of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets to another corporation (in any instance, a "Capital Event") shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets (including cash) with respect to or in exchange for their Common Stock, then, as a condition of such Capital Event, lawful and adequate provisions shall be made whereby the Holder hereof shall thereafter have the right to purchase and

receive upon the basis and upon the terms and conditions specified in this Warrant and in lieu of the shares of the Common Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, an amount of such shares of stock, securities or assets (including cash) as may have been issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby had such Capital Event not taken place.

(b) Preservation of Value. In the case of any Capital Event, appropriate provision shall be made with respect to the rights and interests of the Holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for adjustment of the number of shares that may be issued upon exercise of this Warrant and the Exercise Price hereof) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets (including cash) thereafter deliverable upon the exercise of the rights represented hereby.

(c) Obligation Expressly Assumed. The Company shall not effect any consolidation, merger or sale of all or substantially all of its assets, unless prior to the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger, or the corporation into or for the securities of which the previously outstanding stock of the Company shall be changed in connection with such consolidation or merger, or the corporation purchasing such assets, as the case may be, shall assume by written instrument executed and mailed or delivered to the registered Holder at the last address of such Holder appearing on the books of the Company, the obligation to deliver to such Holder, upon exercise of this Warrant, such shares of stock, securities or assets (including cash) as, in accordance with the foregoing provisions, such Holder may be entitled to purchase.

Section 2.02 Subdivision or Combination of Stock. In the event that the Company shall at any time subdivide or split its outstanding shares of Common Stock into a greater number of shares, the number of Warrant Shares subject to issuance upon exercise of this Warrant at the opening of business on the day upon which such subdivision becomes effective shall be proportionately increased. In the event that the outstanding shares of Common Stock of the Company shall be combined into a smaller number of shares, the number of shares subject to issuance upon exercise of this Warrant at the opening of business on the day upon which such subdivision becomes effective shall be proportionately decreased. Any such increase or decrease, as the case may be, shall become effective immediately after the opening of business on the day following the day upon which such subdivision or combination, as the case may be, becomes effective.

Section 2.03 Stock Dividends. In the event that the Company shall at any time declare any dividend or distribution upon its Common Stock payable in stock, the number of Warrant Shares subject to issuance upon exercise of this Warrant shall be increased by

the number (and the kind) of shares which would have been issued to the holder of this Warrant if this Warrant were exercised immediately prior to such dividend. Such increase shall become effective immediately after the opening of business on the day following the record date for such dividend or distribution.

Section 2.04 Treasury Shares. The number of shares of Common Stock outstanding at any given time shall not include shares of the Company owned or held by or for the account of the Company.

Section 2.05 Minimum Adjustment. No adjustment in the number of shares that may be issued upon exercise of this Warrant as provided in this Article II shall be required unless such adjustment would require an increase or decrease in such number of shares of at least one percent (1%) of the then adjusted number of shares of Common Stock that may be issued upon exercise of this Warrant; provided, however, that any such adjustments that by reason of the foregoing are not required to be made shall be carried forward and taken into account and included in determining the amount of any subsequent adjustment; and provided further, that if the Company shall at any time subdivide or combine the outstanding shares of Common Stock or issue additional shares of Common Stock as a dividend, said percentage shall forthwith be proportionately adjusted so as to appropriately reflect the same.

Section 2.06 Adjustment of Exercise Price. Whenever the number of shares of Common Stock that may be issued upon exercise of this Warrant is adjusted, and effective at the time such adjustment is effective, as provided in Sections 2.01, 2.02 and 2.03 of this Article II, the Exercise Price shall be adjusted (to the nearest whole cent) by multiplying each such Exercise Price immediately prior to such adjustment by a fraction (x) the numerator of which shall be the number of shares of Common Stock which may be issued upon the exercise of each such Warrant immediately prior to such adjustment, and (y) the denominator of which shall be the number of shares of Common Stock so purchasable immediately thereafter. The Company may retain a firm of independent certified public accountants (which may not be the regular accountants employed by the Company) to make any required computation, and a certificate signed by such firm shall be conclusive evidence of the correctness of such adjustment.

Section 2.07 Record Date. In the event that the Company shall not take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend payable in Common Stock, then such record date shall be deemed for the purposes of this Article II to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend.

Section 2.08 Officer's Certificate. Whenever the Exercise Price shall be adjusted as provided in this Article II, the Company shall forthwith file with its Secretary and retain in the permanent records of the Company, an officer's certificate showing the adjusted Exercise Price determined as provided in this Article II, setting forth in reasonable detail the facts requiring such adjustment, including a statement of the number of additional or fewer shares of Common Stock, and such other facts as may be

reasonably necessary to show the reason for and the method of computing such adjustment. Each such officer's certificate shall be made available at all reasonable times for inspection by the Holder.

Section 2.09 Notice of Adjustment. Upon any adjustment of the number of shares that may be issued upon exercise of this Warrant or the Exercise Price, the Company shall give notice thereof to the Holder, which notice shall state the increase or decrease, if any, in the number of shares that may be issued upon the exercise of this Warrant and the Exercise Price, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

Section 2.10 Definition of "Common Stock". As used in this Article II, the term "Common Stock" shall mean and include all of the Company's authorized Common Stock of any class as constituted on the date of this Warrant as set forth below, and shall also include any capital stock of any class of the Company thereafter authorized that shall not be limited to a fixed sum or stated value in respect of the rights of the holders thereof to participate in dividends or the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Company.

Section 2.11 Exclusion of Certain Stock. Notwithstanding anything in this Article II, no adjustment of the Exercise Price or the number of shares to be issued upon exercise of this Warrant shall be made upon, (i) the grant of options under any stock option plan of the Company now existing or hereafter adopted by the Company (as any such plan may be amended from time to time) or (ii) the issuance of shares of Common Stock upon the exercise of options granted under any such plan or (iii) other events where adjustment is not specifically required by this Warrant.

ARTICLE III.

TRANSFER RESTRICTIONS

Section 3.01 Securities Law Transfer Restrictions. By taking and holding this Warrant, the Holder (i) acknowledges that neither this Warrant nor any shares of Common Stock that may be issued upon exercise of this Warrant have been registered under the Securities Act or any applicable state securities or blue sky law (collectively, "Securities Laws"); (ii) agrees not to sell, transfer or otherwise dispose of this Warrant, and agrees not to sell, transfer or otherwise dispose of any such shares of Common Stock without registration unless the sale, transfer or disposition of such shares can be effected without registration and in compliance with the Securities Laws; and (iii) agrees not to sell, transfer or otherwise dispose of this Warrant or any portion thereof or interest therein except as otherwise expressly permitted herein. No part of this Warrant or any portion thereof or interest therein may be transferred, whether voluntarily, involuntarily or by operation of law, except to a Permitted Transferee as hereinafter defined. "Permitted Transferee" shall mean a successor by inheritance or in testate succession to any interest in this Warrant or any portion thereof and who accepts by written instrument reasonably acceptable to the Company each of the terms and conditions that govern this Warrant.

Without limiting the foregoing, no rights in this Warrant may be transferred for twelve (12) months after the date of issuance of this Warrant. Any certificate for shares of Common Stock issued upon exercise of this Warrant shall bear an appropriate legend describing the foregoing restrictions, unless such shares of Common Stock have been effectively registered under the applicable Securities Laws.

Section 3.02 Provision of Information by Holder. The Holder shall make available to the Company such written information, presented in form and content satisfactory to the Company, as the Company may reasonably request, from time to time, in order to make the determination provided for in Section 3.01.

ARTICLE IV.

MISCELLANEOUS

Section 4.01 Transfer of Warrants. No right or interest in this Warrant shall be transferable except as provided in Article III.

Section 4.02 Notices. Any notice or communication to be given pursuant to this Warrant shall be in writing and shall be delivered in person or by certified mail, return receipt requested, in the United States mail, postage prepaid. Notices to the Company shall be addressed to the Company's principal office. Notices to the Holder shall be addressed to the Holder's address as reflected in the records of the Company. Notices shall be effective upon delivery in person, or, if mailed, at midnight on the fifth business day after mailing.

Section 4.03 No Shareholder Rights. This Warrant shall not entitle the Holder to any voting rights or other rights as a shareholder of the Company.

Section 4.04 Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of Arizona.

Section 4.05 Headings; Interpretation. The section headings used herein are for convenience of reference only and are not intended to define, limit or describe the scope or intent of any provision of this Warrant. When used in this Warrant, the term "including" shall mean "including, without limitation."

Section 4.06 Successors. The covenants, agreements and provisions of this Warrant shall bind the parties hereto and their respective successors and permitted assigns.

Section 4.07 Integrated Agreement; Modification. This Warrant is a complete statement of the agreement of the parties with respect to the subject matter hereof and may be modified only by written instrument executed by the parties.

IN WITNESS WHEREOF, the Company has caused this Warrant to be issued effective as of the 19th day of March, 2001.

SAF-T-HAMMER CORPORATION, a Nevada corporation

By: /s/ Mitchell A. Saltz

Name: Mitchell A. Saltz

Its: CEO

SUBSCRIPTION FORM

(TO BE EXECUTED ONLY UPON EXERCISE OF WARRANT)

The undersigned registered owner of this Warrant irrevocably exercises this Warrant and purchases _____ shares of Common Stock of Saf-T-Hammer Corporation, a Nevada corporation, that may be issued under this Warrant and herewith delivers the sum of \$_____ in full payment of the Exercise Price for such shares, all on the terms and conditions specified in this Warrant. Such shares are to be delivered to such holder at the address reflected in the records of the Company unless contrary instructions are herein given.

Deliver certificates to:

Dated: _____

(Signature of Registered Owner)

(Street Address)

(City) (State) (Zip Code)

SMITH & WESSON CORP.

TRADEMARK AGENCY AGREEMENT

An Agreement between UMAREX Sportwaffen, GmbH, a corporation having its principal office at Donnerfeld 2, 59757, Amsberg, Germany (hereinafter "UMAREX"); and Smith & Wesson Corp., a corporation having its principal office at 2100 Roosevelt Avenue, Springfield, Massachusetts 01102-2208 (hereinafter "Smith & Wesson") with regard to the subject matter hereof. UMAREX is the owner of all right title and interest in and to the trademarks listed in Attachment A (UMAREX Trademarks), and wishes to issue licenses to third parties to use the aforesaid trademarks with a variety of goods and services listed in Attachment B (UMAREX Licensed Products and Services). Smith & Wesson is, inter alia, engaged in the business of obtaining third party licensees for its trademarks with respect to a wide range of goods and services, and has developed expertise in the development of potential licensees. UMAREX wishes to retain Smith & Wesson as art agent for UMAREX to similarly develop third party licensees for its trademarks. Smith & Wesson is desirous of acting in such a capacity.

In consideration of the mutual promises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, UMAREX and Smith & Wesson agree as follows:

1. Smith & Wesson shall act as an agent for UMAREX in soliciting potential licensees for its UMAREX Trademarks to be used in connection with UMAREX Licensed Products and Services. Smith & Wesson can act as an agent for UMAREX on a worldwide basis without geographic restriction as to the location of potential licensees. That is; Smith & Wesson may recruit potential licensees from the USA and Canada.

2. The agency relationship created by this Agreement between the Parties shall be non-exclusive. Nothing herein shall preclude UMAREX from soliciting licensees on its own, or establishing similar relationships with third parties. Similarly, Smith & Wesson shall not be restricted in its licensing either its own marks or establishing a similar agency agreement with third parties.

3. The term of this Agreement shall be for three (3) years or shall otherwise be coterminous with the Joint Venture Agreement of October, 1999. This Agreement can be extended for a successive three (3) year term after the conclusion of the initial term if a subsequent agreement between the parties is negotiated. A Party's determination not to extend this Agreement may be effected without cause.

4. Smith & Wesson shall solicit third parties as potential licensees and negotiate the terms and conditions of each proposed agreement between a potential licensee and UMAREX. Smith & Wesson shall promptly present the same to UMAREX for its consideration. UMAREX shall have sole discretion in accepting or rejecting any licensing agreement presented to it by Smith & Wesson. Smith & Wesson makes no representations as to any potential licensee, and UMAREX does not rely on Smith & Wesson in any way in granting or maintaining a trademark license. In no event shall Smith & Wesson be liable to UMAREX for any indirect, consequential, incidental, special or punitive damages or lost profits arising out of or relating to this Agreement or the performance or breach thereof.

5. UMAREX shall at all times during and after the term of this Agreement, and to the fullest extent permitted by law, indemnify, defend and hold harmless Smith & Wesson and its parents, successors, assigns, subsidiaries, affiliates and distributors, and the present and former directors, officers, agents and employees of each of the foregoing entities, from and against any and all damages, demands, claims, suits, actions, investigations, administrative proceedings, charges, costs and expenses, including, without limitation, attorneys fees and court costs, settlement amounts, judgments, compensation for damages to Smith & Wesson's reputation and any losses of any nature which arise out of or are based on the acts of Smith & Wesson in furtherance of its obligations hereunder.

6. Smith & Wesson promises to use its best efforts to obtain potential licensees for UMAREX. However, Smith & Wesson has no minimum number of potential licensees it must solicit, nor is there a minimum aggregate licensing revenue that licensees solicited by Smith & Wesson must produce, either on an annual basis or for the duration of the Agreement. UMAREX agrees not to reject a potential licensee identified by Smith & Wesson without reasonable cause.

7. Smith & Wesson shall receive fifty percent (50%) of all revenues collected from trademark licenses and any renewals thereof in which Smith & Wesson has acted as an agent for UMAREX, as set forth herein. Smith & Wesson shall receive no other compensation for its efforts under this Agreement. However, should a third party become a licensee of UMAREX within six (6) months of that Party being contacted by Smith & Wesson regarding a potential UMAREX license, then Smith & Wesson shall still receive fifty percent (50%) of all revenues collected from that trademark license and any renewals thereof.

8. Smith & Wesson shall collect licensing revenues on behalf of UMAREX for those trademark Licensees which Smith & Wesson has acted as an agent. On or before the fifteenth day of the first month of each calendar quarter beginning July 1, 2000, Smith & Wesson shall furnish to UMAREX full and accurate statements showing the number, description, total Net Sales Prices and gross revenue of Licensed Articles and Services sold, distributed or otherwise provided by each Smith & Wesson sourced Licensee during the preceding calendar quarter. Smith &

Wesson shall, simultaneously with such statements, pay to UMAREX the revenues generated therefrom. Smith & Wesson may credit against any such payment its fifty percent (50%) share of revenues contemporaneously with such quarterly statement. On or before the first day of the fourth month following the end of each Contract Year, Smith & Wesson shall furnish to UMAREX a statement showing total sales of Licensed Articles and Services, gross revenues therefrom as well as revenues and revenue share paid Smith & Wesson for the preceding year.

9. All notices and statements to be given hereunder shall be, in writing, any such notice or statement shall be deemed duly given if mailed by certified mail, return receipt requested, if to Smith & Wesson, at:

SMITH & WESSON CORP.
2100 Roosevelt Avenue
P.O. Box 2208
Springfield, MA 01102-2208, U.S.A.

Attention: John S. Steele
Director of Licensing

and if to UMAREX, at:

UMAREX SPORTWAFFEN, GmbH
Donnerfeld 2
59757 Amsberg, Germany

Attention: Wulf-H. Pflaumer

10. A Party wishing to terminate this Agreement shall give ninety (90) days notice of termination in accordance with the notice provisions herein. Note, however, that the duties and obligations with regard to the payment of fees to Smith & Wesson, and its obligations to account for the same in accordance with the provisions of this Agreement shall survive termination of this Agreement.

11. This relationship is separate from all other Walther LLC, UMAREX, and Smith & Wesson Agreements which are currently in-place. The Parties hereto agree to create an agency relationship only, no joint venture or other relationship is contemplated by this Agreement. Furthermore, this Agreement does not create a license or grant of any other interest in any of the intellectual property of one Party in favor of the other Party.

12. This Agreement sets forth the entire agreement between the parties, and supersedes all prior agreements and understandings between the Parties, relating to the subject matter hereof. None of the terms of this Agreement may be waived or modified except as expressly agreed, in writing, by both Parties. Should

any provision of this Agreement be declared void or unenforceable, the validity of the remaining provisions shall not be affected thereby. Forbearance on the part of a Party in exercising its rights hereunder, or as otherwise provided by law, shall not be construed as a waiver of those rights.

13. No Party shall voluntarily or by operation of law, assign or transfer this Agreement to a third party, except to a third party which is controlled by Licensee, or is associated therewith by common ownership. Any transfer or attempt to transfer of this license to any entity in which the present directors of Licensee do not have voting control shall be deemed an assignment prohibited hereunder. The consent of a Party to one assignment, transfer or sublicense shall not be deemed to be consent to any subsequent assignment or transfer.

14. This Agreement shall be made in the Commonwealth of Massachusetts and its terms shall be interpreted in accordance with and governed by the laws thereof. Any suit, action or other proceeding brought by Licensee which stems from or relates to the subject matter of this Agreement shall be limited to an action brought in U.S. District Court in Springfield, Massachusetts, USA.

15. The Parties hereto have caused this Agreement to be executed by their duly authorized officers or officials, effective as of the day and year first above written.

Witnessed by:

SMITH & WESSON CORP

By: /s/ L.E. Shultz

(Name) L.E. Shultz

(Title) President & CEO

Date: 3-11-2000

Witnessed by:

UMAREX Sportwaffen, GmbH

By: /s/ Wulf-H. Pflaumer

(Name) Wulf-H. Pflaumer

(Title) President & CEO

Date: 3-11-2000

ATTACHMENT A

UMAREX Trademarks

US Registered Trademarks

WALTHER(R)

WALTHER, PLUS BANNER LOGO (R)

AGREEMENT

Between

SMITH & WESSON CORP.

and

CARL WALTHER USA, LLC

and

UMAREX SPORTWAFFEN, GmbH

McCormick, Paulding & Huber LLP

Cityplace II, 185 Asylum Street
Hartford, Connecticut 06103

SIS Center, 1441 Main Street
Springfield, Massachusetts 01103

Tel. (860) 549-5290
Fax (860) 527-0464
E-Mail Address MPH@IP-Lawyers.com

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AGREEMENT

AGREEMENT, effective as of August 1, 1999, by and between SMITH & WESSON CORP., a Delaware Corporation with its principal office at 2100 Roosevelt Avenue, Springfield, Massachusetts 01102-2208, U.S.A. (hereinafter "S & W"), and CARL WALTHER USA, LLC, a Limited Liability Company having its principal office at 10 Prince Street, Alexandria, Virginia 22314 (hereinafter called "CARL WALTHER USA") and UMAREX SPORTWAFFEN, GmbH, a corporation having its principal office at Donnerfeld 2, 59757, Arnsberg, Germany (hereinafter "UMAREX"; UMAREX and CARL WALTHER, USA being jointly referred to herein as "UMAREX/CARL WALTHER" and together with S & W, collectively referred to herein as the "Parties" or "Party").

WITNESSETH:

WHEREAS, S & W is in the business of design, production, marketing and sales of handguns and handcuffs, identification and other software for public security services, as well as training for law enforcement personnel and civilians via the Smith and Wesson Academy and Armorers School;

WHEREAS, UMAREX/CARL WALTHER are in the business of design, production marketing and sales of handguns, airguns and related products;

WHEREAS, the Parties recognize the potential for increasing sales of their complementary product lines, as well as new products marketed both in the United States, as well as abroad, by means of a mutually cooperative arrangement; and

WHEREAS, S & W and UMAREX/CARL WALTHER desire to create a new company to exploit the aforementioned potential for increased sales and have agreed to pursue such a venture on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, the Parties do hereby agree as follows:

SECTION 1. The New Company.

1.1 The Parties hereby agree to form a new company tentatively named "WALTHER USA, LLC", but referred to herein as the "New Company". The primary purpose of the New Company shall be to market products under the trademark "WALTHER", "SMITH & WESSON" or other brands to be determined by the Board of Directors.

1.2 The New Company shall be incorporated as a Delaware corporation as soon as possible after the execution hereof, pursuant to Articles of Incorporation in a form to be determined. The affairs of the New Company shall be

managed pursuant to Bylaws in a form to be agreed upon by the Parties (the "Bylaws") and as provided in this Agreement. In the event of any conflict between the terms of this Agreement and the Bylaws of the New Company, the terms of this Agreement shall control. Neither Party shall vote its Stock of the New Company or take any action to adopt a Bylaw for the New Company that is inconsistent with the terms of this Agreement.

1.3 S & W and UMAREX/CARL WALTHER recognize that circumstances may arise which may require reasonable, supplemental undertakings on the part each Party to further the business objectives of the New Company. These supplemental undertakings may include licenses of intellectual property, distribution or manufacturing arrangements. Under these circumstances, the Parties shall negotiate in good faith a corresponding supplemental agreement for any such supplemental undertaking.

SECTION 2. Capital Investment.

2.1 Smith & Wesson and CARL WALTHER shall make an initial capital contribution to the New Company in the amount of Fifty Thousand Dollars (\$50,000) cash upon the organization of the New Company.

2.2 In exchange for the capital contributions provided for above, Smith Wesson and CARL WALTHER shall each own fifty percent (50%) of the stock of the New Company. The New Company shall issue an aggregate of 25,000 shares of its common capital Stock to S & W and 25,000 shares of its common capital Stock to CARL WALTHER, with each of said stock shares having a par value of One Cent (\$.01) and a purchase price of Two Dollars (\$2.00) per share.

2.3 The initial obligations of a Party to contribute cash to the New Company shall be limited to the amounts specified in Section 2.1. Notwithstanding any other provision, no Party shall be required to make any additional capital contributions, lend any funds to, or give any guarantees or make any commitments for or on behalf of, the New Company in excess of its initial Fifty Thousand Dollars (\$50,000.00) contribution unless otherwise authorized in advance by the Board of Directors of New Company (as defined hereinafter). If the New Company shall need funds in addition to the initial capital contributions set forth above, the amount and form thereof shall be approved by a majority of the Board of Directors. The Parties may voluntarily contribute additional funds to the New Company either in the form of debt or equity or provide guarantees for the benefit of the New Company upon the agreement of the Board of Directors.

SECTION 3. Transfer of Stock.

3.1 Neither S & W nor CARL WALTHER (each being referred to in this Section as "Shareholder") shall sell, assign, transfer, make a gift of, donate,

pledge or otherwise encumber or dispose of any shares of stock of the New Company (the "Stock") now owned or hereafter acquired by it, except as permitted by this Agreement and in accordance with its terms. Further, the Shareholders agree that they will not cause or permit the New Company to transfer any Stock on its books, except as expressly permitted hereby.

3.2 If any Shareholder (for purposes of this Section 3.2, the "Offeror") shall desire to terminate its relationship with the other Shareholder, it shall give written notice to the other Shareholder of the price at which it is willing to sell its Stock and of the terms of payment it is willing to accept. Such notice shall constitute an offer by the Offeror to sell all of its Stock to the other Shareholder at the price and on the terms stated in the notice and an offer by the Offeror to buy the other Shareholder's Stock at the same price and on the same terms. The other Shareholder shall then, elect either to buy all of the Stock owned by the Offeror or to sell all of its Stock to the Offeror, in either case, at the price and on the terms stated in the Offeror's notice. The election shall be made within sixty (60) days after the giving of the Offeror's notice. If the other Shareholder shall fail to make such election, such Shareholder shall be deemed to have elected to sell its Stock to the Offeror on the terms set forth in the Offeror's notice. The closing of a purchase and sale, pursuant to this Section 3.2, shall be held at a location within Springfield, Massachusetts, and on a date to be designated by the purchaser, which date in no event shall be later than ninety (90) days after the Offeror gives the notice provided for above. Notwithstanding the foregoing provisions of this Section 3.2, however, neither Shareholder shall be obligated to sell its Stock unless and until the New Company and/or the other Shareholder shall have (a) caused such Shareholder to be released from any guaranties for any indebtedness or other obligations of the New Company; (b) caused to be released all security interests, liens, pledges and other encumbrances granted, created or made by such Shareholder for the purpose of securing any liability, indebtedness or other obligation of the New Company; and (c) in the case of UMAREX/WALTHER, the Parties have reached agreement on the termination of all License Agreements.

3.3 Certain Options to Purchase.

3.3.1 The occurrence of any of the following events (each a "Triggering Event") with respect to a Shareholder Party (the Party as to which the Triggering Event has occurred being referred to herein as the "Selling Party") shall give rise to the rights in favor of the New Company and the other Parties specified in this Section 3.3:

(a) Any taking by any government or governmental authority, of capital stock or other securities or interests of a Party;

(b) Any bankruptcy, insolvency, receivership reorganization or similar proceedings for the relief of debtors shall be

commenced by or against a Party under the bankruptcy, insolvency, receivership, reorganization or similar laws of any country or jurisdiction;

(c) The dissolution or liquidation of a Party;

(d) The Stock of any Party is attached or garnished or any execution or similar process is issued under which such Stock is to be sold, transferred or acquired;

(e) A Party shall default in the performance or observance of any of its obligations under this Agreement and such default shall continue for a period of thirty (30) days after written notice thereof; or

(f) Any sale or transfer of capital stock or other interests of the Company by either Party.

3.3.2 Upon occurrence of a Triggering Event as to a Shareholder Party, the New Company and the other Shareholder Party shall have the option, which shall be exercisable by notice in writing to the Selling Party for a period of sixty (60) days after the other Party receives actual notice of the Triggering Event, to purchase all, but not less than all, of the Stock owned by the Selling Party, at the price specified in Section 3.3.3. The New Company and the other Shareholder Party may agree among themselves as to the number of shares that each will purchase, but, if they desire to exercise this option, they must individually or together exercise the option as to all Stock owned by the Selling Party. Failure by the New Company and/or the other Party to give written notice of exercise during such sixty (60) day period, shall be deemed a rejection by them of their option to Purchase. If the New Party and/or a Party shall exercise an option to purchase granted in this Section 3.3, the closing of the purchase and sale transaction shall be held at a location within Springfield, Massachusetts, on a date to be designated by the purchaser, which date, in no event, shall be later than ninety (90) days after a Party receives actual notice of a Triggering Event with respect to the other Party.

3.3.3 The purchase price for any Stock acquired from a Selling Party in accordance with this Section 3.3 shall be determined by mutual agreement of the Selling Party and the other Shareholder Party. If the purchase price cannot be agreed upon within thirty (30) days after exercise of the option to purchase the Selling Party's Stock, such purchase price shall then be determined by arbitration in the same manner and on the same terms as provided in Section 10 hereof; provided, however, that at least two of the arbitrators shall be duly licensed United States certified public accountants with not less than ten (10) years of experience. Each Party may, if it shall so

desire, submit a valuation for the Selling Party's Stock to the arbitrators, together with the reasons for such valuation.

3.4 All certificates evidencing Stock now or hereafter issued by the New Company shall be stamped or otherwise printed with a legend in substantially the following form:

"The shares represented by this certificate may not be sold, pledged, assigned, transferred, encumbered or otherwise disposed of without compliance with the terms of a certain agreement among the shareholders of the Company dated August 1, 1999, a copy of which is on file at the principal office of the Company."

3.5 At the closing of any purchase and sale of Stock as provided in this Agreement, the seller shall deliver to each purchaser upon tender of the purchase price:

(a) Certificates evidencing the Stock being sold, duly endorsed for transfer and with any necessary documentary stamps attached;

(b) Such other written assurances as the purchaser may reasonably request regarding the authority and capacity of the seller of the Stock; and

(c) Such other documentation as may be reasonably requested by the purchaser for the purpose of effecting the purchase.

At any such closing, the purchase price due the Selling Party shall be paid in full in United States dollars by certified or official bank check or by wire transfer of immediately available funds.

3.6 As referred to herein, the Stock shall include any securities which may be distributed with respect thereto or issued in exchange therefor or in lieu thereof in connection with any stock dividend, stock split, combination of shares, recapitalization, merger, consolidation or other reorganization of the New Company.

3.7 The rights and obligations created by this Section 3 shall terminate if either Party shall acquire all of the outstanding shares of the Stock.

SECTION 4. Management.

4.1 The Parties hereby agree that the Board of Directors of the New Company (the "Board" or the "Board of Directors") shall be composed of five (5) Directors. S & W shall have the right to select two (2) Directors ("S & W Directors")

and CARL WALTHER shall have the right to select two (2) Directors ("CARL WALTHER Directors"). There shall be one (1) Outside Director who shall be nominated by S & W and approved by the remaining members of the Board of Directors. Each Party shall vote its Stock to elect to the Board the five (5) nominees thus selected. The Parties agree that the initial members of the Board of Directors shall be Wulf-H. Pflaumer and Martin Wonisch, who shall be considered CARL WALTHER Directors, and Robert L. Scott, John A. Kelly who shall be considered S & W Directors. Each Party hereby agrees to vote for the removal of any Director when, and only when, such removal is requested for any reason, with or without cause, by the Party who has selected such Director. The term of each Director shall be for one (1) year and until his successor shall have been elected and qualified, or until such Director's earlier death, resignation or removal. The Outside Director can be removed by a vote of a majority of the Board of Directors.

4.2 In the case of the death, resignation or other removal of a Director prior to the end of his term, a nominee of the Party who had nominated the Director whose death, resignation or removal was the cause of such vacancy shall be elected as a sole replacement Director, and each Party hereby agrees to vote for the election of such nominees or to cause its Directors to vote from such nominee. No Director shall be removed from the Board except at the request of the Party which nominated him.

4.3 The agreements contained herein regarding the voting of the Stock shall continue in effect for a period of ten (10) years after the date of initial issuance of Stock by the New Company or until such earlier time as either Shareholder shall acquire all of the Stock of the other Shareholder.

4.4 All actions of the Board of Directors shall require approval of a majority of the members of the Board in attendance at a meeting at which a quorum is present. No business shall be transacted at any meeting unless at least four (4) Directors are in attendance as set forth in the Bylaws, and two (2) of the Directors in attendance are S & W Directors, and two (2) of the Directors in attendance are CARL WALTHER Directors; provided, however, that if any resolution or action before a meeting at which one or more Directors is absent receives the votes of less than all of the Directors present, then, unless the Directors not in attendance consent to such resolution or action in writing, the vote on such resolution or action by the Board of Directors shall be of no force and effect and consideration of such resolution or action shall be deferred until it can be considered at a meeting of the Board of Directors at which all Directors are present.

4.5 The New Company shall reimburse its Directors for all reasonable travel expenses including airfare and hotel costs, as well as all other reasonable expenses incurred by the Directors in attending meetings of the Board.

4.6 The officers of the New Company shall consist of a President, a Secretary/Treasurer and such Vice-Presidents and other officers as the Board shall consider necessary or appropriate (the "Officers"). All such officers shall be chosen by the Board subject to the terms and conditions of this Agreement and shall have duties and responsibilities as set forth in the Bylaws of the Company and herein, or as determined by the Board of Directors from time-to-time. One of the S & W Board members shall serve as President without receiving any compensation for such service. Initially, the officers of the New Company shall be as follows:

Name	Office

Robert L. Scott	President
George C. Colclough	Vice-President
John A. Kelly	Secretary/ Treasurer

4.7 All new product introductions by the New Company shall require unanimous consent of the Board. Any expenditure by the New Company in excess of \$25,000.00 and any compensation or benefits to be paid by the New Company to its employees must be approved by the vote of a majority of the members of the Board. All members of the Board of Directors of the New Company shall receive notice of and be entitled to attend any meeting of the Board of Directors.

4.8 For all meetings of the Board of Directors, a Director may vote by proxy in the manner and form set forth in the Bylaws of the Company. A Director may attend a meeting of the Board of Directors by telephone or other electronic medium.

SECTION 5. Business Operations.

5.1 The New Company shall prepare a business plan which shall require Board approval prior to implementation.

5.2 Initially, there shall be authorization for two paid employees of the New Company to have marketing and product management responsibility for firearms and airguns. Decisions regarding employment of non-officers shall be made by the Officers of the New Company as appropriate.

5.3 CARL WALTHER shall make a one time transfer of all inventory it possesses as of the date of this agreement to the New Company ("Pre-existing Inventory"). The Pre-existing Inventory shall be paid for by the New Company in twelve (12) equal monthly installments commencing October 1,1999. CARL WALTHER shall provide sixty (60) day financing on all inventory shipped to the New Company.

5.4 S & W shall receive a twelve percent (12%) service fee on net sales revenue received by the New Company after federal excise taxes ("FET") and

any cash discounts to cover the less identifiable costs of the business, including, but not limited to, warehousing, shipping (but not actual freight), invoicing, collections, order processing, office space, accounting, order processing, data communications and administrative support. All identifiable expenses, such as those associated with advertising, sales commissions, show costs, travel and entertainment, finance costs, and warranty shall be expenses of the New Company. The foregoing service fee percentage shall be reviewed by the Shareholders on an annual basis.

5.5 After the New Company begins operation, the New Company shall purchase a minimum of 500 WALTHER P99 pistols and variants thereof bearing the "P99" trademark each month until December 31, 2000. Thereafter, the New Company shall purchase the maximum number of products bearing the "P99" trademark as the New Company determines can be absorbed by the market in a given year.

5.6 New Company shall maintain insurance against risk of loss from fire (including extended coverage), casualty, theft, collision and other hazards, including product liability, completed operations, workers compensation, product warranty, general liability and medical in adequate amounts. Without limiting the foregoing, the minimum insurance requirements of New Company shall be as set forth in Exhibit A hereto.

5.7 The Parties acknowledge that sales of the products of the New Company and any transfer of technical data may be subject to prior approval of U.S. Department of State, Office of Defense Trade Controls. Sales and importation of products bearing a mark of S & W or UMAREX/ CARL WALTHER (Branded Products) may also be subject to the approval of the appropriate German authorities.

5.8 For the term of this Agreement and any subsequent renewal thereof, the New Company shall be the exclusive United States distributor of all products which bear the trademarks of CARL WALTHER and such other products and services to be sourced or manufactured by the New Company as the Board may determine.

5.9 Notwithstanding the foregoing, the New Company shall not distribute UMAREX or WALTHER produced airguns currently marketed by RWS, Colt's and Beretta. WALTHER (Germany) shall continue to sell target pistols to Champion's Choice until the New Company decides to market these products. Moreover, the New Company will not distribute the SW99 and any subsequent models or variants thereof.

5.10 The duties and obligations of a Party to indemnify another Party for any and all claims, demands or causes of action arising in tort, contract or otherwise which stem from or relate to the business of the New Company are set forth in their entirety in Exhibit B hereto.

SECTION 6. Confidentiality, Intellectual Property.

6.1 S & W hereby agrees that it will not, and will use its best efforts to ensure that its employees do not disclose or use (other than in furtherance of this Agreement and the business of the New Company) or authorize anyone under its control or direction to disclose or use (other than in furtherance of this Agreement and the business of the New Company) any proprietary know-how, technology, information or technical data acquired by S & W by virtue of this Agreement and received from UMAREX/CARL WALTHER or the New Company. This obligation shall not apply, however, to information that has been, is or becomes: (a) otherwise publicly available; (b) lawfully in the possession of S & W prior to disclosure by UMAREX/CARL WALTHER; (c) rightfully received by S & W from a third party; or (d) independently developed by S & W. The obligations imposed by this Section on S & W shall terminate if S & W acquires all of CARL WALTHER's Stock in the New Company.

6.2 UMAREX/CARL WALTHER hereby agree that neither Party will, and will use their best efforts to ensure that their employees do not, disclose or use (other than in furtherance of this Agreement and the business of the New Company) or authorize anyone under its control or direction to disclose or use (other than in furtherance of this Agreement or the business of the New Company) any proprietary know-how, technology, information or technical data acquired by UMAREX/CARL WALTHER by virtue of this Agreement and received from S & W or the New Company. This obligation shall not apply, however, to information that has been, is or becomes: (a) otherwise publicly available; (b) lawfully in the possession of UMAREX/CARL WALTHER prior to disclosure by S & W; (c) right fully received by UMAREX/CARL WALTHER from a third party; or (d) independently developed by UMAREX/CARL WALTHER. The obligations imposed by this Section on UMAREX/CARL WALTHER shall terminate if UMAREX/CARL WALTHER acquires all of S & W's Stock in the New Company.

6.3 Other than as otherwise provided in this Section 6, the obligations imposed by this Section 6 shall survive any termination of this Agreement.

6.4 The confidentiality provisions of this Section shall apply to all employees and contractors of the New Company and shall be, to the extent practicable, included in their conditions of employment or retention.

6.5 It is contemplated by the Parties that new intellectual property shall be created from the joint efforts of the Parties. The New Company shall be the owner of any new intellectual property created from the joint efforts of the Parties through the New Company.

6.6 All other Agreements between the Parties shall remain in effect unamended by the terms and conditions of this Agreement, including all trademark licenses. All other intellectual property of S & W and UMAREX/CARL WALTHER shall remain the property of its respective owners, except as otherwise provided herein.

6.7 With regard to all Branded Products encompassed by this Agreement or other Agreements in effect between the Parties:

(a) There shall be no royalty due on WALTHER (Germany) or S & W Branded Products that either Party produces itself in its own facilities (e.g., WALTHER P99) that are not already subject to prior License Agreements between the Parties.

(b) A three percent (3%) royalty is due for Branded Products such as knives, clothing etc. produced for a Party by a third party that are not already subject to prior License Agreements between the Parties.

(c) A three percent (3%) royalty fee will be due UMAREX for all WALTHER Branded Products produced in the United States at the time of this Agreement.

(d) Royalties due on any future Branded Products will be negotiated in good faith between the parties. Consideration will be given to reflect the amount of effort and direct expense incurred in the developmental process by the owner of the Brand.

SECTION 7. Withdrawal of Profits.

7.1 No part of the profits of the New Company will be paid to the Shareholders during or in respect of the first fiscal year of the New Company. Thereafter, if the payment of the same is not prohibited by any bank-financing or other agreements to which the New Company is a party, the Shareholders shall agree annually on the amount of the profits of the New Company to be paid to the Shareholders and, in default of agreement, the following percentages of the post-tax profits of the New Company as shown on its federal (U.S.) income tax return shall be paid on a pro rata basis pursuant to share ownership to the Shareholders.

Fiscal Year -----	Percent of Post-Tax Profits -----
2	10%
3	20
4	30
5, and thereafter	40

7.2 Upon the request of either Party, at any time that the retained earnings of the New Company, as determined in accordance with generally accepted accounting principles, exceed the New Company aggregate indebtedness for borrowed money, the Board of Directors shall direct that such excess be distributed to the Parties as a dividend, provided that in the judgment of the Board of Directors, the New Company has sufficient cash to make such distribution without impairing the New Company's working capital and without requiring the New Company to incur additional indebtedness to meet its reasonably anticipated business needs and provided further, that the payment of such dividend is not prohibited by any agreement to which the New Company is a party.

7.3 Consistent with Section 7.1 hereof, profits shall be paid to the Shareholders on a pro rata basis pursuant to share ownership and shall be paid in such manner as the Shareholders shall agree (whether by dividends on the Stock or otherwise).

7.4 Profits shall be determined after the application of the Service Fees defined above and all additional costs of doing business, such as the identifiable expenses, including, but not limited to, actual costs of goods, salaries, benefits, travel and entertainment, commissions, actual freight, advertising, product service, finance costs and insurance.

SECTION 8. Fiscal Year, Accounting, and Reports.

8.1 The fiscal year of New Company shall be as determined by the Board. The officers of New Company shall keep, or cause to be kept, such books and records relating to the business and affairs of New Company as shall be reasonably necessary or appropriate.

8.2 The New Company shall provide monthly financial reports to the Parties with regard to its sales, production and financial condition. It shall, in addition, provide upon request such other information concerning its business and affairs as the Parties or their legal counsel or accountants may reasonably request.

8.3 The New Company shall be audited annually by a firm of certified public accountants to be selected by the Board of Directors.

SECTION 9. Arbitration.

9.1 Any dispute, controversy or claim arising out of or relating to this Agreement, or the breach hereof, shall be settled and finally determined by arbitration in Springfield, Massachusetts, before a panel of three arbitrators. Any such arbitration shall be conducted in accordance with

the Commercial Arbitration Rules of the American Arbitration Association. Judgment upon any award rendered by the arbitrators may be entered in any court of any country having jurisdiction thereof. The legal fees and other costs and expenses incurred by the Parties in any such arbitration proceeding, and the charges of the American Arbitration Association, shall be borne as the arbitrators shall determine in their award. Notwithstanding the provisions of this Section, however, the Parties and the New Company shall be entitled, pending resolution by arbitration, to an injunction from a court of competent jurisdiction restraining any breach or threatened breach of the provisions of Section 3, Section 7 or Section 8 of this Agreement.

9.2 Each of the Parties hereby agrees that any judgment or award rendered against it in an arbitration proceeding as provided herein and entered in any court of record in the United States may be executed on against the assets of such Party in any jurisdiction, including, but not limited to, the United States of America. By its execution of this Agreement, each Party hereby irrevocably submits to the jurisdiction of the courts of each of the aforesaid jurisdictions, including, without limitation, the state courts of the Commonwealth of Massachusetts and the United States District Court for the Commonwealth of Massachusetts, in any legal actions or proceedings relating to such executions.

SECTION 10. Notices.

10.1 Any notices required or authorized to be given under this Agreement shall be sent by mail, by a recognized courier service or facsimile transmission, or shall be hand-delivered, in each case, to the Parties at the following addresses:

SMITH & WESSON CORP.
2100 Roosevelt Avenue
Springfield, MA 01102-2208

CARL WALTHER U.S.A., LLC
10 Prince Street
Alexandria, VA 22314

UMAREX SPORTWAFFEN, GmbH
Donnerfeld 2
59757 Arnsberg, Germany

10.2 Any notice so given by mail, courier service or hand-delivery shall be deemed given upon receipt and any notice given by telex or facsimile shall be deemed given upon the transmission thereof. Any party

may change its address for purposes hereof by notice given in compliance with this Paragraph.

SECTION 11. Term.

11.1 This Agreement shall be in effect for an initial term of six (6) years from the date hereof, and from year-to-year thereafter subject to termination at the end of the sixth year or any subsequent year by a Party upon written notice to the other Parties at least one hundred eighty (180) days prior to such year end. In the event that a Party hereto gives notice of termination pursuant to this Section, the Parties shall then negotiate for the purchase of the Stock of one Party by the other Parties. If within three (3) months of such written notice of termination, the Parties do not agree on such a purchase and sale of stock and do not agree to sell all of the Stock of the New Company to a third party, New Company shall be dissolved and liquidated as expeditiously as possible. In the event of its liquidation in accordance with the provisions of this Section, the division of the assets of New Company shall be decided upon by the Board of Directors of New Company or pursuant to applicable court proceedings.

SECTION 12. Miscellaneous.

12.1 This Agreement including the Exhibits attached hereto represents the entire integrated agreement among the Parties with respect to the subject matter hereof and supersedes all prior negotiations or agreements, whether written or oral. Whenever the context of this Agreement permits, the masculine gender shall include the feminine and the neuter genders and any reference to singular or plural shall be interchangeable with the other. The invalidity or other unenforceability of any one or more provisions of this Agreement shall not affect any other provisions and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted.

12.2 The provisions of this Agreement may not be amended, waived, modified or supplemented except by an instrument, in writing, signed by the Party against whom such amendment waiver, modification or supplement is asserted.

12.3 This Agreement shall be binding upon and shall inure to the benefit of the Parties hereto, any subsidiary of a Party and their respective permitted successors and assigns. No Party hereto may assign its rights, duties or obligations hereunder without the prior written consent of the other Party, which consent may be given or withheld by the other Party in its sole discretion. All transfers of shares of the Stock held by each Party shall be

subject to and made only in accordance with the provisions of Section 3 hereof.

12.4 This Agreement shall be governed and construed in accordance with the laws of the Commonwealth of Massachusetts, U.S.A.

12.5 This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed in duplicate by their respective authorized representatives.

UMAREX SPORTWAFFEN, GmbH

SMITH & WESSON CORP.

By: /s/ [signature not legible]

By: /s/ Robert L. Scott

Title: -----

Title: V.P. Business Development

Date: -----

Date: 11/22/99

CARL WALTHER U.S.A, LLC

By: /s/ [signature not legible]

Title: -----

Date: -----

ATTACHMENT A

New Company Insurance Requirements

- A. Commercial General Liability insurance, with broad form personal injury and property coverage, or 1986 ISO Commercial General Liability form coverage written on an "occurrence" (not "claims-made") basis, including contractual liability coverage and products completed and products liability coverage, with limits of not less than \$1,000,000 applicable to bodily injury, sickness, death or damage to property in any one occurrence and \$3,000,000 in the aggregate.
- B. Worker's compensation and Employers' Liability Insurance, including occupational disease coverage in accordance with the state or federal laws of the jurisdiction where New Company shall have its principal place of business, with limits of not less than \$500,000 for each accident. The workers compensation policy must additionally include: Other states Extension and an Alternative Employer Endorsement.
- C. Automobile Liability Insurance covering owned, non-owned, hired and other vehicles used by New Company, its officers, agents and employees and Subcontractors, with limits of not less than \$1,000,000 applicable to bodily injury, sickness or death or damage to property in any one occurrence.
- D. Excess Liability insurance in the amount of \$10,000,000 covering the risks and in excess of the limits set forth above.

The specific insurance requirements listed above are New Company's minimum insurance requirements, must be met independently, and shall not be considered indicative of the ultimate amounts and types of insurance needed by New Company. Each insurance policy maintained by New Company hereunder must be endorsed as follows:

- 1. "New Company, S & W and UMAREX/CARL WALTHER, their subsidiaries and affiliated companies and joint ventures, if any, and their employees, officers and agents, shall be named as additional insureds except with respect to Workers Compensation."
- 2. "Underwriters and insurance companies of New Company shall not have any right of subrogation against New Company, S & W and UMAREX/CARL WALTHER, their subsidiaries and affiliates, and their agents, employees, co-owners, joint ventures, invitees, servants, subcontractors, underwriters and insurance companies."

3. "It is hereby understood and agreed that any coverage provided by New Company shall be considered as primary insurance."
4. "All policies shall provide that there will be no recourse against S & W and UMAREX/CARL WALTHER for payment of premium. S & W and UMAREX/CARL WALTHER shall have no responsibility for payment of deductibles.
5. New Company shall not begin operations until such time as the insurance required hereunder is obtained and in-place.
6. New Company shall provide S & W and UMAREX/CARL WALTHER with certificates of insurance evidencing the insurance coverage equivalent to those required to be maintained under this Agreement and containing the endorsements required hereunder. Each certificate of insurance shall indicate the location to which the coverage applies and shall specify the date when such benefits and insurance expire.
7. All insurance policies required hereunder shall be written on policy forms, and by insurance companies of recognized responsibility, licensed to do business and doing business in the Commonwealth of Massachusetts and/or where this Agreement is being performed and having the equivalent of an AM Best rating of A + VI or better.
8. The certificates of insurance required hereunder must provide for not less than forty-five (45) days prior written notice to New Company, S & W and UMAREX/CARL WALTHER in the event of cancellation or material change affecting any coverage required hereunder.

ATTACHMENT B

Indemnity

To the fullest extent permitted by law, UMAREX/CARL WALTHER agrees to protect, defend, indemnify and hold harmless S & W (including S & W's officers, agents, employees, representatives, affiliated companies and distributors) and S & W agrees to protect, defend, indemnify and hold harmless UMAREX/CARL WALTHER from and against all claims (including, but not limited to, product liability claims, strict liability claims, claims resulting from any defective design, workmanship or material, breach of warranty claims, any other claims asserting breach of contract, negligence, malfeasance, repair or maintenance services, failure to meet specifications or other default with respect to the products provided to New Company under the Agreement as the case may be) losses, damages (including, but not limited, to actual, consequential, and incidental damages), causes of action, suits and liabilities of every kind, including all expenses of litigation, court costs and attorneys' fees, for injuries to or death to any person, or for damage to any tangible or intangible property or properties or rights, arising out of or relating to the products, goods or services provided hereunder by UMAREX/CARL WALTHER on the one hand, or S & W on the other, their manufacture, design, sale, transportation, installation, testing, operation, recall and use or nonuse (hereinafter "Claims"). UMAREX/CARL WALTHER's and S & W's indemnity obligations under this provision include, but are not limited, to the obligation to defend, indemnify and hold the other party harmless for Claims, losses and damages described above which arise out of or from (1) the concurrent negligence of S & W and UMAREX/CARL WALTHER, or the negligence of S & W and UMAREX/CARL WALTHER (whether sole or concurrent), and any other person or entity and/or (2) any alleged defects in the design, manufacture, repair or maintenance of the products or any claim where it is alleged that there were unreasonably dangerous conditions in the products provided. It is the express intent of the parties that the indemnity provided for in this paragraph include indemnity, on the one hand, by UMAREX/CARL WALTHER to indemnify and protect S & W from the consequences of or Claims relating to S & W's own negligence, and, on the other hand, indemnity by S & W to indemnify and protect UMAREX/CARL WALTHER from the consequences of or Claims relating to UMAREX/CARL WALTHER's own negligence, but only if such negligence is a concurring cause of the injuries, damages or losses covered by this Agreement. The indemnity provision set forth above shall only apply to the extent that the parties are not protected, defended or indemnified by the insurance coverage set forth in Attachment A hereto.

OPERATING AGREEMENT
OF
WALTHER USA, LLC
A DELAWARE LIMITED LIABILITY COMPANY
DATED AS OF JANUARY 21, 2000

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OPERATING AGREEMENT

OF

WALTHER USA, LLC

A DELAWARE LIMITED LIABILITY COMPANY

This Operating Agreement dated as of January 21, 2000, is made and entered into by and between Carl Walther USA, LLC, a Delaware limited liability company ("Carl Walther") and Smith & Wesson Corp., a Delaware corporation ("S&W"). Individually, Carl Walther and S&W are each a "Member," and collectively they are the "Members".

BACKGROUND

ARTICLE I

DEFINITIONS

The terms set forth below shall have the following meanings:

"ACT" means the Delaware Limited Liability Company Act, as amended, or any successor statute.

"ADDITIONAL CAPITAL" shall have the meaning ascribed to such term in SECTION 4.4.

"ADJUSTED BOOK VALUE PER UNIT" means the most recently attainable book value of the Company divided by the aggregate outstanding Units.

"AFFILIATE", means, with respect to any person, any individual related by birth or marriage to such person, or any person controlling, controlled by or under common control with such person; "control" and forms of the word means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise.

"AGREEMENT" means this Operating Agreement, as amended from time to time. References to "Articles," "Sections" and subdivisions refer to this Agreement, unless otherwise specified.

"BANKRUPTCY" means, with respect to any Member or the Company, the occurrence of any one or more of the following: (i) the making by the Member or the Company of an assignment for the benefit of creditors; (ii) the filing of an involuntary petition seeking an adjudication of bankruptcy against such Member or the Company under the United States Bankruptcy Code, which filing is not dismissed within 60 days of the filing; (iii) the filing of a voluntary petition by the Member or

the Company under the United States Bankruptcy Code; or (iv) the entry of an order, judgment or decree by a court of competent jurisdiction providing for the liquidation of the assets of the Member or the Company or appointing a receiver, trustee or other administrator of the Member's or the Company's assets which continues in effect and unstayed for a period of 60 days.

"BOARD OF MANAGERS" shall be the Board of Managers described in SECTION 8.2 and shall be the same as the "Board of Directors" defined in the Joint Venture Agreement and shall initially be each of Wulf-H Pflaumer, Martin Wonisch, Christopher Killooy, John A. Kelly and an independent director to be named or any person or entity who succeeds each of them in that capacity pursuant to the terms of the Joint Venture Agreement.

"BUSINESS" means to recognize the potential for increasing sales complimentary products lines relative to the design, production, marketing and sales of various firearms and related products and to engage in and do any lawful act concerning any and all lawful business for which limited liability companies may be organized according to the Delaware Limited Liability Company Act, including all powers and purposes now and hereafter permitted by law to a limited liability company.

"CAPITAL ACCOUNT" of a Member means the sum of such Member's Capital Contributions, increased by the items of Company income and gain, and decreased by the items of Company loss and expense, allocable to such Member and by distributions to such Member under this Agreement, provided, however, that reimbursement of expenses and payments of fees pursuant to SECTION 6.2, the payment of interest on and principal of loans from Members shall not be treated as distributions for the purposes of this definition. For purposes of maintaining book Capital Accounts under this Agreement, the fair market value of the property contributed by a Member shall be used for all purposes, including calculating gains or losses on sale of Company assets, notwithstanding that Section 704(c) of the Code may require different allocations of such items of gain or loss for purposes of allocating taxable income and loss to the Members for federal income tax purposes.

"CAPITAL CONTRIBUTION" of a Member means the amount contributed in cash and the fair market value of any assets contributed to the capital of the Company by the Member or by the Member's predecessor in interest, but excluding proceeds of loans from the Member.

"CAPITAL PROCEEDS" means all cash received by the Company from a Capital Transaction, plus any amount released from Reserves created out of Capital Proceeds, less the sum of (i) all expenses paid or incurred by the Company in connection with such Capital Transaction, (ii) amounts applied to repayment of indebtedness, (iii) capital expenditures made from the proceeds of such Capital

Transaction and (iv) such additions to Reserves as the Board of Managers, may determine to be necessary or appropriate.

"CAPITAL TRANSACTION" means a sale, exchange or other disposition of Company assets for value, other than in the ordinary course of business; or the borrowing of money by the Company, including a refinancing of indebtedness of the Company.

"CERTIFICATE OF FORMATION" means the Certificate of Formation of the Company as filed with the Delaware Department of State, Division of Corporations, as the same has and may be amended from time to time.

"CODE" means the Internal Revenue Code of 1986, as amended from time to time.

"COMPANY" means WALTHER USA, LLC, a Delaware limited liability company, formed pursuant to the Certificate of Formation and this Agreement and referred to as "New Company" in Section 2 of the Joint Venture Agreement.

"COMPANY ASSETS" means all property, real or personal, tangible or intangible, owned of record or beneficially, by the Company.

"CONFIDENTIAL INFORMATION" shall have the meaning ascribed to such term in the Joint Venture Agreement.

"COOPERATION PERIOD" shall have the meaning ascribed to such term in SECTION 9.3.

"ELIGIBLE PERSON" shall have the meaning ascribed to such term in SECTION 9.2(A).

"INTEREST" means a Member's membership interests in the Company, including, without limitation, a Member's right to vote such percentage interest as provided for in SECTION 4. An Interest may be represented by a percentage. An Interest may be divided into an interest in proceeds. The initial percentage allocations of Interests are shown in SECTION 4 and are subject to change from time to time under the terms of this Agreement.

"JOINT VENTURE AGREEMENT" shall mean the Agreement between Smith & Wesson Corp., Carl Walther USA, LLC and Umarex Sportwaffen, GmbH., dated October 26, 1999.

"MEMBER" or "MEMBERS" means each of the parties whose names appear in the first paragraph of this Agreement and each of the parties who may hereafter become admitted as a Member under SECTION 10.2.

"MEMBERSHIP INTEREST" means a Member's entire interest in the Company, and in the property, assets, capital and Business thereof, along with such Member's right to participate in the affairs of the Company.

"OFFICERS" means, initially, each of the persons so designated in the Joint Operating Agreement, and such successors as may be elected or nominated pursuant thereto.

"OPERATING RECEIPTS" means all cash received by the Company in the ordinary course of its business (exclusive of Capital Contributions and proceeds of loans), plus any amount released from Reserves created out of Operating Receipts, less the sum of (i) all expenses paid or incurred by the Company (exclusive of depreciation and other non-cash expenses), (ii) repayment of principal of loans, (iii) capital expenditures made in the ordinary course of business (except to the extent paid with proceeds of Capital Contributions or loans or from Reserves) and (iv) such additions to Reserves as the Board of Managers, may deem to be necessary or appropriate. Operating Receipts shall not include Capital Proceeds nor be reduced by expenses incurred in connection with Capital Transactions.

"PERCENTAGE INTEREST" means, as to each Member, such Member's percentage ownership of all Units outstanding at that time.

"RESERVES" means, for any fiscal period, amounts set aside or allocated during such period as reserves for working capital, taxes, insurance, debt service, or other costs or current or projected expenses incident to the ownership or operation of the Company's business, which amounts shall be reasonably determined by the Board of Managers.

"TRANSFER" means, with respect to an Interest, any sale, gift, assignment, distribution, conveyance, pledge, hypothecation, encumbrance or other transfer of title or beneficial interest therein, voluntary or involuntary, whether by operation of law or otherwise, and whether or not for value.

"UNITS" means a unit representing a portion of the aggregate Membership Interests of all Members. As of the date hereof, the aggregate outstanding Units of the Company are 50% with Carl Walther and 50% with S&W. Each Member's Units shall be recorded on the books of the Company.

ARTICLE II
FORMATION OF THE COMPANY

Section 2.1 FORMATION.

The parties hereto shall continue the Company which was formed pursuant to the Act. The Board of Managers shall promptly prepare and see to the execution, filing and recording in the appropriate public offices of any amendment to the Certificate of Formation required under the Act and shall do all other things required for the perfection of the Company as a limited liability company and the qualification of the Company to do business as a foreign limited liability company in any jurisdiction as may be necessary or appropriate.

Section 2.2. NAME.

The business of the Company shall be conducted under the name Walther USA, LLC or under such other name as the Members may determine upon advice of counsel or under such assumed name as the Members may select in accordance with the Act.

Section 2.3. PRINCIPAL PLACE OF BUSINESS.

The principal place of business of the Company is 2100 Roosevelt Avenue, 01102 Springfield Massachusetts. The Company may change the principal office or have offices at such other place or places as the Board of Managers may decide with the approval of the Board of Managers.

Section 2.4. REGISTERED OFFICE AND REGISTERED AGENT.

The registered agent and registered office of the Company in the State of Delaware are the Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801. The Board of Managers may, within its sole and unrestricted discretion, change any registered office or registered agent of the Company.

Section 2.5. DURATION.

The Company shall continue perpetually, unless the Company is earlier dissolved in accordance with the provisions of this Agreement or the Act.

Section 2.6. INTENTION OF THE PARTIES.

It is understood that this Agreement is intended to implement and be interpreted consistent with the terms and conditions of the Joint Venture Agreement. The Company is and shall be a limited liability company and governed by the limited liability statutes of the State of Delaware instead of having the corporate form as set

forth in the Joint Venture Agreement. It was and continues to be the intent of the Parties that issues such as taxes, distributions, profits, losses, capital accounts or contributions are intended to be shared on a 50/50 basis between S&W and Carl Walther.

ARTICLE III
PURPOSES

The Company is organized for the purpose of engaging in the Business, and the Company shall not engage in any activities unrelated to the Business.

ARTICLE IV
CAPITAL CONTRIBUTIONS AND RELATED MATTERS

Section 4.1. MEMBERS' INITIAL CAPITAL CONTRIBUTIONS.

MEMBERS' INITIAL CAPITAL CONTRIBUTIONS. The Members hereby agree to and do make the Capital Contributions to the Company in amounts and to the extent provided below. Each Member will have an opening Capital Account equal to the amount set forth below. In consideration of the foregoing Capital Contributions, the Members shall receive Interests as provided below and the voting percentage attached thereto, shall be as indicated in the column marked "Interests".

Member -----	Contribution -----	Interest -----	Units -----
Carl Walther.....	\$50,000	50%	25,000
S&W.....	\$50,000	50%	25,000

Section 4.2. CAPITAL ACCOUNTS.

A separate Capital Account shall be maintained for each Member by the Company. Except as otherwise required in this Agreement or the Act.

Section 4.3. RETURN OF MEMBERS' CONTRIBUTIONS TO CAPITAL.

No Member shall be entitled to demand or receive assets of the Company or an apportionment thereof. A Member only has the right to receive cash from the Company strictly in accordance with the terms of this Agreement or the Joint Venture Agreement. No Member shall be entitled to interest on its Capital Contribution or to demand return or withdrawal of such Member's Capital Contribution.

Section 4.4. ADDITIONAL CAPITAL CONTRIBUTIONS.

In addition to the Members' initial Capital Contributions, if at any time Walther and S&W unanimously agree that the Company requires additional capital,

the Board of Managers shall call for such additional capital by written notice to all holders of Interests, informing them of the total amount of additional capital ("ADDITIONAL CAPITAL") being raised. Each holder of an Interest shall be required to deliver his Percentage Interest of the Additional Capital to the Company within 15 days after such notice is given or made to such holder. If any such holder fails to contribute all or any part of such holder's Percentage Interest within the 15 day period described above, any or all of the other holders of Interests may advance all or part of such defaulting holder's Percentage Interest, in proportion to such contributing holder's Units in the event of an oversubscription for the defaulted amount. Upon completion of the capital raise, if any such holder failed to contribute its Percentage Interest thereof and another holder or holders did so, then the Units of the non-contributing holder shall be reduced by an amount equal to the dollar deficiency of Capital Contribution of the non-contributing holder divided by the Adjusted Book Value Per Unit (taking into account in the computation thereof the aggregate Capital Contributions then being made by all holders of Interests). Each such holder contributing in place of such non-contributing holder shall have its Units increased by an amount equal to the make-up funds so contributed, divided by the Adjusted Book Value Per Unit (similarly taking into account for this purpose the aggregate Capital Contributions then being made by all holders of Interests).

Section 4.5. LOANS BY MEMBERS.

Separate and apart from contributions to the capital of the Company, a Member may make loans to the Company at any time and from time to time as and on the terms determined by such Member and other Members holding a majority of Units not held by the lending Member; provided that if any such loan is agreed to, the Company shall allow all Members to participate in such loan in proportion to their Units using any procedure which the Members determine is fair to all Members.

ARTICLE V ACCOUNTING

Section 5.1. FISCAL YEAR; COMPANY BOOKS.

The fiscal year of the Company shall end each December 31. The books of the Company shall be kept on the basis of accounting selected by the Board of Managers and consistent with the basis of accounting used by S&W and Walther.

Section 5.2. ENGAGEMENT OF ACCOUNTANTS.

The Company shall engage, at the Company's expense, such accountants as the Board of Managers shall designate to assist in the preparation of the Company's financial statements and to prepare the Company's income tax returns.

ARTICLE VI
EXPENSES AND DISTRIBUTIONS

Section 6.1. ORGANIZATIONAL EXPENSES.

Each Member shall pay all expenses incurred by such Member in connection with the organization of the Company, without reimbursement by the Company.

Section 6.2. ONGOING EXPENSES; FEES.

The Company shall pay all of its own expenses, including legal, accounting and other outside fees and expenses.

Section 6.3. TIMING, AMOUNTS AND SOURCES OF DISTRIBUTIONS.

Subject to the provisions of this ARTICLE VI and ARTICLE VIII, the Company may make cash distributions of Operating Receipts and Capital Proceeds to the Members in such aggregate amounts and at such time or times as the Board of Managers may propose, subject to its discretion to establish and administer Reserves.

Section 6.4. DISTRIBUTIONS OF OPERATING RECEIPTS AND CAPITAL PROCEEDS.

Subject to Sections 6.5 and 6.6, cash distributions from Operating Receipts and Capital Proceeds shall be made to the holders of Interests in proportion to their respective Percentage Interests.

Section 6.5. CREATION OF RESERVES.

The Board of Managers, shall have discretion to establish Reserves out of Operating Receipts and Capital Proceeds as it may determine to be necessary or appropriate for the working capital needs of the Company, anticipated capital expenditures, Company liabilities or otherwise, and to determine the appropriate levels of such Reserves and the timing of additions to and disbursements from such Reserves.

Section 6.6. OTHER PROVISIONS REGARDING DISTRIBUTIONS.

No cash shall be distributed to any Member if such distribution (i) is not permitted under the Act or otherwise, or would constitute or result in a default, under any agreement to which the Company is a party or to which Company assets are subject, (ii) would constitute a fraudulent conveyance as against creditors of the Company or (iii) if the Board of Managers, in their discretion, determine in good faith that such distribution would not be in the best interests of the Company.

Section 6.7. TAX DISTRIBUTIONS. Subject to the provisions of SECTIONS 6.7 and 6.8, the Company shall make distributions of (other than Proceeds resulting from a transaction which results in the dissolution of the Company) in the Tax Distribution Amount to each Interest holder in the following manner:

(i) At least five (5) days before each date prescribed by the Code for individuals to pay quarterly income tax, the Company shall distribute to the Interest holders an amount of cash equal to the Company's Estimated Permitted Tax Amount for the taxable year with respect to which such distribution is made. On or before April 15 of each year, the Company shall distribute to the Interest holders an amount of cash equal to the difference between the Actual Permitted Tax Amount for the year and the sum of all Estimated Permitted Tax Amounts distributed for such year.

(ii) The "TAX DISTRIBUTION AMOUNT" of each Interest holder is such Interest holder's share of the Permitted Tax Amount, and shall be based on the manner in which taxable income and loss is allocated to the Interest holders for the relevant periods. Such allocations shall be determined by the Board of Managers, taking into account any adjustments under Code Section 704(c) and Code Section 754, to the extent applicable, and other relevant facts and circumstances as in the reasonable business judgment of the Board of Managers are necessary or appropriate to reflect the net taxable income and loss of the Company and each Interest holder therein.

(iii) For purposes of this SECTION 6.6:

(A) The Company's "PERMITTED TAX AMOUNT" for a taxable period shall be the excess, if any, of the aggregate federal, state, local and foreign income taxes which would be payable by the Company for the period beginning on the date hereof and ending at the end of such taxable period if the Company were taxed as an individual at the highest marginal income tax rates, federal, state, local and foreign, for such period (assuming that the applicable state tax rate is the rate applicable in Massachusetts and that such state tax is fully deductible for federal tax purposes), over the sum of the amount of any federal, state, local and foreign income taxes which the Company itself is required to pay with respect to such period which would be credited against the applicable federal, state, local and foreign income taxes of the Interest holders (it being understood that certain jurisdictions may tax either or both the Company and/or the Interest holders with respect to such income), and the aggregate distributions previously made to the Interest holders pursuant to this SECTION 6.6.

(B) The Permitted Tax Amount shall be determined as if an election under Section 172(b)(3) of the Code to relinquish the entire carryback period with respect to a net operating loss was not in effect. If the Board of Managers so determines, the Permitted Tax Amount shall be determined by taking into account the federal alternative minimum tax, the federal environmental tax and similar taxes under federal, state, local and foreign income tax laws. At the discretion of the Board of Managers, penalty taxes, interest and similar additions to taxes under federal, state, local or foreign income tax laws, shall not be taken into account under this SECTION 6.6. The Permitted Tax Amount shall be determined initially by the Members on the basis of figures set forth on Internal Revenue Service Form 1065 and similar state, local or foreign forms filed by the Company but shall be subject to subsequent adjustment pursuant to audit, litigation, settlement, amended return, or the like.

(C) The "ESTIMATED PERMITTED TAX AMOUNT" for a taxable period shall be an amount equal to the Permitted Tax Amount based on the best available estimate of taxable income at the time of determination.

(iv) Any distributions made pursuant to this SECTION 6.6 shall be treated as advances against distributions which are otherwise payable under SECTION 6.4 and shall be taken into account when subsequent distributions are made under SECTION 6.4.

ARTICLE VII
ALLOCATION OF PROFIT AND LOSS; TAX MATTERS

Section 7.1. ALLOCATIONS OF PROFIT AND LOSS.

Subject to the requirements of Section 704(c) of the Code and SECTION 7.2, each item of income, gain, loss, deduction or credit shall be allocated among the Members as follows:

(a) Losses shall be allocated in the following order of priority:

(i) If the Capital Account of any of the Members is positive, then in such amounts as will reduce such positive balances to zero, or if the amount of losses to be so allocated is less than the sum of such positive balances, then in such amounts as to cause the positive balances to be in the respective amounts (or as near thereto as possible) which the Members would receive pursuant to ARTICLE VI if all of the

Company assets were sold for a net amount equal to the sum of the Members' Capital Accounts; and

(ii) If the Capital Account of each of the Members is either negative or zero, then all losses shall be allocated as to cause the Capital Accounts of the Members to be in proportion (or as near thereto as possible) to their Percentage Interests.

(b) Income or gain of the Company shall be allocated in the following order of priority:

(i) First, if the Capital Accounts of any or all of the Members are negative, then first in such amounts as will increase the negative balances of the Members to zero, or if the amount of income to be so allocated is less than the sum of such negative balances, then in such amounts as to cause the negative balances to be in the ratio (or as near thereto as possible) of their respective Percentage Interests; and

(ii) Then, if the Capital Account of each of the Members is either positive or zero, then in such amounts as will cause the resulting positive balances to be in the respective amounts (or as near thereto as possible) which the Members would receive pursuant to ARTICLE VI if all of the Company assets were sold for a net amount equal to the sum of the Members' Capital Accounts.

Any portion of gain so allocated which is treated as gain from the sale of the assets of the Company which are not capital assets by virtue of the application of Section 1245 or 1250 of the Code, or any recapture of investment tax credits or other tax credits previously earned by the Company, will be allocated to the Members to whom or to whose predecessor in interest the deductions giving rise to such ordinary income were allocated, and such recaptured tax credits shall be allocated to the Members to whose or to whose predecessor in interest such credits were originally allocated. The allocations in the preceding sentence will be applied separately to each fiscal year for which the Company has deducted depreciation to which Section 1245 or 1250 applies or has earned tax credits.

Section 7.2. SECTION 704(c) ALLOCATIONS.

All allocations made pursuant to Section 704(c) of the Code will be made in accordance with the traditional method with curative allocations.

Section 7.3. MEMBERS' INTENTION.

Questions of interpretation or application of the foregoing provisions shall be resolved by reference to the intention of the Members that insofar as possible,

each Member shall be allocated an amount of gain which corresponds to the amount of losses and other tax and cash benefits flowing to such Member from the Company.

Section 7.4. TAX MATTERS OFFICER.

_____ is designated the "TAX MATTERS OFFICER" of the Company, as defined in the Code, with all necessary authority to act as such on behalf of the Company, subject to the prior approval of the Board of Managers.

ARTICLE VIII
MANAGEMENT

Section 8.1. MANAGEMENT; RESPONSIBILITY.

The Company and its Business shall be managed and controlled by the Board of Managers and the Officers of the Company, both, as set forth in the Joint Venture Agreement, subject nevertheless to the reserved powers of the Members as set forth in SECTION 8.3 and elsewhere in this Agreement. The Officers shall be responsible for the day-to-day conduct of the Business, in accordance with the business plan approved from time to time by the Board of Managers, and subject to the direction and control of the Board of Managers, and shall have such authority, power and discretion as may be delegated to it from time to time by the Board of Managers to manage and control the Company and its Business and to make all day-to-day decisions incidental thereto.

Section 8.2. BOARD OF MANAGERS.

The Board of Managers shall consist of representatives as designated as the Board of Directors in the Joint Venture Agreement. Meetings of the Board of Managers shall be conducted as specified in the Joint Venture Agreement, and additional meetings may be called by the Board of Managers or by any representative then serving on the Board of Managers upon notice to all representatives and may be held in person or by conference telephone call in which all participants in such call are able to speak to and hear each other, provided that at least two representatives appointed by Carl Walther and two representatives appointed by S&W participate in such meeting.

Section 8.3. MATTERS RESERVED TO THE MEMBERS.

The unanimous written agreement of the Members shall be required to approve any of the following matters:

- (a) Admission of additional Members;

- (b) Raising capital;
- (c) Any change in the Company's Business;
- (d) Amendment of this Operating Agreement;
- (e) Any merger, consolidation or dissolution of the Company;
- (f) Any sale or other disposition of assets of the Company, outside the ordinary course;
- (g) Any acquisition of assets by the Company outside the ordinary course; or
- (h) Any contract or agreement by the Company with a Member or any Affiliate of a Member;
- (i) Any loans made by the Company to any person or entity.

Section 8.4. OFFICERS.

The Officers of the Company shall be as designated in the Joint Venture Agreement.

Section 8.5. MEETINGS OF MEMBERS.

(a) Regular meetings of the Members shall be held at least annually and may be held on such dates and at such times and at such location as shall be determined by the Board of Managers with at least ten (10) days advance written notice thereof being provided to all Members.

(b) Special meetings of the Members may be called by the Board of Managers or by Members who in the aggregate hold at least fifty percent (50%) of the Interests. Any such meeting shall be held on such date and at such place within 50 miles of the principal office of the Company as person(s) calling such meeting shall specify in the notice of a meeting, which shall be delivered to all Members at least five (5) days prior to such meeting; provided, Members may attend by teleconferencing. Neither the business to be transacted at, nor the purpose of, such special meeting need be specified in the notice (or waiver of notice) of such meeting. All Members receiving notice of a meeting shall use their best efforts to attend the meeting.

(c) Holders of a majority of all Units held by Members (represented either in person, by conference telephone or by written proxy) shall constitute a quorum for the transaction of business at any meeting of the Members.

(d) Each Member, with respect to any vote, consent, or approval that such Member is entitled to cast or grant pursuant to this Agreement, may cast, grant or withhold such vote, consent or approval in its sole and absolute discretion, with or without cause, and subject to such conditions as it shall deem appropriate.

(e) Whenever the vote of Members is required or permitted to be taken in connection with any action, in lieu of such vote at a meeting, the action to be authorized or adopted may be authorized or adopted by the written consent of Members having not less than the percentage of Interests required to approve such action if a meeting were held, so long as prompt notice of the adoption of an action or measure by written consent shall be transmitted to all Members not a party to such consent.

Section 8.6. RECORDS OF LLC INTERESTS.

The Company shall maintain at its office referred to in SECTION 2.4, a record of all holders of Interests and transfers thereof. No transfer of Membership Interests or other Interests shall be made unless such transfer is made in accordance with ARTICLE X.

Section 8.7. BANK ACCOUNTS.

The Board of Managers may from time to time open bank accounts in the name of the Company, and the Board of Managers, subject to the Board of Managers, shall approve who shall be signatories thereon.

ARTICLE IX LIABILITIES AND RESTRICTIVE COVENANTS

Section 9.1. Liability Board of Managers' Representatives.

The representatives of the Members serving on the Board of Managers shall be liable to the Members for their gross negligence or willful misconduct, but such persons shall not be liable for errors in judgment or for any acts or omissions that do not constitute gross negligence or willful misconduct if done in good faith and otherwise in accordance with the terms of this Operating Agreement. The Members shall look solely to the Company for the return of their Capital Contributions, and if the assets of the Company remaining after payment or discharge of the debts and liabilities of the Company are Insufficient to return such Capital Contributions, the Members shall have no recourse against the representatives of the Members serving on the Board of Managers for such purpose except as herein provided. The doing of any act or the failure to do any act by the representatives of the Members serving on the Board of Managers, the effect of which may cause or result in loss or damage to the Company, if done pursuant to the professional opinion of independent advisors

employed by Board of Managers on behalf of the Company, shall be presumed not to constitute gross negligence or willful misconduct on the part of the Board of Managers.

Section 9.2. INDEMNIFICATION OF THE MEMBERS.

The Company shall:

(a) indemnify, to the fullest extent permitted by the Act, any Member, any member of the Board of Managers ("ELIGIBLE PERSON") who was or is a party or is threatened to be made a party to any threatened, pending or completed claim, action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company) by reason of the fact that such person is or was a Member, member of the Board of Managers of the Company, or is or was serving at the request of the Company as a director or officer of another corporation against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such claim, action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such person's conduct was unlawful; and

(b) indemnify any Eligible Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company to procure a judgment in its favor by reason of the fact that such person is or was a Member, member of the Board of Managers of the Company, or is or was serving at the request of the Company as a director or officer of another corporation against expenses (including attorney's fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Company and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Company unless and only to the extent that the court in which such action or suit was brought shall determine upon application that despite the adjudication of

liability such person is fairly and reasonably entitled to indemnity for such expenses as the court shall deem proper; and

(c) indemnify any Eligible Person against expenses (including attorneys' fees) actually and reasonably incurred by such Eligible Person, to the extent that such Eligible Person is his or its capacity as Member, member of the Board of Managers of the Company has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in this SECTION 9.2 in defense of any claim, issue or matter therein; and

(d) pay in advance expenses incurred by any Eligible Person in defending a civil or criminal action, suit or proceeding in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such Eligible Person to repay such amount if it shall ultimately be determined that such Eligible Person is not entitled to be indemnified by the Company as authorized in this SECTION 9.2; and

(e) not deem the indemnification and advancement of expenses provided by, or granted pursuant to, the foregoing to be exclusive of any other rights to which the Eligible Person(s) seeking indemnification or advancement of expenses may be entitled under any agreement, vote of the Members or otherwise, both as to action in such Eligible Person's official capacity and as to action in another capacity while holding such position; and

(f) have power to purchase and maintain insurance on behalf of any person who is or was a Member, member of the Board of Managers of the Company, or is or was serving at the request of the Company as a director or officer of another corporation against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Company would have the power to indemnify such person against such liability under the provisions of this SECTION 9.2; and

(g) deem the provisions of this SECTION 9.2 to be a contract between the Company and each Eligible Person, at any time while this SECTION 9.2 is in effect and any repeal or modification of this SECTION 9.2 shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought or threatened based in whole or in part upon such state of facts.

Section 9.3 COOPERATION COVENANT.

Each Member agrees that for the period during which it is a Member (the "COOPERATION PERIOD"), it shall duly and actively pursue, on behalf of the

Company, opportunities and activities on behalf of and related to the Business of the Company, as detailed in the Joint Venture Agreement to enable all parties to that Joint Venture Agreement to benefit from the intentions thereof. Nothing herein shall prevent any Member from continuing, its own business activities as previously conducted.

Section 9.4. NON-SOLICITATION COVENANT.

Other than activities related to the Business, during the Cooperation Period, neither a Member nor its Affiliates shall, directly or indirectly, individually or on behalf of any person (a) solicit, aid or induce any employee of any other Member to leave in order to accept employment with or render services for the Member, its Affiliates or any other person or (b) aid or induce any current, previous or prospective customer, client, vendor, lender, supplier or sales representative not to establish a relationship with the Company or to discontinue such relationship or reduce the amount of business done with the Company.

Section 9.5. CONFIDENTIAL INFORMATION COVENANT.

Each Member acknowledges and agrees that it may be in possession of Confidential Information (as defined in the Joint Venture Agreement) relating to the Business. During the Cooperation Period and at all times thereafter, each Member will hold the Confidential Information in the strictest confidence and will not disclose to any person or make use of (directly or indirectly) the Confidential Information or any portion thereof on behalf of themselves or any third party, except as required by the order of any court or similar tribunal or any other governmental body or agency of appropriate jurisdiction; provided, that such Member shall, to the extent practicable, give the Company prior notice of any such disclosure and shall cooperate with the Company in obtaining a protective order or such similar protection as the Company may deem appropriate to preserve the confidential nature of such information. The foregoing obligations to maintain the Confidential Information shall not apply to any Confidential Information which (i) is or, without any action by a Member, becomes generally available to the public or (ii) was known by such Member on a nonconfidential basis prior to its disclosure by the Company.

Section 9.6. SCOPE OF RESTRICTION.

The parties have attempted to limit to scope of the restrictive covenants set forth in SECTIONS 9.3, 9.4 and 9.5 to the extent necessary to assure the Company the benefit of its ownership of the Business. The parties recognize, however, that reasonable people may differ in making such determination. Consequently, the parties hereby agree that if the scope or duration of such covenants would, but for this provision, be deemed by a court of competent authority to be unreasonable or otherwise unenforceable, such court may modify such covenants to

the extent that such court determines to be necessary in order to grant enforcement thereof as so modified.

Section 9.7. REMEDIES.

The Members recognize that the Company will suffer irreparable injury in the event of a breach of the terms of SECTIONS 9.3 through 9.5 by the Members. In the event of a breach of the terms of SECTIONS 9.3 through 9.5, the Company shall be entitled, in addition to any other remedies and damages available and without proof of monetary or immediate damage, to a temporary and/or permanent injunction, without bond, to restrain the violation of SECTIONS 9.3 through 9.5 by the Members, and any persons acting for or in concert with a Member.

ARTICLE X
TRANSFERS; ADMISSIONS; ADDITIONAL MEMBERS

Section 10.1. TRANSFER GENERALLY.

Transfer of units, is controlled by the provisions in the Joint Venture Agreement, provided however, no Member shall sell, dispose or otherwise transfer its Membership Interest in a manner which violates any federal or state securities laws. Each Member shall indemnify and hold the Company harmless from and against all liability, costs and expenses, including, reasonable attorneys' fees incurred by the Company, as a result of a breach of the covenants made in this SECTION 10.1 by such Member.

Section 10.2. ADDITIONAL MEMBERS.

Subject to the unanimous written approval by Carl Walther and S&W, the Members shall have the right and authority to admit new Members and issue or sell Membership Interests in amounts and on such terms as the Members deem advisable. If the Company contemplates issuing Membership Interests to a Member or to an Affiliate of a Member, then such Membership Interests first shall be offered to all of the Members in accordance with their respective Interest percentages.

ARTICLE XI
DISSOLUTION, TERMINATION AND SALE RIGHTS

Section 11.1. DISSOLUTION.

The Company shall be dissolved upon the occurrence of any of the following events:

- (i) The expiration of the period fixed for the duration of the Company in ARTICLE II above, if any;

(ii) By the unanimous written agreement of the Members;

(iii) The sale or other disposition of all or substantially all of the Company assets; or

(iv) Upon the occurrence of the death or Bankruptcy of any Member or any other event which terminates the continued membership of a Member in the Company, unless (x) there is at least one continuing Member and (y) all continuing Members elect to continue the Company.

Section 11.2. WINDING UP, LIQUIDATION AND DISTRIBUTION OF

ASSETS.

(a) Upon dissolution, an examination shall be made by the Company's accountants of the accounts of the Company and of the Company's assets, liabilities and operations, from the date of the last accounting through the date of dissolution. The Members shall immediately proceed to wind up the affairs of the Company.

(b) If the Company is dissolved and its affairs are to be wound up, the Members shall:

(i) Sell or otherwise liquidate all of the Company's assets (except to the extent the Members may determine to distribute any assets to the Members in kind) in a reasonable manner and time designed to maximize the value of such assets and avoid lower prices because of a forced sale;

(ii) Allocate any profit or loss resulting from such sales to the Members' Capital Accounts in accordance with Article VII hereof;

(iii) Discharge all liabilities of the Company, including liabilities to the Members who are creditors, to the extent otherwise permitted by law, and establish such reserves as may be reasonably necessary to provide for contingent liabilities of the Company; and

(iv) Distribute the remaining assets to the Members in accordance with ARTICLE VI.

(c) Upon completion of the winding up, liquidation and distribution of the assets, the Company shall be deemed terminated. Within a reasonable time after complete liquidation, each of the Members shall be furnished with a statement prepared by the Company's accountants, which shall set forth the assets and liabilities of the Company as at the date of dissolution and the proceeds and expenses of the disposition thereof.

(d) The Members shall comply with all requirements of applicable law pertaining to the winding up of the affairs of the Company and the final distribution of its assets.

Section 11.3. CERTIFICATE OF DISSOLUTION.

When all debts, liabilities and obligations of the Company have been paid and discharged or adequate provisions have been made therefor and all of the remaining property and assets of the Company have been distributed, a certificate of dissolution as required by the Act, shall be executed in duplicate by the Members and filed with the Delaware Secretary of State.

Section 11.4. EFFECT OF FILING OF CERTIFICATE OF DISSOLUTION.

Upon the filing of certificate of dissolution with the Delaware Secretary of State, the existence of the Company shall cease, except for purposes of suits, other proceedings and appropriate action as provided in the Act. The Members shall have authority to distribute any Company assets discovered after dissolution and take such other action as may be necessary on behalf of and in the name of the Company.

Section 11.5. CARL WALTHER AND S&W RIGHT OF FIRST REFUSAL.

Prior to the sale or other disposition of any assets of the Company pursuant to this ARTICLE XI, each member must notify the other and conduct such sale consistent with the provisions in the Joint Venture Agreement with respect to the options to purchase the Company.

Section 11.6. SALE AND PURCHASE RIGHTS.

(i) In the event a Member desires to terminate its relationship, such member shall conduct the sale or purchase of such interests consistent with the provisions in the Joint Venture Agreement.

ARTICLE XII
MISCELLANEOUS PROVISIONS

Section 12.1. NOTICES.

Any notice, demand, or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been sufficiently given or served for all purposes if delivered personally or if sent by reputable courier or by registered or certified mail to such party at his, her or its address of record maintained in the records of the Company. Any such notice shall be deemed to be given when delivered or when delivery is refused.

Section 12.2. LAW GOVERNING.

This Agreement and its interpretation shall be governed exclusively by the laws of the State of Delaware, without giving effect to the laws of such state regarding conflicts of laws. Further, to the extent permitted by law, in the event of any conflict between the provisions herein contained and those included in the Joint Venture Agreement, the terms of the Joint Venture Agreement shall control.

Section 12.3. AMENDMENTS.

This Agreement may only be amended in writing with the unanimous written consent of the Members.

Section 12.4. SUCCESSORS AND ASSIGNS.

This Agreement and all the terms and provisions hereof, shall be binding upon and inure to the benefit of the Members and, subject to the terms of this Agreement, their legal representatives, heirs, successors and assigns.

Section 12.5. COUNTERPARTS.

This Agreement may be executed in multiple counterparts, each of which shall be an original, but all of which shall constitute one instrument.

Section 12.6. SEVERABILITY.

If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid, illegal or unenforceable to any extent, the remainder of this Agreement and the application thereof shall not be affected and shall be enforceable to the fullest extent permitted by law.

Section 12.7. NO THIRD PARTY BENEFICIARIES.

The provisions set forth herein are solely for the benefit of the signatories hereto. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Company or any other persons not signatories hereto, subject to SECTION 11.4.

Section 12.8. CONSTRUCTION.

The parties agree that this Operating Agreement shall be construed equally against each party and shall not be more harshly construed against a party by reason of the fact that a particular party's counsel may have prepared this Operating Agreement.

IN WITNESS WHEREOF, the parties hereto have caused their signatures to be set forth below on the day and year first above written.

CARL WALTER, USA LLC

/s/ [signature not legible]

SMITH & WESSON CORPORATION

/s/ John A. Kelly

UMAREX SPORTWAFFEN GmbH K.G.

TRADEMARK LICENSE AGREEMENT

This Agreement, effective as of July 1, 2000, by and between UMAREX SPORTWAFFEN, GmbH K.G., a corporation having its principal office at Donnerfeld 2, 59757, Arnsberg, Germany (hereinafter called "Licensor") and GUTMANN CUTLERY, INC., a corporation having its principal office at 1821 Valencia Street, Bellingham, Washington 98226 (hereinafter called "Licensee"). In consideration of the mutual promises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Licensor and Licensee, the parties agree as follows:

1. Definitions

As used in this Agreement, the following terms shall have the following meanings:

- a. "Marks" shall mean those trademark(s) identified in Exhibit A attached hereto, and also any trade dress of Licensor's products and all of the Licensor's rights in such Marks including, without limitation, common law rights, and registrations and applications for registration of any such Marks in any state, federal or other jurisdiction.
- b. "Licensed Articles" shall mean the articles of merchandise listed in Exhibit B, attached hereto and marked with one or more of the Marks.
- c. "Net Sales Price" shall be the invoiced price at which Licensed Articles are sold or provided by Licensee, less any sales tax, and less any credits for returns actually made or allowances in lieu of returns, provided that such returns and/or allowances relate to sales which were previously included in royalty calculations under this Agreement and less trade discounts and/or retailer promotional programs. The Net Sales Price on account of sales, giveaways, or other transactions, without charge or at discounted prices, and sales to any person directly or indirectly related to or affiliated with Licensee shall be computed based on regular selling prices to the trade. There shall be no deduction from the Net Sale Price on which royalties are due hereunder for uncollectable accounts, advertising expenses or other expenses of any kind except those specifically identified in this Section.
- d. "Licensed Territory" is the geographic area identified in Section 2(a) of this Agreement.

- e. "Minimum Guaranteed Royalty" shall have the meaning set forth in Section 3(a) of this Agreement.
- f. "Contract Year" and "First Contract Year" shall have the meanings given those respective terms set forth in Section 2(c) of this Agreement.
- g. "Dollars" and all references to "royalties", "taxes", "credits", as well as any and all other monetary values set forth herein shall refer to or be computed in U.S. Dollars.

2. Grant of License, Term, Licensee's Duties

- a. Licensor hereby grants to Licensee an exclusive, indivisible, license, without the right to sublicense, to use the Marks in connection with the manufacture and sale of Licensed Articles only in Canada and the United States and its possessions. Licensee shall not use, or permit the use of, the Marks with any other product or territory, except as specifically provided in this Agreement. Other than the specific license grants set forth in this Agreement, the intellectual property of the Parties shall remain the property of its respective owners.
- b. An annual marketing plan must be submitted by Licensee to Licensor for its approval, along with brand statement and strategy. A minimum of two percent (2%) of gross annual sales revenue from the Licensed Articles is to be spent per year by Licensee for promotional activities including marketing, trade advertising and other advertising and public relations expenditures.
- c. The term of this Agreement shall be for the period beginning July 1, 2000 through December 31, 2005, unless sooner terminated. A new Agreement may be negotiated during the last Contract Year by the parties. A party's determination not to renew this Agreement may be effected without cause. Each period set forth below is referred to as a "Contract Year":

First Contract Year	July 1, 2000 through December 31, 2001
Second Contract Year	January 1, 2002 through December 31, 2002
Third Contract Year	January 1, 2003 through December 31, 2003
Fourth Contract Year	January 1, 2004 through December 31, 2004
Fifth Contract Year	January 1, 2005 through December 31, 2005

- d. Licensee shall use its best efforts to promote the sale of Licensed Articles in the Territory and shall maintain resources and a sales force sufficient and adequate to accomplish Licensee's obligations hereunder.
- e. Licensee shall make available to Licensor or its designated agent(s) any Licensed Article on the most favorable terms and conditions offered by Licensee for that Licensed Article.

3. Royalties and Payment, Minimum Guaranteed Royalty, Reporting

- a. Licensee shall pay Licensor a One Thousand Dollar (\$1,000.00) non-refundable fee on signature. In addition, Licensee shall pay to Licensor a minimum royalty ("Minimum Guaranteed Royalty") for each Contract Year, or portion thereof, until changed by mutual written agreement of the parties. For the First Contract Year, the Minimum Guaranteed Royalty shall be Six Thousand Dollars (\$6,000) payable quarterly in four (4) equal quarterly installments commencing April 15, 2001. For each Contract Year thereafter, the Minimum Guaranteed Royalty shall be Six Thousand Dollars (\$6,000) and shall be paid in four equal quarterly installments on the dates on which each royalty payment is due in accordance with the terms set forth herein.
- b. Licensee shall pay Licensor a royalty equal to the greater of the Minimum Guaranteed Royalty or five (5%) percent of the Net Sales Price at wholesale of all Licensed Articles sold, distributed or otherwise provided by Licensee during or after the term of this Agreement. Payments and schedules shall be made in accordance with the terms set forth hereinafter.
- c. On or before the fifteenth day of the first month of each calendar quarter beginning October 1, 2000, Licensee shall furnish to Licensor full and accurate statements, certified by the Chief Financial Officer of Licensee, showing the number, description, total Net Sales Prices and gross revenue of the Licensed Articles sold, distributed or otherwise provided by the Licensee during the preceding calendar quarter. Licensee shall, simultaneously with such statements, pay to Licensor the royalty due thereon. Licensee may credit against any such royalty payment any Minimum Guaranteed Royalty payment made by Licensee contemporaneously with such quarterly statement. Any Minimum Guaranteed Royalty paid for any Contract Year shall not be refunded to Licensee. On or before the first day of the fourth month following the end of each Contract Year, Licensee shall furnish to Licensor a statement certified by the Chief Financial Officer of Licensee showing total sales of Licensed Articles, gross revenues

therefrom as well as royalties and royalties paid for the preceding Contract Year. If such statement discloses that the amount of royalties paid during any period to which such statement relates were less than the amount required to be paid, Licensee shall pay such deficiency concurrently with the delivery of the statement. The quarterly and yearly statements shall each show in detail all calculations used in the computation of royalties. All payments and statements made hereunder shall be made exclusively to Licensor's agent, Smith & Wesson Corp. at

Smith & Wesson Corp.
2100 Roosevelt Avenue
Springfield, MA 01102
Attn.: J. Steele, Director of Licensing

- d. For purposes of this Agreement, a Licensed Article shall be considered sold or provided when such Article has been shipped, distributed, paid for, billed or invoiced, whichever first occurs.
- e. Any delinquent amounts under this Agreement shall bear simple interest at the rate of 1.5 percent per month, or if lower, the highest rate permitted by Massachusetts law, from the due date thereof until paid.

4. Protection of Marks

- a. Licensee acknowledges Licensor's exclusive right, title and interest in and to the Marks, both at common law and under applicable laws in the United States and all other jurisdictions, and will not, either directly or indirectly, at any time, do anything to discredit, encumber or diminish any part of such right, title or interest or challenge the validity of this License. Licensee agrees that its use of the Marks will inure entirely to the benefit of Licensor. Licensee shall assist Licensor, to the extent necessary or appropriate, upon request by Licensor, in the procurement of any protection of Licensor's rights in the Marks. Upon Licensor's request from time-to-time, Licensee shall provide Licensor with six (6) specimens of any Mark used on Licensed Articles and whatever other documentation or information may be requested by Licensor for the registration of any Mark in any category into which the Licensed Articles fall.
- b. Licensee shall use the Marks only in the form and manner and with appropriate legends as prescribed from time-to-time by Licensor, and shall not use any other trademark or service mark in combination with any Mark without prior written approval of Licensor. In any written material, including the packaging, advertising materials, catalogs,

brochures and the like associated with the Licensed Articles, in addition to the "(R)" symbol displayed adjacent to the Mark, as appropriate, Licensee shall use the following legend at least once in each such document: "Licensed Trademark of UMAREX SPORTWAFFEN, GmbH K.G."

- c. Licensee recognizes that the Walther name, all trade dress and associated marks are world famous and that, even if not registered in any country, the unauthorized use thereof would seriously dilute the distinctiveness of such name, trade dress and the associated marks and would irreparably harm the Licensor.
- d. Licensee shall immediately notify Licensor, in writing, of any infringements or third party imitations of any Mark or other act of a third party which may concern the Mark(s), of which Licensee becomes aware. Licensor shall have the sole right to determine whether or not any action shall be taken on account of such infringements or imitations. Licensee shall not institute any suit or take any action on account of any such infringements or imitations without first obtaining the written consent of Licensor.
- e. Licensor shall undertake to apply for and obtain registration, in its name and at its own expense, of any of the Marks in association with the Licensed Articles in any country in which Licensee may request and as deemed by Licensor to be necessary or appropriate to protect the Marks and the goodwill associated therewith.

5. Assignment of Marks

If Licensee shall acquire by act or operation of law by deed or operation of law any rights in the marks in any country, Licensee shall notify Licensor and immediately assign such rights to Licensor, together with any goodwill that may have inured to the benefit of the Licensee. Licensee shall not permit any other person to use any of the Marks without Licensor's prior written consent, and shall cause any manufacturer or other person involved in the production, promotion, sale or provision of Licensed Articles to agree to assign to Licensor any rights in any Mark acquired by such manufacturer or other person.

6. Indemnification

- a. Licensee shall at all times during and after the term of this Agreement, and to the fullest extent permitted by law, indemnify, defend and hold harmless Licensor and Licensor's parents, successors, assigns, franchisees, subsidiaries, affiliates, licensing agents and distributors,

and the present and former directors, officers, agents and employees of each of the foregoing entities, from and against any and all damages, demands, claims, suits, actions, investigations, administrative proceedings, charges, costs and expenses, including, without limitation, attorneys fees and court costs, settlement amounts, judgments, compensation for damages to Licensor's reputation and any losses of any nature which arise out of or are based on the following:

- (1) Any actual or alleged design defect, manufacturing defect, failure to warn or instruct, breach of contract, breach of express or implied warranty, unfair or deceptive trade practices, failure to pay rightful claims, negligence, strict liability in tort, or under any other legal theory associated in any way with the Licensed Articles;
- (2) The infringement, alleged infringement or any other violation or alleged violation of any patent, trademark, trade dress or copyright rights or other proprietary rights owned or controlled by third parties by reason of the manufacture, use, advertising, sale, service, distribution or provision of the Licensed Articles;
- (3) The violation, or alleged violation of any federal, state or local law or law of any jurisdiction, or of any regulation, ruling, standard or directive, or of any industry standard with respect to or applicable to the Licensed Articles;
- (4) Any insolvency or bankruptcy on the part of the Licensee any act of government or nature which causes any discontinuation of the business of Licensee or any forfeiture, change or discontinuation of full or partial control of Licensee or a Sublicensee;
- (5) Licensee's breach of any warranty, covenant, representation, agreement or obligation hereunder;
- (6) Any sets of omissions of Licensee or its agents, servants or contractors with respect to the manufacture, promotion, provision, sale, or servicing of Licensed Articles or use of the Marks by Licensee; or
- (7) Any other acts or omissions of Licensee or agents, servants or contractors thereof.

- b. Licensee shall promptly give Licensor notice of any action, suit, proceeding, claim, demand, inquiry or investigation relating to the

Marks or Licensed Articles. Licensor may, at its sole option, elect to undertake the defense of any such action, suit, proceeding, claim, demand, inquiry or investigation, provided that such an undertaking by Licensor shall not diminish Licensee's obligation hereunder to indemnify Licensor and to hold it harmless. All losses and expenses incurred under this Section shall be chargeable to Licensee pursuant to its obligations to indemnify under this Section, regardless of any actions, activity or defense undertaken by Licensor or the subsequent success or failure of such actions, activity or defense.

- c. Licensor assumes no liability whatsoever for the acts or omissions of Licensee or any of those with whom Licensee may contract for the promotion, manufacture, distribution, sale or provision, or servicing of Licensed Articles notwithstanding any prior consent by Licensor to such contract.

7. Insurance

Licensee shall maintain, throughout the term of this Agreement, at its own expense, liability insurance from a U.S. insurance company with a Moody's rating of "Baa" or higher, with such liability coverages and limits as are acceptable to Licensor, including insurance against claims from bodily injury, property damage and with a limit of insurance of at least one million U.S. dollars (\$1,000,000) per occurrence. Such policies shall name Licensor as an additional insured and shall provide that Licensor shall receive at least thirty (30) days prior written notice of intent to cancel, alter or amend such policy. The "other insurance" clause, if any, shall be deleted from such policy with respect to the coverage furnished to Licensor under such policy and shall have no application to any insurance maintained by Licensor. The insurance coverage secured by Licensee shall be primary with respect to Licensor, and other insurance in force with respect to Licensor shall be neither primary nor contributing. Licensee shall provide Licensor, within thirty (30) days after the execution of this Agreement and upon Licensor's request from time-to-time thereafter, with certificates or other evidence of insurance required by this Section. Licensee shall keep all insurance coverages required by this Agreement in full force and effect for a period of three (3) years after the termination of this Agreement.

8. Quality of Licensed Articles

- a. Licensee agrees, represents and warrants to Licensor, that all Licensed Articles shall be state-of-the-art, of high safety and structural standards, of such style, appearance, quality and consistency as shall be suitable for distribution and satisfactory for consumer usage, and otherwise merchantable and fit for the purposes for which they are intended to be

used. At least thirty (30) days before manufacturing or promoting, and again before distributing, selling or providing any Licensed Article, and upon Licensor's request from time-to-time, Licensee shall submit to Licensor, for its written approval, not to be unreasonably withheld, samples of Mark usage or description of each Licensed Article together with any labeling, packaging, or promotion material and literature in respect of which such Licensed Article is to be marketed, distributed or sold. The number of samples to be furnished by Licensee shall be such reasonable number as Licensor may from time-to-time request. All samples shall be provided without charge to Licensor. No Licensed Article shall be distributed, sold or provided pursuant to this Agreement until Licensee has obtained Licensor's written approval of the samples submitted. It is understood, however, that failure of the Licensor to provide Licensee with written approval or rejection of the samples submitted within twenty (20) business days of the Licensor's receipt of such samples shall be deemed to constitute approval on the part of the Licensor of such samples.

- b. All Licensed Articles shall be of the same quality and workmanship as the approved sample, and in the manufacture and provision thereof, Licensee shall cause to be used state-of-the-art manufacturing processes, techniques and quality control procedures in order to ensure that the Licensed Articles will consistently comply with the highest product quality standards. Under no circumstances shall Licensee sell, distribute, give away or otherwise deal or cause to have sold, distributed, given away or otherwise dealt Licensed Articles that are seconds or sub-standard, that bear a distortion of the Marks or that otherwise do not comply with this Agreement.
- c. Licensee shall consistently distinguish the Licensed Articles from other products and services manufactured, distributed or sold by Licensee and shall avoid any confusing similarity between such other products and services and the Licensed Articles. Licensee shall take such actions as are necessary to maintain the Licensed Articles as separate and distinct lines of styling, design and merchandising from any other product and service manufactured, sold or provided by Licensee.
- d. Licensee shall, no later than ninety (90) days before the expiration of any Contract Year, furnish Licensor a statement showing the number and description of Licensed Articles in inventory and in process.

9. Compliance with Government, Regulations, Industry Standards and Product Testing

Licensee agrees that the manufacture, distribution and sale of the Licensed Articles will conform at all times to all applicable federal, state and local laws, regulations, industry standards, ordinances and other enactments, including, without limitation, those relating to product safety in all countries into which the Licensed Articles are shipped.

10. Promotional Material

Licensee shall not use the Marks or any reproduction thereof in any advertising, promotional or display material without Licensor's prior written approval. Under no circumstances will promotional materials or programs be used by Licensee that reflect unfavorably on the Marks or disparage marks of third parties. All advertising, display or promotional copy utilizing or in any way connected with the Marks, shall carry a notice that the Marks are the property of Licensor, and at least six (6) copies of such advertising, display or promotional copy shall be submitted to Licensor for prior written approval, not to be unreasonably withheld, at least thirty (30) days in advance of production and upon Licensor's request from time-to-time thereafter. Any approval granted by Licensor under this Section will extend only to Licensee's use of the Marks. It is understood, however, that failure of the Licensor to provide Licensee with written approval or rejection of the copies submitted within twenty (20) business days of the Licensor's receipt of such copies shall be deemed to constitute approval on the part of the Licensor of such copies. Licensor shall not be liable for content or accuracy of such advertising, promotional or display material nor for infringement of patents, copyrights, trademarks, or any other proprietary rights owned, used, or controlled by third parties, by reason of Licensee's promotional activities.

11. Records

- a. Licensee shall keep accurate books of account and records covering all transactions relating to the license herein granted. Licensor and its duly authorized independent accountants or other representatives shall, from time-to-time, have the right at reasonable times upon Licensor's prior written request of at least thirty (30) business days to examine such books of account and records and other documents and material in Licensee's possession or under its control with respect to Licensee's activities in connection with this Agreement, and such persons shall have free and full access for such purposes and may make copies thereof or extracts therefrom. Licensee shall keep all such records available to Licensor for at least three (3) years after expiration or termination of this Agreement. Licensee will designate a symbol or number which will be used exclusively in connection with the Licensed Articles and with no other articles or services which Licensee may manufacture, sell or distribute, and that duplicates of all billings by

Licensee to its customers with respect to Licensed Articles shall be kept by Licensee for inspection as is herein provided. Information on Licensee's sources of supply shall be exempt from examination of records.

- b. If any audit by Licensor shall reveal a shortfall of royalties paid by Licensee against royalties actually due in accordance with this Agreement, Licensee shall within fifteen (15) days make payment to Licensor of such shortfall, plus simple interest at the rate of 1.5 percent per month or if lower, the highest rate permitted by Massachusetts law, for the period of such shortfall. In addition, if such audit shall reveal a shortfall of more than five percent (5%) of royalties due, Licensee shall reimburse Licensor for the services of its accountant and for any other expenses of Licensor incident thereto including, without limitation, any attorneys' fees and costs of collection.

12. Termination

Licensee may terminate this Agreement without cause by written notice to the Licensor 90 days prior to the conclusion of the First Contract Year. In addition to any other rights which Licensor may otherwise have, Licensor may terminate this Agreement at any time, immediately upon written notice;

- a. If within six (6) months from the date of this Agreement, Licensee shall not have begun the bona fide design, specification and/or concluded contracts for production, distribution or sale of the Licensed Articles; or
- b. If Licensee shall, after said written notice, fail for a period in excess of three (3) consecutive months to continue the bona fide design, specification, distribution or sale of the Licensed Articles; or
- c. If Licensee shall fail to make any payment due hereunder or to deliver any of the statements required hereunder, and if such default shall continue for a period of fifteen (15) days after notice of such default by Licensor to Licensee or if such a failure shall occur twice in any consecutive 12-month period even if both failures are corrected as provided hereunder; or
- d. If Licensee or its property:
 - (1) Becomes subject to a receiver or trustee; or
 - (2) Becomes insolvent; or

- (3) Becomes subject to an involuntary or voluntary petition under National Bankruptcy Laws; or
 - (4) Makes an assignment for the benefit of its creditors; or
- e. If there is any deliberate deficiency in the Licensee's reporting which affects royalties or gross revenue or any other aspect of this Agreement; or
 - f. If any warranty, representation or covenant made by Licensee hereunder, or any information provided by Licensee as to Licensee, its principals or agents or to product quality or safety is false or misleading; or
 - g. If Licensee fails to comply with any term or condition of this Agreement, other than those specifically set forth in clauses (a) through (f) above, and such non-compliance continues beyond a period of fifteen (15) days after notice thereof is given by the Licensor.

Any termination by Licensor shall be without prejudice to any of Licensor's other rights or remedies. Forbearance on the part of Licensor in exercising any of its rights hereunder or as otherwise provided by law shall not be construed to be a waiver of those rights.

13. Effect of Termination

- a. After expiration or other termination of this Agreement, Licensee shall have no further right to manufacture, distribute, sell, exploit, provide, render or otherwise deal in any Licensed Articles which utilize the Marks, except that Licensee may dispose of Licensed Articles which are on hand or in process or to be provided at the time of expiration or termination so long as (a) Licensee reports, in writing, to Licensor, no later than thirty (30) days after termination of this Agreement, the total number of Licensed Articles which will be disposed of; (b) the sale or provision thereof is completed within six months; (c) all payments when due are made to Licensor; (d) such disposal or provision of Licensed Articles shall be in accordance with the terms of this Agreement; and (e) statements and royalty and gross revenue share payments with respect to that period are made by Licensee in accordance with Section 3. Notwithstanding the foregoing, in the event this Agreement is terminated pursuant to Sections 12(c), 12(d), 12(e), 12(f), or 12(g), Licensee shall not dispose of or provide any Licensed Articles which are on hand, in process or to be provided at the time of termination in association with the Marks. A final statement and payment shall be made by Licensee within fifteen (15) days after the

end of such six-month period. Upon expiration of such 6-month period herein, all molds, plates, prints and other materials used to reproduce the Marks for the manufacture or provision of the Licensed Articles and related advertising shall be destroyed and evidence of such destruction shall be given to the Licensor.

- b. In the event this Agreement expires or is otherwise terminated for any reason, Licensee shall, and hereby does agree to assign to Licensor any and all rights of Licensee in the Marks, including associated goodwill, and the designs, trade dress and styles of the Licensed Articles to the extent such design or styles contain or employ any of the Marks, and shall not thereafter market, manufacture or sell any such designs or styles or use the Marks in any manner in connection with any provided services.
- c. Except as provided in subsection (a) of this paragraph, upon the expiration or termination of this Agreement, Licensee shall immediately cease all further use of the Marks and any names, trademarks, trade dress, characters, symbols, designs, likenesses or visual representations as might be likely to cause confusion or deceive purchasers or prospective purchasers or dilute any trade name, trademark, trade dress or service mark of Licensor including, without limitation, Licensor's corporate and private names, other trademarks, trade dress symbols, designations, indices, slogans and other means of identifying products or services of Licensor, whether or not identified herein as a Mark.
- d. Licensee agrees that the Marks are distinctive and possess special, unique and extraordinary characteristics which make difficult the assessment of the monetary damages that Licensor would sustain by unauthorized use. Licensee recognizes that irreparable injury would be caused to Licensor by any unauthorized use of the Marks and agrees that preliminary and/or permanent injunctive and other equitable relief would be appropriate in the event of a breach of this Agreement by Licensee provided, however, that such remedy shall not be exclusive of other legal remedies otherwise available.
- e. Licensee's obligations and agreements set forth in Sections 3 through 11, 13, 14, 17, 19 and 20 shall survive any termination or expiration of this Agreement.

14. Notices:

All notices and statements to be given hereunder shall be, in writing, any such notice or statement shall be deemed duly given if mailed by certified mail, return receipt requested, if to Licensor, at:

UMAREX SPORTWAFFEN, GmbH K.G.
c/o SMITH & WESSON CORP.
2100 Roosevelt Avenue
Springfield, MA 01102

Attention: John Steele

and if to Licensee, at:

GUTMANN CUTLERY, INC.
1821 Valencia Street
Bellingham, WA 98226

Attention: Shiraz Balolia

15. No Joint Venture

Nothing in this Agreement shall be construed to place the parties in the relationship of partners or joint ventures, and Licensee shall have no power to bind Licensor in any manner whatsoever. This Agreement shall not be construed as anything other than a trademark license between Licensor and Licensee.

16. Cancellation

Licensee acknowledges that Licensor and its subsidiaries, affiliates and franchisees use the Marks to advance and promote Licensor's business, and that Licensor has a paramount obligation to preserve its ability to so use such Marks. Should the use by Licensee of any Mark on Licensed Articles be deemed by Licensor in its discretion to be in violation of any federal, state or local law or to adversely affect the reputation of Licensor or affect the validity, enforceability or distinctiveness of the Mark as a designation of origin for Licensor's own products, then Licensor may terminate this Agreement on ninety (90) days notice to Licensee.

17. Assignments, Transfers and Sublicenses

Without the prior written consent of Licensor, which may be withheld in Licensor's sole and reasonable discretion (a) Licensee shall not voluntarily or by operation of law, assign or transfer this Agreement or any of Licensee's rights or duties hereunder or any interest of Licensee herein, except to a third

party which is controlled by Licensee, or is associated therewith by common ownership, nor shall Licensee enter into any sublicense for use of the Marks by other persons otherwise than as contemplated by this Agreement; and (b) Licensee shall not sell or otherwise transmit or transfer to any party engaged in the design or manufacture of items similar to any of the Licensed Articles, any design, style, know-how, technology or other item or knowledge of a technical or competitive nature, furnished to Licensee by or through Licensor. Any transfer or attempt to transfer of this license to any entity in which the present directors of Licensee do not have voting control shall be deemed an assignment prohibited hereunder. The consent of Licensor to one assignment, transfer or sublicense shall not be deemed to be consent to any subsequent assignment, transfer or sublicense. Nothing provided herein shall limit Licensor's right to transfer and/or assign any of its rights hereunder.

18. Scope and Modification

This Agreement sets forth the entire agreement between the parties, and supersedes all prior agreements and understandings between the parties, relating to the subject matter hereof. None of the terms of this Agreement may be waived or modified except as expressly agreed, in writing, by both parties.

19. Severability

Should any provision of this Agreement be declared void or unenforceable, the validity of the remaining provisions shall not be affected thereby.

20. Governing Laws, Jurisdiction and Venue for Suit

- a. This Agreement shall be made in the Commonwealth of Massachusetts and its terms shall be interpreted in accordance with and governed by the laws thereof.
- b. Any suit, action or other proceeding brought by Licensee which stems from or relates to the subject matter of this Agreement shall be limited to an action brought in U.S. District Court in Springfield, Massachusetts, USA.
- c. Licensee hereby waives any and all right to assert a defense based on jurisdiction and/or venue for an action by Licensor brought in U.S. District Court in Springfield, Massachusetts, USA which stems from or relates to the subject matter of this Agreement.

Witnessed By:

/s/ [signature not legible]

LICENSOR:

UMAREX SPORTWAFFEN, GMBH & CO., KG

By: /s/ [signature not legible]

(Title) President

Date: August 23, 2000

Witnessed By:

/s/ [signature not legible]

LICENSEE:

GUTMANN CUTLERY, INC.,

By: /s/ [signature not legible]

(Title) President

Date: July 10, 2000

EXHIBIT "A" - LICENSED MARKS

WALTHER - as seen in U.S. Registration Nos. 1120867 and 0303701

EXHIBIT B - LICENSED ARTICLES

Knives

Binoculars

Spotting Scopes

Night-Vision Scopes

Bore Sights, Specifically excludes Rifle and Handgun Sight Scopes.

Shooting Safety Glasses and Bookends.

AMENDMENT TO TRADEMARK LICENSE AGREEMENT

This Amendment, effective as of March 14, 2001, by and between UMAREX Sportwaffen GmbH & Co. KG, a corporation having its principal office at Donnerfeld 2, 59757, Arnsberg, Germany (hereinafter called "Licensor") and GUTMANN CUTLERY, INC., a corporation having its principal office at 1821 Valencia Street, Bellingham, Washington 98226 (hereinafter called "Licensee").

Whereas, the above parties have signed a TRADEMARK LICENSE AGREEMENT having an effective date of July 1, 2000 (hereinafter "the Trademark Agreement").

Whereas, the parties desire to modify the Trademark Agreement.

In consideration of the mutual promises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Licensor and Licensee, the parties agree to supplement the Trademark Agreement as follows:

1. Modification of Exhibit B

The "Licensed Articles" as listed in Exhibit B of the Trademark Agreement shall include "Tool Kits", "Socket Sets", "Wrenches", "Wrench Sets", "Allen Key Sets", "Screwdriver Sets", "Gunsmithing Tools", "Pliers" and "Hearing Protection".

A copy of the modified Exhibit B is attached to this Amendment.

2. Scope

This Amendment, together with the Trademark Agreement, sets forth the entire agreement between the parties, and supersedes all prior agreements and understandings between the parties, relating to the subject matter hereof. None of the terms of this Amendment or the Trademark Agreement may be waived or modified except as expressly agreed, in writing, by both parties.

The parties acknowledge that no other term or provision of the Trademark Agreement has been modified by this Amendment.

LICENSOR:

Witnessed By:

UMAREX SPORTWAFFEN, GMBH & CO., KG

By: /s/ [signature not legible]

(Title) President

Date: 03.14.01

LICENSEE:

Witnessed By:

GUTMANN CUTLERY, INC.,

/s/ [signature not legible]

By: /s/ [signature not legible]

(Title) President

Date: March 8, 2001

EXHIBIT B - LICENSED ARTICLES
(As modified by this Amendment dated March 14, 2001)

Knives
Binoculars
Spotting Scopes
Night-Vision Scopes
Bore Sights, Specifically excludes Rifle and Handgun Sight Scopes
Shooting Safety Glasses and Bookends
Tool Kits
Socket Sets
Wrenches
Wrench Sets
Allen Key Sets
Screwdriver Sets
Gunsmithing Tools
Pliers
Hearing Protection

EXECUTIVE
EMPLOYMENT AGREEMENT
R. SCOTT

This Employment Agreement, is made and entered into as of May 11, 2001, between SMITH & WESSON CORP., a Delaware corporation (the "Company"), and ROBERT L. SCOTT, an individual residing at 2310 W. Hazelhurst Drive, Anthem, AZ 85086 ("Employee").

RECITALS:

A. Employee is and has been the President and a director of the Company's parent corporation, Saf-T-Hammer Corporation, a Nevada corporation ("SAF"), and SAF and the Company desire to have the continuing benefit of Employee's knowledge, experience and services in the operation of the Company; and

B. Employee's assistance to SAF and Employee's relationship with the Company was instrumental in consummating SAF's acquisition of the Company (the "Acquisition"); and

C. The Board of Directors of the Company considers sound and vital management to be essential to the overall success of the Company and has decided to employ Employee on the terms and conditions set forth herein.

AGREEMENT

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

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

1.1 Company means Smith & Wesson Corp. or any successor entity.

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

1.3 Effective Date. The Effective Date of this Agreement is the date first set forth above.

1.4 Good Reason means the occurrence of any of the following events to which Employee has not expressly agreed to in writing:

a. A material reduction in Employee's base salary as in effect on the Effective Date or renewal date of this Agreement, whichever occurs later;

b. Employee's relocation, without his consent, to any place other than within fifty (50) miles of Employee's address set forth above or within twenty-five miles of the Company's principal executive offices as of the Effective Date, except for required travel by Employee on the Company's business to an extent substantially consistent with Employee's business travel obligations at the Effective Date; provided, however, that, if the Company Board determines to relocate the Company's principal executive offices, the Company shall pay all of Employee's reasonable moving and other relocation expenses, and the Company Board shall make such adjustments in Employee's salary as it reasonably deems necessary to reflect the increase or decrease in costs of living in the new location and Employee shall be obligated to perform his services generally at such new location and such relocation shall not constitute "Good Reason" hereunder;

c. The failure of the Company to obtain the assumption of this Agreement by any successor, assignee, affiliate, or parent of the Company;

d. Any purported termination of Employee's employment with the Company, and with any affiliate or parent of the Company, which is not effected pursuant to thirty (30) days prior written notice of termination; and

e. Any material breach by the Company of any provision of this Agreement which is not cured by the Company within thirty (30) days written notice from Employee specifying the nature of such breach.

1.5 Termination for Cause means the termination of employment of Employee by the Company Board because of Employee's personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform his stated duties, willful violation of any material law, rule or regulation resulting in a detriment to the Company or reflecting upon the Company's integrity (other than traffic infractions or similar offenses) or a material breach by Employee of any term of this Agreement and failure to cure such breach within thirty (30) days after receipt of written notice from the Company specifying the nature of such breach or to pay compensation to the Company deemed reasonable by the Company if the breach cannot be cured.

For purposes of this Agreement, Employee's termination of employment shall not be considered to be a Termination for Cause unless and until there shall have been delivered to Employee a copy of a resolution, duly adopted by the affirmative vote of not less than 51% of the entire membership of the Board at a meeting called and held for that purpose after reasonable notice to Employee and an opportunity for him, together with his counsel (if he elects to have counsel represent him), to be heard, finding that, in

the good faith opinion of the Board, Employee is guilty of misconduct of the type described in this paragraph, and specifying the particulars thereof in detail, which determination shall be subject to a complete and de novo review as to reasonableness and good faith.

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

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

2.1 Term The term of this Agreement shall commence on the date hereof and shall end on the close of business on the day before the second anniversary of the date of commencement, unless terminated in accordance with the provisions of Section 3 hereof. On and after the first anniversary of the date of commencement, the term hereof shall be extended automatically for an additional one (1) year on each anniversary date hereof, unless prior to thirty (30) days before any such anniversary date the Company Board decides to modify the term of, or to terminate in accordance with the provisions of Section 3 of this Agreement.

2.2 Duties and Responsibilities. Employee shall serve as President of the Company and be responsible for managing all of the ongoing operations of the Company, such duties to include, maximizing the efficiency of operations, reviewing the performance and compensation of all personnel of the Company, attending meetings from time to time at the headquarters of the Company of certain officers of the Company and at the headquarters of SAF of its officers and directors.

2.3 Compensation. During the term of this Agreement and so long as Employee's employment has not been subject to Termination for Cause, he shall be entitled to the salary and other employment benefits provided in this Section 2.3 notwithstanding the level of compensation or benefits received by similarly situated employees. Employee shall be entitled to an annual salary of no less than \$240,000.00 payable pursuant to the Company's employment compensation policy as may exist from time to time, with increases as may be made from time to time in accordance with the Company's regular salary administration practices as applied to executive officers of the Company. Employee shall be entitled to reimbursement for business expenses and automobile or other transportation allowances on a basis no less favorable to Employee than in accordance with the policy of the Company on the Effective Date. Except as expressly set forth herein, Employee shall participate, consistent with past practices, in any bonuses and awards under the management incentive program maintained by the Company on the Effective Date. Employee shall also be entitled to continuing participation, consistent with past practices, in all other employee benefit plans and practices of the Company in place on the Effective Date, including, without limitation,

life, long-term disability and accident insurance, employee savings and investment plans, stock plans, medical, dental, hospitalization and other welfare benefit plans, and vacation plans, without any material reduction in the value of the Company provided benefits. Notwithstanding the foregoing, Employee agrees that he is not a participant in, is not a beneficiary under, and has no rights with respect to that certain Smith & Wesson Corp. Severance Compensation and Extraordinary Bonus Plan (Revised and Restated July 17, 2000).

2.4 Acquisition Bonus; Hiring Bonus; Non-Compete

Consideration. Upon the execution of this Agreement, Employee shall be entitled to receive a payment in the amount of \$300,000 and a Common Stock Purchase Warrant to purchase 5,000,000 shares of the common stock of SAF, substantially in the form attached hereto as Exhibit "A." The foregoing consideration shall be compensation for Employee's role in the Acquisition, consideration for the restrictions set forth in Section 4.1, as well as a "hiring bonus."

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

3.1 Total and Permanent Disability. In the event that Employee suffers Total and Permanent Disability, the Company may terminate Employee's employment, but shall be obligated to continue Employee's then regular salary and continue his benefits hereunder for the balance of the then-existing year term of employment. Employee agrees, in the event of any dispute under this Section, to submit to a physical examination by a licensed physician selected by the Company, the cost of such examination to be paid by the Company, and the decision as to Employee's disability shall be conclusive and binding upon the Company and Employee. Nothing contained herein shall be construed to affect Employee's rights under any disability insurance or similar policy, whether maintained by the Company, Employee or another party.

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

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

3.4 Good Reason. Employee may terminate Employee's employment for Good Reason at any time during the term of this Agreement. In the event Employee terminates his employment for Good Reason, or the Company terminates Employee's employment "without cause", the Company shall continue to be liable to Employee for

the payment of Employee's compensation as set forth in Section 2.3 hereof for either the balance of the full original term of the Agreement or for a six-month period, whichever is longer.

4. COVENANT NOT TO COMPETE AND CONFIDENTIALITY.

4.1 Covenant Not to Compete. Employee shall not engage in any business or perform any service, directly or indirectly, or have any interest, whether as a proprietor, partner, employee, investor, principal, agent, consultant, director or officer, in any enterprise which manufactures guns or gun accessories for commercial purposes in the United States or which is in competition with the business of the Company (i) during the term of his employment, or (ii) two (2) years after the termination of this Agreement; provided, however, that this Covenant Not to Compete shall not apply if Employee's employment is terminated by the Company without cause; or by Employee for Good Reason; or if Employee makes himself available for employment by the Company at the end of the term of this Agreement upon similar terms and conditions to those contained herein and the Company thereupon refuses to employ Employee. Nothing in this Section 4 shall be deemed to prohibit Employee from purchasing less than five percent (5%) of the outstanding shares of any corporation whose shares are traded on a national exchange and which, at the time of purchase, is not engaged in competition with the Company.

If any court shall determine that the duration or geographical limit of the foregoing restriction is unenforceable, it is the intention of the parties that the foregoing restriction shall not be terminated but shall be deemed amended to the extent required to render it valid and enforceable, such amendment to apply only with respect to the operation of this Section 4 in the jurisdiction of the court that has made the adjudication.

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

partnership, limited liability company, corporation or association, or retain after termination of employment, any Company or SAF policy manuals, contracts or other written materials.

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

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

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

7. MISCELLANEOUS.

7.1 Entire Agreement. This Agreement rescinds and supersedes any other agreement, whether oral or written, relating to Employee's employment by the Company and SAF, including without limitation that certain Employment Agreement between Employee and SAF (the "Prior Agreement"), and contains the entire understanding between the parties relative to the employment of Employee, there being no terms, conditions, warranties, or representations other than those contained or referred to herein, and no amendment hereto shall be valid unless made in writing and signed by both of the parties hereto. As of the Effective Date, Employee shall have no further rights, and the Company no further obligations, under the Prior Agreement. Without limiting the generality of the foregoing, Employee expressly acknowledges and agrees that the incentive bonus set forth in Section 4 thereof is no longer in effect and that all employee benefits set forth therein have been replaced by such benefits provided by the Company hereunder.

7.2 Governing Law. This Agreement shall be interpreted and construed in accordance with the laws of the State of Arizona as applied to residents of Arizona without regard to conflicts of law principles.

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

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

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

To Employee:

Robert L. Scott
2310 W. Hazelhurst Drive
Anthem, AZ 85086

To Company:

Smith & Wesson Corp.
c/o SAF-T-HAMMER Corporation
14500 N. Northsight Boulevard, Suite 221
Scottsdale, AZ 85260

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

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

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

7.9 Construction. Each party has had the opportunity to set forth in this Agreement all matters related to the subject hereof. The Company and Employee acknowledge the binding legal effect of this Agreement, that this Agreement has been

negotiated by the parties hereto and that each party has, to the extent desired, sought legal counsel related to the terms, conditions and effect of this Agreement.

7.10 Assistance in Litigation. Employee shall upon reasonable notice, furnish such information and reasonable assistance to the Company as it may reasonably require in connection with any litigation in which it is, or may become, a party either during or after employment.

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

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

COMPANY:

SMITH & WESSON CORP., a Delaware corporation

By: /s/ Mitchell A. Saltz

Its: Executive Vice President

Attest:

EMPLOYEE:

/s/ Sherry Noreen

Secretary

/s/ Robert L. Scott

Robert L. Scott

SMITH & WESSON
SALES REPRESENTATIVE AGREEMENT

THIS SALES REPRESENTATIVE AGREEMENT is effective as of October 23, 1999, between SMITH & WESSON CORP., a Delaware corporation with offices at 2100 Roosevelt Avenue, Springfield, Massachusetts 01104 and BONANZA INTERNATIONAL, INC. with offices at 99NW 183rd St., Suite 237, Miami, Florida 33169 ("Representative").

1. Appointment.

Smith & Wesson hereby appoints Representative as a non-exclusive sales representative to solicit and obtain orders for products of Smith & Wesson identified in Schedule A hereto ("the Products"), and Representative hereby accepts such nonexclusive appointment in accordance with this Agreement. Representative acknowledges that the name and reputation of Smith & Wesson and its Products constitute a valuable asset, and Representative shall conduct its activities ethically and strictly in accordance with the letter and spirit of applicable laws so that the name and reputation of Smith & Wesson and its Products shall not be adversely affected. Representative is not an agent, employee or franchisee of Smith & Wesson and may not assign or license any of its rights or obligations under this Agreement.

2. Area of Responsibility.

Representative shall be responsible for developing, soliciting and obtaining sales of Products solely within the geographic area described in Schedule B hereto ("Area of Responsibility"). Smith & Wesson shall have the right, in its sole and absolute discretion and at any time, to appoint additional sales representatives, to make direct sales to any person or entity, and to enlarge or reduce Representative's Area of Responsibility, with respect either to geographic territory or with respect to the inclusion or exclusion of any customers (either specifically by name or by type) included therein, by giving Representative ten (10) days' advance written notice of such change.

3. Prices and Terms of Orders.

(a) Representative shall solicit orders for the purchase of the Products from Smith & Wesson. All such orders shall be placed with Smith & Wesson, either by the customer, directly, or through the Representative. Such orders shall be at the prices and on the other terms and conditions specified by Smith & Wesson, including but not limited to, conditions of delivery, warranty, discount and payment.

(b) All orders solicited and forwarded by Representative shall be in accordance with Smith & Wesson's sales policies and published procedures and shall require Smith & Wesson's express written acceptance and shall not be binding in any

respect upon Smith & Wesson without its acceptance. Decisions regarding a customer's credit and all matters relating to shipments and billings shall be made only by Smith & Wesson. Nothing contained in this Agreement shall in any manner be deemed to limit or affect the right of Smith & Wesson to change or modify its business operations or practices or to cease, in whole or in part, the production or sale of any Product(s), and Smith & Wesson shall incur no liability to Representative as a result of any such change, modification or cessation.

4. Representative's Duties.

Representative shall:

(a) Use its best and principal efforts to diligently promote the sale and use of the Products and to solicit, secure, obtain and forward orders for the Products to Smith & Wesson; maintain a place of business within its Area of Responsibility reasonably adequate for the performance of its obligations under this Agreement; and, devote such time and attention to the performance of its obligations under this Agreement as may be required to perform such obligations satisfactorily.

(b) Sell and promote only complementary, not competitive products.

(c) Comply with all applicable laws, statutes and regulations governing the sale of the Products and adhere to the sales policies of Smith & Wesson as they may be established from time to time.

(d) Forward immediately to Smith & Wesson any and all orders and any and all monies or remittances in any form which it may collect or receive from customers or accounts; and, make no allowances or adjustments in accounts or authorize the return of any Products unless given specific advance written authorization, in individual cases, by Smith & Wesson.

(e) Carry liability insurance with an insurer and in such amounts as may be approved by Smith & Wesson in connection with all matters relating to any persons or business entities, vehicles and equipment, and any premises utilized by Representative in the performance of its obligations hereunder. Representative shall maintain such insurance in force and effect during the entire period of this Agreement, and provide Smith & Wesson with evidence of such insurance and its maintenance.

(f) Maintain in its possession accurate sales records and provide Smith & Wesson with access to (and the right to copy) such records. Representative will report in reasonable detail, from time to time as Smith & Wesson may reasonably request, upon its sales activities.

(g) Promptly submit to Smith & Wesson any and all inquiries, expressions of interest and potential orders. Representative shall promptly and diligently follow up on

all inquiries received by Smith & Wesson and forwarded to Representative for potential orders in its Area of Responsibility.

5. Compensation.

(a) Representative shall be compensated by payment of a commission on Completed Sales (as defined below) of Products to Smith & Wesson customers who are located within Representative's Area of Responsibility, and who are not specifically excluded under Section 2 or under Section 5(c) of this Agreement. No commission will be paid for sales to any customer who is specifically excluded by Smith & Wesson, regardless of geographic location. Only completed sales made solely during the term of a Representative's appointment hereunder qualify for a commission in accordance with the commission schedules and commission policies from time to time issued by Smith & Wesson. The current commission schedule of the company is attached as Schedule C hereto.

Commissions shall be computed on the net sales price of the Products, minus deductions for such as the following determined by Smith & Wesson in its sole discretion: cancellations, returns, billed freight, allowances, promotional allowances, allowable cash discounts (whether or not taken), and taxes, including federal excise tax. Commissions shall be paid only for Products sold pursuant to orders which are (i) approved by Smith & Wesson, and (ii) which are sold to, accepted and paid for by, the customer (hereinafter referred to as a "Completed Sale"). Commissions shall be paid each month for all Completed Sales of Products during the preceding month which are sold to and paid for by Smith & Wesson's customers who are located in the Representative's Area of Responsibility.

(b) Smith & Wesson reserves the right in its sole and absolute discretion to accept or reject orders and Smith & Wesson shall not be liable to Representative for commissions on any order or any part of any order which for any reason Smith & Wesson may reject or fail to ship.

(c) Smith & Wesson reserves the right to sell direct to any account and to appoint distributors for the Products. These distributors and direct accounts may, in Smith & Wesson's sole and absolute discretion, be treated as Smith & Wesson proprietary accounts ("House Accounts") and Representative shall not be entitled to any commission for Smith & Wesson sales to such House Accounts.

(d) All commissions shall be computed by Smith & Wesson, and such computations shall be deemed accepted as final unless Smith & Wesson receives a written objection from Representative within ten (10) days of the Representative's receipt of the disputed commission report

6. Expenses.

Representative shall be responsible for all of its expenses (including, without limitation: travel, entertainment, hotel, telephone, telex, telecopier, secretarial or office expense). Representative shall purchase from Smith & Wesson, at special prices set by Smith & Wesson, an adequate supply of demonstration Products, to be updated periodically to reflect those Products currently being offered for sale by Smith & Wesson.

7. Representative's Employees.

(a) Representative shall be responsible for the hiring, compensation, termination and all other matters relating to any persons or business entities utilized or employed by Representative in the conduct of its business activities. Smith & Wesson shall have no responsibility for any of the foregoing matters, and Representative shall indemnify and hold harmless Smith & Wesson from any liability, losses, damages, costs and expenses, including reasonable attorneys' fees, incurred in defending any claims or proceedings brought against it by reason of any such matters.

(b) Nothing contained in this Agreement shall be construed to imply that Representative is an officer, partner, joint venturer, employee or agent of Smith & Wesson. It is expressly agreed that Representative is an independent contractor.

8. Limitations Upon Representative's Authority.

In addition to any other limitations contained in this Agreement, Representative shall not have, nor shall it represent itself as having, any authority, to:

(a) make contracts in the name of or binding on Smith & Wesson or pledge Smith & Wesson's credit or extend credit in Smith & Wesson's name;

(b) vary, alter, enlarge or limit orders or contracts for the sale of the Products;

(c) except for those representations specifically authorized by Smith & Wesson, make any representations with respect to the Products or Smith & Wesson, or incur or assume for Smith & Wesson any liability or obligation other than those expressly authorized in writing by Smith & Wesson;

(d) execute any receipt or acknowledgment of payment or satisfaction of any debt or obligation owed to Smith & Wesson or endorse or negotiate any instrument, draft, check or commercial paper in the name of Smith & Wesson, or

(e) engage, employ, delegate, subcontract or enter into any arrangement or understanding for the purpose or having the effect of so engaging, employing, delegating, subcontracting, directly or indirectly, any third party to perform the duties or enjoy the rights of the Representative hereunder unless it shall have received the prior written consent of Smith & Wesson (which consent may be withheld by Smith & Wesson in its

sole and absolute discretion). In the event that Smith & Wesson consents to Representative's utilization of a third party to perform such duties, Representative assumes all responsibility for making sure that the third party is aware of, and complies with, the terms of this Agreement.

9. Covenants.

(a) Neither during the term of Representative's appointment under this Agreement nor at any time thereafter will Representative, directly or indirectly, make use of other than for the benefit of Smith & Wesson - or divulge to any person, firm, association or corporation - any of Smith & Wesson's supplier lists, customer lists, price lists, record books, trade secrets, confidential information or other information of any kind, nature or description concerning any matters affecting or relating to Smith & Wesson's business, except when expressly authorized to do so in writing by Smith & Wesson. Representative shall obtain a binding written agreement from each of its employees, representatives, agents and officers that he is aware of, and will comply with, the terms of this paragraph.

(b) During the term of Representative's appointment under this Agreement Representative shall not handle, offer, act as sales representative or agent for, or sell other lines of products which are competitive with the Products, directly or indirectly, whether as representative, agent, warehouseman, distributor, wholesaler, dealer or otherwise, without Smith & Wesson's prior written consent. Smith & Wesson shall be the sole judge of which products are competitive. Representative shall deliver to Smith & Wesson upon the signing of this Agreement a list containing the names and addresses of each non Smith & Wesson manufacturer's product line which Representative seeks also to represent; and Representative shall update this list and seek Smith & Wesson's written consent before taking on any additional product lines for those manufacturers or any new manufacturer.

(c) Representative acknowledges and agrees that all Smith & Wesson trade names and trademarks are the sole and exclusive property of Smith & Wesson. Representative shall not use such trade names or trademarks as part of its title or the name of its business. Representative also shall not use such trade names or trademarks in any manner in connection with an effort to sell the goods of others, whether or not such goods are competitive with the Products. Upon termination of this Agreement, Representative shall immediately discontinue any use of Smith & Wesson's trademarks, trade names, and any other identification with Smith & Wesson.

10. Remedies.

Representative acknowledges and admits that there would be no adequate remedy at law for its failure to comply with its obligations under this Agreement, and agrees that, in the event of any such failure, Smith & Wesson shall be entitled to equitable relief by way of temporary restraining order, preliminary injunction and permanent injunction and such other and further relief as any court with jurisdiction may deem just and proper,

without the necessity of posting any bond or proving any actual damages. Smith & Wesson will be entitled, if it so elects, to maintain proceedings in any court of competent jurisdiction, either at law or in equity, to obtain damages for any breach of this Agreement by Representative, to enforce the specific performance of this Agreement, to restrain or enjoin Representative from violating this Agreement or to obtain any combination of such remedies or other remedies as may be available to Smith & Wesson at the time of any such breach.

11. Indemnification.

Representative shall indemnify and hold harmless Smith & Wesson, its shareholders, officers, directors, agents, servants and employees against all loss, liability, damage, cost and expense, including reasonable attorneys' fees and expenses, arising out of or resulting from the assertion against Smith & Wesson of any claims or obligations by reason of either (a) Representative's breach of this Agreement, including any unauthorized representations, or (b) the handling, possession or use of the Products by Representative or any of its employees or agents (excluding, however, liability arising solely out of the design or manufacture of the Products by Smith & Wesson).

12. Term and Termination of Agreement.

(a) The term of Representative's appointment under this Agreement shall remain in effect until December 31, 2001, when it will automatically terminate provided, however, that either party may terminate this Agreement without cause by giving thirty (30) days written notice to the other party and, provided further, that Smith & Wesson may terminate this Agreement immediately by giving written notice of termination if any of the following happen:

(i) a breach of this Agreement by Representative;

(ii) any assignment by Representative for benefit of its creditors;

(iii) the death, incapacity, or insolvency of Representative (if it is an individual) or any partner or officer of Representative;

(iv) any substantial change in the management or control of Representative; and

(v) the institution by or against Representative of voluntary or involuntary proceedings in bankruptcy, or under any other insolvency law, or for receivership or dissolution of Representative.

(b) All property of Smith & Wesson, and any copies thereof or any other form of reproduction, extract, abstract or description thereof, including summaries and records, shall be turned over to Smith & Wesson by Representative, or its representative, within

30 days after termination or expiration of such appointment of Representative under this Agreement

(c) Representative shall not, upon the expiration or termination of this Agreement, return Products or inventory to Smith & Wesson or seek reimbursement, or seek any damages relating to prospective profits on sales or anticipated sales.

13. Miscellaneous.

(a) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any of the other provisions, and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted.

(b) This Agreement supersedes any prior agreement between Smith & Wesson and Representative and constitutes the entire agreement between the parties. Except as otherwise set forth herein, this Agreement may not be modified or supplemented except by a writing signed by both parties. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

(c) This Agreement constitutes a personal contract on the part of the Representative which may not be transferred or assigned, in whole or in part, by Representative without Smith & Wesson's prior written consent. For the purposes of this Agreement; a sale or transfer, directly or indirectly, of control over Representative or of more than a majority of any class of capital stock or other equity interest in Representative shall constitute a transfer or assignment prohibited by this paragraph. This Agreement may be assigned by Smith & Wesson and shall be binding upon and inure to the benefit of Smith & Wesson, its successors and assigns, and Representative, its heirs, representatives and approved assigns.

(d) Any notices sent pursuant to this Agreement will be deemed given when delivered or, if sent by certified mail, postage prepaid, on the third business day following the date of mailing, addressed as follows:

Company:	Smith & Wesson Corp. 2100 Roosevelt Avenue Springfield, Massachusetts 01104
Representative:	Bonanza International, Inc. 99 NW 183rd St. Suite 237 Miami, FL 33169

Either party may change its address by written notice to the other in accordance with the provisions of this paragraph.

(e) The waiver by Smith & Wesson of any breach hereof committed by Representative shall not constitute a waiver of any other or subsequent breach. A party breaching this Agreement agrees to pay all costs, expenses and reasonable attorneys' fees incurred by the other party resulting from the breach of the terms or conditions of this Agreement.

SMITH & WESSON CORP.

By: /s/ John A. Kelly

John A. Kelly, Vice-President & CFO

REPRESENTATIVE:

By: /s/ James L. McCoy

President

NAME: BONANZA INTERNATIONAL, INC.

SMITH & WESSON
SALES REPRESENTATIVE AGREEMENT

PRODUCTS

- - - - -

- Handguns
- Supplies, parts and accessories for above items
- Handcuffs
- Smith & Wesson apparel/promotional items

NAME: BONANZA INTERNATIONAL, INC.

SMITH & WESSON
SALES REPRESENTATIVE AGREEMENT

AREA OF RESPONSIBILITY
- - - - -

The following indicates the primary area of responsibility for which the Representative has been appointed:

Latin America (South & Central America)
Caribbean Islands

NAME: BONANZA INTERNATIONAL, INC.

SMITH & WESSON
SALES REPRESENTATIVE AGREEMENT

COMPENSATION
- - - - -

Commission rate will be 3% on products as referred to on Schedule A, or as negotiated.

SMITH & WESSON CORP.

TRADEMARK LICENSE AGREEMENT

This Agreement is effective as of November 1, 1995, by and between SMITH & WESSON CORP., a Delaware Corporation with its principal office at 2100 Roosevelt Avenue, Springfield, Massachusetts 01102-2208, (hereinafter called "Licensor"), and Olympic Optical Company, a Corporation, having its principal office at 3975 Vantech Drive, Suite 2, Memphis, Tennessee 38115 (hereinafter called "Licensee"). In consideration of the mutual promises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Licensor and Licensee, the parties agree as follows:

1. Definitions. As used in this Agreement, the following terms shall have the following meanings:
 - a. "Marks" shall mean those trademarks and service marks identified in Exhibit A, attached hereto, and all of Licensor's rights in such Marks including, without limitation, common law rights, and registrations and applications for registration of any such Marks in any state, federal or other jurisdiction.
 - b. "Licensed Articles" shall mean the articles of merchandise listed in Exhibit B, attached hereto, and marked with one or more of the Marks.
 - c. "Net Sales Price" shall be the invoiced price at which Licensed Articles are sold by Licensee, less any sales tax, and less any credits for returns actually made or allowed, provided that such returns relate to sales which were previously included in royalty calculations under this Agreement. There shall be no deduction from the Net Sales Price on which royalties are due hereunder for uncollectible accounts, advertising expenses or other expenses of any kind except those specifically identified in this Section.
 - d. "Territory" is the geographic area identified in Section 2(a) of this Agreement.
 - e. "Minimum Guaranteed Royalties" shall have the meaning set forth in Section 3(d) of this Agreement.

- f. "Contract Year" and "First Contract Year" shall have the meanings given those respective terms set forth in Section 2(b) of this Agreement.

NOVEMBER 15, 1995

2. Grant of License, Term, Licensee's Duties

- a. Licensor hereby grants to Licensee an exclusive, nontransferable license to use the Marks in connection with the retail sale as a worldwide agreement of Licensed Articles. Licensee shall not use, or permit the use of, the Marks on any other product or for any service, except as specifically provided in this Agreement. Since Licensor grants Licensee any rights to use the marks in any jurisdiction outside of the United States, Licensee shall take all steps and timely notify Licensor of all steps as shall be necessary to protect Licensor's trademark rights in such marks, and assure Licensor's exclusive ownership, in such jurisdiction.
- b. The term of this Agreement shall be for ten years commencing November 1, 1995 and ending December 31, 2005 at midnight Eastern Standard Time, unless sooner terminated. Each period from January 1 through December 31 during the term hereof is hereinafter referred to as a "Contract Year", with the exception of the "First Contract Year", which shall be for the period from the date hereof through December 31, 1996. This Agreement shall be automatically extended for successive one year periods unless Licensor or Licensee gives the other party written notice of its intention not to extend this Agreement, at least 90 days prior to the expiration date of the Agreement or any extension thereof. The contract can only be cancelled with cause.
- c. Licensee shall use its best efforts to promote the sale of Licensed Articles in the Territory and shall maintain facilities and trained personnel sufficient and adequate to accomplish Licensee's obligations hereunder.
- d. Except as may be specifically provided in this Agreement, nothing in this Agreement shall be construed to prevent Licensor from using, or granting exclusive or nonexclusive licenses to any other persons to use, any of the Marks in connection with any goods or services other than those so stated in Exhibit B.

3. Royalties and Payment, Minimum Guaranteed Royalties, Reporting

- a. Licensee shall pay Licensor a royalty equal to (6%) six percent of the Net Sales Price of all Licensed Articles sold or otherwise distributed by Licensee during or after the term of this Agreement. Licensee shall pay Licensor a royalty of (3%) three percent applied to the sales of the industrial safety market.
- b. On or before the thirtieth day of the first month of each calendar quarter, Licensee shall furnish to Licensor full and accurate statements, certified by the Chief Financial Officer of Licensee, showing the number, description and total Net Sales Prices of the Licensed Articles sold or otherwise distributed by Licensee during the preceding calendar quarter. Licensee shall, simultaneously with such statements, pay to Licensor the royalties due thereon. Licensee may credit against any such payment any Minimum Guaranteed Royalty previously paid by Licensee for the Contract Year covered by such quarterly statement, Any Minimum Guaranteed Royalty paid for any Contract Year shall not be refunded to Licensee, and may be credited to royalties due in the next Contract Year.

On or before the thirtieth day of the third month following the end of each Contract Year, Licensee shall furnish to Licensor a statement certified by the Chief Financial Officer of Licensee showing total sales of Licensed Articles, royalties due and royalties paid, for the preceding Contract Year. If such statement discloses that the amount of royalties paid during any period to which such statement relates were less than the amount required to be paid, Licensee shall pay such deficiency concurrently with the delivery of the statement.
- c. For purposes of this Agreement, a Licensed Article shall be considered sold when such Article has been shipped, distributed, paid for, billed or invoiced, whichever first occurs.
- d. Notwithstanding anything to the contrary set forth herein, Licensee shall pay to Licensor minimum royalties ("Minimum Guaranteed Royalties"), as follows:

First Contract Year	\$25,000.00
Second Contract Year	\$27,500.00
Third Contract Year	\$30,250.00
Fourth Contract Year	\$33,275.00
Fifth Contract Year	\$36,600.00

Sixth Contract Year	\$40,250.00
Seventh Contract Year	\$44,250.00
Eighth Contract Year	\$48,700.00
Ninth Contract Year	\$53,600.00
Tenth Contract Year, and each subsequent Contract Year, or portion thereof, included in the term of this Agreement, until changed by mutual written agreement of the parties	\$65,000.00

The Minimum Guaranteed Royalty for the First Contract Year shall be paid upon execution of this Agreement. Thereafter for each Contract Year during which this Agreement is in effect, the Minimum Guaranteed Royalty for such Contract year shall be paid at the end of the quarter during which they were earned, pursuant to Section 3(b) of this Agreement, during such contract Year.

- e. Any delinquent amounts under this Agreement shall bear simple interest at the rate of 1.5 percent per month, or if lower, the highest rate permitted by law, from the due date thereof until paid.

4. Protection of Marks

- a. Licensee acknowledges Licensor's exclusive right, title and interest in and to the Marks, both at common law and under other applicable laws, and will not, either directly or indirectly, at any time, do anything to discredit any part of such right, title or interest or challenge the validity of this License. Licensee agrees that its use of the Marks will inure entirely to the benefit of Licensor. Licensee shall assist Licensor, to the extent necessary, upon request by Licensor, in the procurement of any protection of Licensor's rights in the Marks. Upon Licensor's request from time to time, Licensee shall provide Licensor with six specimens of any Mark used on Licensed Articles and whatever other documentation or information may be requested by Licensor for the registration of any Mark in any category into which the Licensed Articles fall.
- b. Licensee shall use the Marks only in the form and manner and with appropriate legends as prescribed from time to time by Licensor, and shall not use any other trademark or service mark

in combination with any Mark without prior written approval of Licensor. In any written materials, such as the packaging, advertising materials, catalogs, brochures and the like associated with the Licensed Articles, in addition to the "(R)" or "TM" symbol displayed adjacent to the Mark, as appropriate, Licensee shall use the following notice at least once in each such document: "Licensed Trademark of Smith & Wesson Corp."

- c. Licensee recognizes that the SMITH & WESSON name and associated marks are world famous and that, even if not registered in any country, the unauthorized use thereof would seriously dilute the distinctiveness of such name and the Marks.
- d. Licensee shall immediately notify Licensor in writing of any infringements or imitations by other persons of any Mark, of which Licensee becomes aware. Licensor shall have the sole right to determine whether or not any action shall be taken on account of such infringements or imitations. Licensee shall not institute any suit or take any action on account of any such infringements or imitations without first obtaining the written consent of Licensor to do so.

5. Assignment of Marks

If Licensee shall acquire any rights in the marks in any country, Licensee shall notify Licensor and immediately assign such right to Licensor. Licensee shall not permit any other person to use any of the Marks without Licensor's prior written consent, and shall cause any manufacturer or other person involved in the production, promotion or sale of Licensed Articles to agree to assign to Licensor any rights in any Mark acquired by such manufacturer or other person.

6. Indemnification

- a. Licensee shall at all times, and to the fullest extent permitted by law, indemnify and hold harmless Licensor and its successors, assigns, franchisees, subsidiaries, affiliates, licensing agents and distributors, and the directors, officers, agents and employees of each of the foregoing entities, from and against any and all damages, demands, claims, suits, actions, investigations, charges, costs and expenses including, without limitation, attorneys fees and court costs, settlement amounts, judgments, compensation for damage to Licensor's reputation, and any losses of any nature, which arise out of or are based upon any of the following:

- (1) Any actual or alleged design defect, manufacturing defect, failure to warn or instruct, breach of warranty, negligence, strict liability in tort or any other product liability legal theory associated with the Licensed Articles;
- (2) The infringement, alleged infringement or any other violation or alleged violation of any patent, trademark or copyright rights or other proprietary rights owned or controlled by third parties by reason of the manufacture, use, advertising, sale or distribution of the Licensed Articles except for trademark actions arising out of Licensee's approved use of the Marks;
- (3) The violation, or alleged violation, of any federal, state or local law, regulation, ruling, standard or directive or of any industry standard with respect to the Licensed Articles;
- (4) Licensee's breach of any warranty, representation, agreement or obligation hereunder; or
- (5) Any other acts or omissions of Licensee, or its agents, servants or contractors with respect to the manufacture, promotion or sale of Licensed Articles.

b. Licensee shall promptly give Licensor notice of any action, suit, proceeding, claim, demand, inquiry or investigation relating to the Marks or the Licensed Articles. Licensor may at its sole option, elect to undertake the defense of any such action, suit, proceeding, claim, demand, inquiry or investigation, provided that such an undertaking by Licensor shall not diminish Licensee's obligation hereunder to indemnify Licensor and to hold it harmless. Licensor may, at any time and without notice, order or consent to a recall, the making of refunds or settlements, or the giving of notice to consumers or similar remedies with respect to the Licensed Articles. All losses and expenses incurred under this Section shall be chargeable to Licensee pursuant to its obligations of indemnity under this Section, regardless of any actions, activity or defense undertaken by Licensor or Licensee or the subsequent success or failure of such actions, activity or defense.

- c. Licensor assumes no liability whatsoever for the acts and omissions of Licensee, or any of those with whom Licensee may contract for the manufacture, distribution or sale of Licensed Articles, notwithstanding any prior consent by Licensor to such contract.

7. Insurance

Licensee shall maintain, throughout the term of this Agreement, at its own expense, liability insurance, from an insurance company, with such liability coverages and limits, as are acceptable to Licensor. Such policies shall name Licensor as an additional insured and shall provide that Licensor shall receive at least 30 days prior written notice of intent to cancel, alter or amend such policy. Licensee shall provide Licensor upon execution of this Agreement and upon Licensor's request from time to time thereafter, with certificates or other evidence of insurance required by this Section. Licensee shall keep all insurance coverages required by this Agreement in full force and effect for a period of three years after the termination of this Agreement.

8. Quality of Licensed Articles

- a. Licensee agrees, and represents and warrants to Licensor, that all Licensed Articles shall be competitive and at a quality level in line with the retail price, and of high safety and structural standards, of such style, appearance, quality and consistency as shall be suitable for distribution and satisfactory for consumer usage, and otherwise merchantable and fit for the purposes for which they are intended to be used. Before manufacturing any Licensed Article, and upon Licensor's request from time to time, Licensee shall submit to Licensor, for its written approval of the Mark usage, samples of each Licensed Article together with any labeling or packaging in which such Licensed Article is to be marketed or sold. The number of samples to be furnished by Licensee shall be such reasonable number as Licensor may from time to time request. All samples shall be provided without charge to Licensor. No Licensed Article shall be distributed or sold pursuant to this Agreement until Licensee has obtained Licensor's written approval of the samples submitted. Licensor will forward written approval/disapproval within 15 working days.
- b. All Licensed Articles shall be of the same quality and workmanship as the approved sample, and in the manufacture

thereof, Licensee shall cause to be used state-of-the-art manufacturing processes, techniques and quality control procedures in order to ensure that the Licensed Articles will consistently comply with the highest product quality standards. Under no circumstances shall Licensee sell, distribute, give away or otherwise deal in Licensed Articles that are seconds, that bear a distortion of the Marks or that do not comply with this Agreement.

- c. Licensor has a clear policy of meeting our customer's needs and expectations. We must insist that this policy be espoused by any Smith & Wesson licensee, as to act otherwise would undermine the Licensor's corporate commitment to customer satisfaction. Any licensee must provide Licensor with a reasonable and refillable supply of no-charge merchandise for us to quickly initiate exchanges when necessary. We also will when required refund the purchase price of a product deemed unacceptable by the user/consumer and expect to be reimbursed for any such costs by the product's supplier. Licensor will supply a quarterly accounting of any and all transactions relating to customer satisfaction with the specific supplier.
- d. Licensee shall consistently distinguish the Licensed Articles from other products manufactured and sold by Licensee and shall avoid confusing similarity between such other products and the Licensed Articles. Licensee shall take such actions as are necessary to maintain the Licensed Articles as separate and distinct lines of styling, design and merchandising from any other product manufactured or sold by Licensee applicable to all future products.
- e. Licensee shall, no later than 180 days before the expiration of any original or extended term of this Agreement, furnish Licensor a statement showing the number and description of Licensed Articles in inventory and in process.

9. Compliance with Government Standards and Product Testing

- a. Licensee agrees that the manufacture, distribution and sale of the Licensed Articles will conform at all times to all applicable federal, state and local laws, regulations, industry standards, ordinances and other enactments, including, without limitation, those relating to product safety.

10. Promotional Material

Licensee shall not use the Marks or any reproduction thereof in any advertising, promotional or display material without Licensor's prior written approval. Under no circumstances will promotional materials or programs be used by Licensee that reflect unfavorably on the Marks. All advertising, display or promotional copy utilizing or in any way connected with the Marks, shall carry a notice that the Marks are the property of Licensor. One copy of such advertising, display or promotional copy shall be submitted to Licensor for prior written approval in advance of production and upon Licensor's request from time to time thereafter. Any approval granted by Licensor under this Section will extend only to Licensee's use of the Marks. Licensor shall not be liable for content or accuracy of such advertising, promotional or display material nor for infringement of patents, copyrights, trademarks, or any other proprietary rights owned, used, or controlled by third parties, by reason of Licensee's promotional activities.

11. Records

- a. Licensee shall keep accurate books of account and records covering all transactions relating to the license herein granted. Licensor and its duly authorized independent accountants or other representatives shall have the right at reasonable times, upon Licensor's request from time to time, to examine such books of account and records and all other documents and material in Licensee's possession or under its control with respect to Licensee's activities in connection with this Agreement, and such persons shall have free and full access for such purposes and may make copies thereof or extracts therefrom. Licensee shall keep all such records available to Licensor for at least three years after expiration or termination of this Agreement. Licensee will designate a symbol or number which will be used exclusively in connection with the Licensed Articles and with no other articles which Licensee may manufacture, sell or distribute, and that duplicates of all billings by Licensee to its customers with respect to Licensed Articles shall be kept by Licensee for inspection as is herein provided.
- b. If any audit by Licensor shall reveal a shortfall of royalties paid by Licensee against royalties actually due in accordance with this Agreement, Licensee shall immediately, upon demand by Licensor, make payment to Licensor or such shortfall, plus simple interest at prime rate per month or if lower, the highest rate permitted by law, for the period of such shortfall.
In

addition, if such audit shall reveal a shortfall of more than five percent of royalty due, Licensee shall reimburse Licensor for the services of its accountant and for any other expenses of Licensor incident thereto including, without limitation, any attorney's fees and costs of collection.

12. Termination

In addition to any other rights which Licensor may otherwise have, Licensor may terminate this Agreement at any time, immediately upon written notice:

- a. If within three months from the date of this Agreement, Licensee shall not have begun the bona fide production, distribution and sale of the Licensed Articles; or
- b. If Licensee shall thereafter fail for a consecutive period in excess of three months to continue the bona fide distribution and sale of the Licensed Articles; or
- c. If Licensee shall fail to make any payment due hereunder or to deliver any of the statements required hereunder, and if such default shall continue for a period of 15 days after notice of such default by Licensor to Licensee or if such a failure shall occur twice in any 12-month period even if both failures are corrected as provided hereunder; or
- d. If Licensee or its property, where appropriate:
 - 1) Becomes subject to a receiver or trustee; or
 - 2) Becomes insolvent; or
 - 3) Becomes subject to an involuntary or voluntary petition under the United States Bankruptcy Laws, as amended; or
 - 4) Makes an assignment for the benefit of its creditors; or
- e. If there is any deliberate deficiency in the Licensee's reporting which affects royalties payable or any other aspect of this Agreement; or
- f. If any warranty, representation or covenant made by Licensee hereunder, or any information as to product quality or safety provided by Licensee hereunder, is false or misleading; or

- g. If Licensee fails to comply with any term or condition of this Agreement, other than those specifically set forth in clauses a through f above, and such non-compliance continues for a period of 15 days after notice thereof is given by the Licensor.

Any termination by Licensor shall be without prejudice to any of Licensor's other rights or remedies.

13. Effect of Termination

- a. After expiration or other termination of this Agreement, Licensee shall have no further right to manufacture, distribute, sell, exploit or otherwise deal in any Licensed Articles which utilize the Marks except that Licensee may dispose of Licensed Articles which are on hand or in process at the time of expiration or termination so long as (1) Licensee reports in writing to Licensor, no later than 30 days after termination of this Agreement, the total number of Licensed Articles which will be disposed of, (2) the sale thereof is completed within six months, (3) all payments when due are made to Licensor, (4) such disposal of Licensed Articles shall be in accordance with the terms of this Agreement, and (5) statements and royalty payments with respect to that period are made by Licensee in accordance with Section 3. Notwithstanding the foregoing, in the event this Agreement is terminated pursuant to Sections 12(c), 12(d), 12(e), 12(f), or 12(g), Licensee shall not dispose of any Licensed Articles which are on hand or in process at the time of termination, but shall instead immediately deliver and turn over such Licensed Articles to Licensor. A final statement and payment shall be made by Licensee within 15 days after the end of such six month period. Upon expiration of such six-month period herein, any remaining inventory of Licensed Articles and all molds, plates, prints and other materials used to reproduce the Marks for the manufacture of the Licensed Articles shall be destroyed and evidence of such destruction shall be given to the Licensor.
- b. In the event this Agreement expires or is otherwise terminated for any reason, Licensee shall, and hereby does, assign to Licensor any and all rights of Licensee in the Marks, including associated goodwill, and the designs and styles of the Licensed Articles to the extent such design or styles contain or employ any of the Marks, and shall not thereafter manufacture or sell any such designs or styles or use the Marks in any manner.

- c. Except as provided in subsection a), upon the expiration or termination of this Agreement, Licensee shall immediately cease all further use of the Marks and any names, trademarks, characters, symbols, designs, likenesses or visual representations as might be likely to cause confusion or deceive purchasers or prospective purchasers or dilute any trade name, trademark or service mark of Licensor including, without limitation, Licensor's corporate and private names, other trademarks, symbols, designations, indices, slogans and other means of identifying products or services of Licensor, whether or not identified herein as a Mark.
- d. Licensee agrees that the Marks are distinctive and possess special, unique and extraordinary characteristics which make difficult the assessment of the monetary damages that Licensor would sustain by unauthorized use. Licensee recognizes that irreparable injury would be caused to Licensor by unauthorized use of the Marks and agrees that injunctive and other equitable relief would be appropriate in the event of a breach of this Agreement by Licensee, provided, however, that such remedy shall not be exclusive of other legal remedies otherwise available.
- e. Licensee's obligations and agreements set forth in Sections 3 through 11, 13, 14, 17, 19 and 20 survive any termination or expiration of this Agreement.

14. Notices

All notices and statements to be given hereunder shall be in writing, and any such notice or statement shall be deemed duly given if mailed by certified mail, return receipt requested, if to Licensor, at:

Smith & Wesson Corp.
2100 Roosevelt Avenue
P.O. Box 2208
Springfield, MA 01102-2208

Attention: Jack Sweeney
Director of Licensing

and if to Licensee, at:

Olympic Optical Company
3975 Vantech Drive, Suite 2
Memphis, TN 38115

Attention: Winston Wolfe
President

15. No Joint Venture

Nothing in this Agreement shall be construed to place the parties in the relationship of partners or joint ventures, and Licensee shall have no power to bind Licensor in any manner whatsoever.

16. Cancellation

Licensee acknowledges that Licensor and its subsidiaries, affiliates and franchisees use the Marks to advance and promote Licensor's business, and that Licensor has a paramount obligation to preserve its ability to so use such Marks. Should the use by Licensee of any Mark on Licensed Articles be deemed by Licensor to be in violation of any federal, state or local law or to adversely affect the reputation of Licensor or affect the validity, enforceability or distinctiveness of the Mark as a designation of origin for Licensor's own products, then Licensor may terminate this Agreement on 15 days notice to Licensee in the event of an actual violation.

17. Assignments, Transfers and Sublicenses

Without the prior written consent of Licensor, which may be withheld in Licensor's sole discretion, a) Licensee shall not voluntarily or by operation of law, assign or transfer this Agreement or any of Licensee's rights or duties hereunder or any interest of Licensee herein, nor shall Licensee enter into any sublicense for use of the Marks by other persons; b) Licensee shall not sell or otherwise transmit or transfer to any party engaged in the design or manufacture of items similar to any of the Licensed Articles, any design, style, know-how, technology or other item or knowledge of a technical or competitive nature, furnished to Licensee by or through Licensor. Any transfer of any interest in Licensee to any entity in which the present controlling shareholders of Licensee do not have voting control shall be deemed an assignment prohibited hereunder. The consent of Licensor to one assignment, transfer or sublicense shall not be deemed to be consent to any subsequent assignment, transfer or sublicense. Nothing provided herein shall limit Licensor's right to transfer and assign any of its rights

hereunder. Any transfer of interest in Licensee would only be permissible with the consent of Licensor.

18. Scope and Modification

This Agreement sets forth the entire agreement between the parties, and supersedes all prior agreements and understandings between the parties, relating to the subject matter hereof. None of the terms of this Agreement may be waived or modified except as expressly agreed in writing by both parties.

19. Severability

Should any provision of this Agreement be declared void or unenforceable, the validity of the remaining provisions shall not be affected thereby.

20. Governing Laws

This Agreement shall be interpreted in accordance with and governed by the laws of the Commonwealth of Massachusetts.

The parties hereto have executed this Agreement as the date at the beginning hereof.

Licensor:

SMITH & WESSON CORP.

Witnessed By:

/s/ Peggy M. Cowell

By: /s/ Robert L. Scott

(Title) Vice President Sales & Marketing

Licensee:

/s/ John Hardison

By: /s/ Winston Wolfe

(Title) President

Smith & Wesson

.357 Magnum

Magnum

LadySmith

Airweight

Kit Gun

Chiefs Special

Combat Magnum

44 Magnum

Service Kit Gun

Target Kit Gun

.357 Combat Magnum

Distinguished Combat Magnum

Distinguished Service Magnum

Sunglasses

Shooting Glasses

Hearing Protection inclusive of ear plugs and ear muffs

Eye and Hearing Protection Combinations

Industrial Safety Eyewear

SMITH & WESSON CORP.

TRADEMARK LICENSE AGREEMENT

This Agreement is effective as of December 1, 1995, by and between SMITH & WESSON CORP., a Delaware Corporation with its principal office at 2100 Roosevelt Avenue, Springfield, Massachusetts 01102-2208, (hereinafter called "Licensor"), and Taylor Cutlery, a Corporation, having its principal office at 1736 North Eastman Road, Kingsport, Tennessee 37662 (hereinafter called "Licensee"). In consideration of the mutual promises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Licensor and Licensee, the parties agree as follows:

1. Definitions. As used in this Agreement, the following terms shall have the following meanings:
 - a. "Marks" shall mean those trademarks and service marks identified in Exhibit A, attached hereto, and all of Licensor's rights in such Marks including, without limitation, common law rights, and registrations and applications for registration of any such Marks in any state, federal or other jurisdiction.
 - b. "Licensed Articles" shall mean the articles of merchandise listed in Exhibit B, attached hereto, and marked with one or more of the Marks.
 - c. "Net Sales Price" shall be the invoiced price at which Licensed Articles are sold by Licensee, less any sales tax, and less any credits for returns actually made or allowed, provided that such returns relate to sales which were previously included in royalty calculations under this Agreement. There shall be no deduction from the Net Sales Price on which royalties are due hereunder for uncollectible accounts, advertising expenses or other expenses of any kind except those specifically identified in this Section.
 - d. "Territory" is the geographic area identified in Section 2(a) of this Agreement.
 - e. "Minimum Guaranteed Royalties" shall have the meaning set forth in Section 3(d) of this Agreement.
 - f. "Contract Year" and "First Contract Year" shall have the meanings given those respective terms set forth in Section 2(b) of this Agreement.

DECEMBER 1, 1995

2. Grant of License, Term, Licensee's Duties

- a. Licensor hereby grants to Licensee an exclusive, nontransferable license to use the Marks in connection with the retail sale as a worldwide agreement of Licensed Articles. Licensee shall not use, or permit the use of, the Marks on any other product or for any service, except as specifically provided in this Agreement. Since Licensor grants Licensee any rights to use the marks in any jurisdiction outside of the United States, Licensee shall take all steps and timely notify Licensor of all steps as shall be necessary to protect Licensor's trademark rights in such marks, and assure Licensor's exclusive ownership, in such jurisdiction.
- b. The term of this Agreement shall be for five years commencing December 1, 1995 and ending December 31, 2000 at midnight Eastern Standard Time, unless sooner terminated. Each period from January 1 through December 31 during the term hereof is hereinafter referred to as a "Contract Year", with the exception of the "First Contract Year", which shall be for the period from the date hereof through December 31, 1996. This Agreement shall be automatically extended for successive one-year periods unless Licensor or Licensee gives the other party written notice of its intention not to extend this Agreement, at least 90 days prior to the expiration date of the Agreement or any extension thereof. The contract can only be cancelled with cause.
- c. Licensee shall use its best efforts to promote the sale of Licensed Articles in the Territory and shall maintain facilities and trained personnel sufficient and adequate to accomplish Licensee's obligations hereunder.
- d. Except as may be specifically provided in this Agreement, nothing in this Agreement shall be construed to prevent Licensor from using, or granting exclusive or nonexclusive licenses to any other persons to use, any of the Marks in connection with any goods or services other than those so stated in Exhibit B.

3. Royalties and Payment, Minimum Guaranteed Royalties, Reporting

- a. Licensee shall pay Licensor a royalty equal to (7%) seven percent of the Net Sales Price of all Licensed Articles sold or otherwise distributed by Licensee during or after the term of this Agreement.
- b. On or before the thirtieth day of the first month of each calendar quarter, Licensee shall furnish to Licensor full and accurate statements, certified by the Chief Financial Officer of Licensee, showing the number, description and total Net Sales Prices of the Licensed Articles sold or otherwise distributed by Licensee during the preceding calendar quarter. Licensee shall, simultaneously with such statements, pay to Licensor the royalties

due thereon. Licensee may credit against any such payment any Minimum Guaranteed Royalty previously paid by Licensee for the Contract Year covered by such quarterly statement, Any Minimum Guaranteed Royalty paid for any Contract Year shall not be refunded to Licensee, and may be credited to royalties due in the next Contract Year.

On or before the thirtieth day of the third month following the end of each Contract Year, Licensee shall furnish to Licensor a statement certified by the Chief Financial Officer of Licensee showing total sales of Licensed Articles, royalties due and royalties paid, for the preceding Contract Year. If such statement discloses that the amount of royalties paid during any period to which such statement relates were less than the amount required to be paid, Licensee shall pay such deficiency concurrently with the delivery of the statement.

- c. For purposes of this Agreement, a Licensed Article shall be considered sold when such Article has been shipped, distributed, paid for, billed or invoiced, whichever first occurs.
- d. Notwithstanding anything to the contrary set forth herein, Licensee shall pay to Licensor minimum royalties ("Minimum Guaranteed Royalties"), as follows:

First Contract Year	\$70,000.00
Second Contract Year	\$77,000.00
Third Contract Year	\$84,700.00
Fourth Contract Year	\$93,200.00
Fifth Contract Year and each subsequent Contract Year, or portion thereof, included in the term of this Agreement, until changed by mutual written agreement of the parties	\$102,450.00

The Minimum Guaranteed Royalty for the First Contract Year and for each year that this Agreement is in effect shall be paid at the end of the quarter during which they were earned, pursuant to Section 3(b) of this Agreement, during such contract year.

- e. Any delinquent amounts under this Agreement shall bear simple interest at the rate of 1.5 percent per month, or if lower, the highest rate permitted by law, from the due date thereof until paid.

4. Protection of Marks

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- a. Licensee acknowledges Licensor's exclusive right, title and interest in and to the Marks, both at common law and under other applicable laws, and will not, either directly or indirectly, at any time, do anything to discredit any part of such right, title or interest or challenge the validity of this License. Licensee agrees that its use of the Marks will inure entirely to the benefit of Licensor. Licensee shall assist Licensor, to the extent necessary, upon request by Licensor, in the procurement of any protection of Licensor's rights in the Marks. Upon Licensor's request from time to time, Licensee shall provide Licensor with six specimens of any Mark used on Licensed Articles and whatever other documentation or information may be requested by Licensor for the registration of any Mark in any category into which the Licensed Articles fall.
 - b. Licensee shall use the Marks only in the form and manner and with appropriate legends as prescribed from time to time by Licensor, and shall not use any other trademark or service mark in combination with any Mark without prior written approval of Licensor. In any written materials, such as the packaging, advertising materials, catalogs, brochures and the like associated with the Licensed Articles, in addition to the "(R)" or "TM" symbol displayed adjacent to the Mark, as appropriate, Licensee shall use the following notice at least once in each such document: "Licensed Trademark of Smith & Wesson Corp."
 - c. Licensee recognizes that the SMITH & WESSON name and associated marks are world famous and that, even if not registered in any country, the unauthorized use thereof would seriously dilute the distinctiveness of such name and the Marks.
 - d. Licensee shall immediately notify Licensor in writing of any infringements or imitations by other persons of any Mark, of which Licensee becomes aware. Licensor shall have the sole right to determine whether or not any action shall be taken on account of such infringements or imitations. Licensee shall not institute any suit or take any action on account of any such infringements or imitations without first obtaining the written consent of Licensor to do so.

5. Assignment of Marks

If Licensee shall acquire any rights in the marks in any country, Licensee shall notify Licensor and immediately assign such right to Licensor. Licensee shall not permit any other person to use any of the Marks without Licensor's prior written consent, and shall cause any manufacturer or other person involved in the production, promotion or sale of Licensed Articles to agree to assign to Licensor any rights in any Mark acquired by such manufacturer or other person.

6. Indemnification

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- a. Licensee shall at all times, and to the fullest extent permitted by law, indemnify and hold harmless Licensor and its successors, assigns, franchisees, subsidiaries, affiliates, licensing agents and distributors, and the directors, officers, agents and employees of each of the foregoing entities, from and against any and all damages, demands, claims, suits, actions, investigations, charges, costs and expenses including, without limitation, attorneys fees and court costs, settlement amounts, judgments, compensation for damage to Licensor's reputation, and any losses of any nature, which arise out of or are based upon any of the following:
- (1) Any actual or alleged design defect, manufacturing defect, failure to warn or instruct, breach of warranty, negligence, strict liability in tort or any other product liability legal theory associated with the Licensed Articles;
 - (2) The infringement, alleged infringement or any other violation or alleged violation of any patent, trademark or copyright rights or other proprietary rights owned or controlled by third parties by reason of the manufacture, use, advertising, sale or distribution of the Licensed Articles except for trademark actions arising out of Licensee's approved use of the Marks;
 - (3) The violation, or alleged violation, of any federal, state or local law, regulation, ruling, standard or directive or of any industry standard with respect to the Licensed Articles;
 - (4) Licensee's breach of any warranty, representation, agreement or obligation hereunder; or
 - (5) Any other acts or omissions of Licensee, or its agents, servants or contractors with respect to the manufacture, promotion or sale of Licensed Articles.
- b. Licensee shall promptly give Licensor notice of any action, suit, proceeding, claim, demand, inquiry or investigation relating to the Marks or the Licensed Articles. Licensor may at its sole option, elect to undertake the defense of any such action, suit, proceeding, claim, demand, inquiry or investigation, provided that such an undertaking by Licensor shall not diminish Licensee's obligation hereunder to indemnify Licensor and to hold it harmless. Licensor may, at any time and without notice, order or consent to a recall, the making of refunds or settlements, or the giving of notice to consumers or similar remedies with respect to the Licensed Articles. All losses and expenses incurred under this Section shall be chargeable to

Licensee pursuant to its obligations of indemnity under this Section, regardless of any actions, activity or defense undertaken by Licensor or Licensee or the subsequent success or failure of such actions, activity or defense.

- c. Licensor assumes no liability whatsoever for the acts and omissions of Licensee, or any of those with whom Licensee may contract for the manufacture, distribution or sale of Licensed Articles, notwithstanding any prior consent by Licensor to such contract.

7. Insurance

Licensee shall maintain, throughout the term of this Agreement, at its own expense, liability insurance, from an insurance company, with such liability coverages and limits, as are acceptable to Licensor. Such policies shall name Licensor as an additional insured and shall provide that Licensor shall receive at least 30 days prior written notice of intent to cancel, alter or amend such policy. Licensee shall provide Licensor upon execution of this Agreement and upon Licensor's request from time to time thereafter, with certificates or other evidence of insurance required by this Section. Licensee shall keep all insurance coverages required by this Agreement in full force and effect for a period of three years after the termination of this Agreement.

8. Quality of Licensed Articles

- a. Licensee agrees, and represents and warrants to Licensor, that all Licensed Articles shall be competitive and at a quality level in line with the retail price, and of high safety and structural standards, of such style, appearance, quality and consistency as shall be suitable for distribution and satisfactory for consumer usage, and otherwise merchantable and fit for the purposes for which they are intended to be used. Before manufacturing any Licensed Article, and upon Licensor's request from time to time, Licensee shall submit to Licensor, for its written approval of the Mark usage, samples of each Licensed Article together with any labeling or packaging in which such Licensed Article is to be marketed or sold. The number of samples to be furnished by Licensee shall be such reasonable number as Licensor may from time to time request. All samples shall be provided without charge to Licensor. No Licensed Article shall be distributed or sold pursuant to this Agreement until Licensee has obtained Licensor's written approval of the samples submitted. Licensor will forward written approval/disapproval within 15 working days.
- b. All Licensed Articles shall be of the same quality and workmanship as the approved sample, and in the manufacture thereof, Licensee shall cause to be used state-of-the-art manufacturing processes, techniques and quality control procedures in order to ensure that the Licensed Articles will

consistently comply with the highest product quality standards. Under no circumstances shall Licensee sell, distribute, give away or otherwise deal in Licensed Articles that are seconds, that bear a distortion of the Marks or that do not comply with this Agreement.

- c. Licensor has a clear policy of meeting our customer's needs and expectations. We must insist that this policy be espoused by any Smith & Wesson licensee, as to act otherwise would undermine the Licensor's corporate commitment to customer satisfaction. Any licensee must provide Licensor with a reasonable and refillable supply of no-charge merchandise for us to quickly initiate exchanges when necessary. We also will when required refund the purchase price of a product deemed unacceptable by the user/consumer and expect to be reimbursed for any such costs by the product's supplier. Licensor will supply a quarterly accounting of any and all transactions relating to customer satisfaction with the specific supplier.
- d. Licensee shall consistently distinguish the Licensed Articles from other products manufactured and sold by Licensee and shall avoid confusing similarity between such other products and the Licensed Articles. Licensee shall take such actions as are necessary to maintain the Licensed Articles as separate and distinct lines of styling, design and merchandising from any other product manufactured or sold by Licensee applicable to all future products.
- e. Licensee shall, no later than 180 days before the expiration of any original or extended term of this Agreement, furnish Licensor a statement showing the number and description of Licensed Articles in inventory and in process.

9. Compliance with Government Standards and Product Testing

- a. Licensee agrees that the manufacture, distribution and sale of the Licensed Articles will conform at all times to all applicable federal, state and local laws, regulations, industry standards, ordinances and other enactments, including, without limitation, those relating to product safety.

10. Promotional Material

Licensee shall not use the Marks or any reproduction thereof in any advertising, promotional or display material without Licensor's prior written approval. Under no circumstances will promotional materials or programs be used by Licensee that reflect unfavorably on the Marks. All advertising, display or promotional copy utilizing or in any way connected with the Marks, shall carry a notice that the Marks are the property of Licensor. One copy of such advertising, display or promotional copy shall be submitted to Licensor for prior written approval in advance of production and upon Licensor's request from time to time thereafter.

Any approval granted by Licensor under this Section will extend only to Licensee's use of the Marks. Licensor shall not be liable for content or accuracy of such advertising, promotional or display material nor for infringement of patents, copyrights, trademarks, or any other proprietary rights owned, used, or controlled by third parties, by reason of Licensee's promotional activities.

11. Records

- a. Licensee shall keep accurate books of account and records covering all transactions relating to the license herein granted. Licensor and its duly authorized independent accountants or other representatives shall have the right at reasonable times, upon Licensor's request from time to time, to examine such books of account and records and all other documents and material in Licensee's possession or under its control with respect to Licensee's activities in connection with this Agreement, and such persons shall have free and full access for such purposes and may make copies thereof or extracts therefrom. Licensee shall keep all such records available to Licensor for at least three years after expiration or termination of this Agreement. Licensee will designate a symbol or number which will be used exclusively in connection with the Licensed Articles and with no other articles which Licensee may manufacture, sell or distribute, and that duplicates of all billings by Licensee to its customers with respect to Licensed Articles shall be kept by Licensee for inspection as is herein provided.
- b. If any audit by Licensor shall reveal a shortfall of royalties paid by Licensee against royalties actually due in accordance with this Agreement, Licensee shall immediately, upon demand by Licensor, make payment to Licensor or such shortfall, plus simple interest at prime rate per month or if lower, the highest rate permitted by law, for the period of such shortfall. In addition, if such audit shall reveal a shortfall of more than five percent of royalty due, Licensee shall reimburse Licensor for the services of its accountant and for any other expenses of Licensor incident thereto including, without limitation, any attorney's fees and costs of collection.

12. Termination

In addition to any other rights which Licensor may otherwise have, Licensor may terminate this Agreement at any time, immediately upon written notice:

- a. If within three months from the date of this Agreement, Licensee shall not have begun the bona fide production, distribution and sale of the Licensed Articles; or

- b. If Licensee shall thereafter fail for a consecutive period in excess of three months to continue the bona fide distribution and sale of the Licensed Articles; or
- c. If Licensee shall fail to make any payment due hereunder or to deliver any of the statements required hereunder, and if such default shall continue for a period of 15 days after notice of such default by Licensor to Licensee or if such a failure shall occur twice in any 12-month period even if both failures are corrected as provided hereunder; or
- d. If Licensee or its property, where appropriate:
 - 1) Becomes subject to a receiver or trustee; or
 - 2) Becomes insolvent; or
 - 3) Becomes subject to an involuntary or voluntary petition under the United States Bankruptcy Laws, as amended; or
 - 4) Makes an assignment for the benefit of its creditors; or
- e. If there is any deliberate deficiency in the Licensee's reporting which affects royalties payable or any other aspect of this Agreement; or
- f. If any warranty, representation or covenant made by Licensee hereunder, or any information as to product quality or safety provided by Licensee hereunder, is false or misleading; or
- g. If Licensee fails to comply with any term or condition of this Agreement, other than those specifically set forth in clauses a through f above, and such non-compliance continues for a period of 15 days after notice thereof is given by the Licensor.

Any termination by Licensor shall be without prejudice to any of Licensor's other rights or remedies.

13. Effect of Termination

- a. After expiration or other termination of this Agreement, Licensee shall have no further right to manufacture, distribute, sell, exploit or otherwise deal in any Licensed Articles which utilize the Marks except that Licensee may dispose of Licensed Articles which are on hand or in process at the time of expiration or termination so long as (1) Licensee reports in writing to Licensor, no later than 30 days after termination of this Agreement, the total number of Licensed Articles which will be disposed of, (2) the sale thereof is completed within six months, (3) all payments when due are made to Licensor, (4) such disposal of Licensed Articles shall be in accordance with the terms of this agreement, and (5) statements and royalty payments with respect to that period are made by Licensee in

accordance with Section 3. Notwithstanding the foregoing, in the event this Agreement is terminated pursuant to Sections 12(c), 12(d), 12(e), 12(f), or 12(g), Licensee shall not dispose of any Licensed Articles which are on hand or in process at the time of termination, but shall instead immediately deliver and turn over such Licensed Articles to Licensor. A final statement and payment shall be made by Licensee within 15 days after the end of such six-month period. Upon expiration of such six-month period herein, any remaining inventory of Licensed Articles and all molds, plates, prints and other materials used to reproduce the Marks for the manufacture of the Licensed Articles shall be destroyed and evidence of such destruction shall be given to the Licensor.

- b. In the event this Agreement expires or is otherwise terminated for any reason, Licensee shall, and hereby does, assign to Licensor any and all rights of Licensee in the Marks, including associated goodwill, and the designs and styles of the Licensed Articles to the extent such design or styles contain or employ any of the Marks, and shall not thereafter manufacture or sell any such designs or styles or use the Marks in any manner.
- c. Except as provided in subsection a), upon the expiration or termination of this Agreement, Licensee shall immediately cease all further use of the Marks and any names, trademarks, characters, symbols, designs, likenesses or visual representations as might be likely to cause confusion or deceive purchasers or prospective purchasers or dilute any trade name, trademark or service mark of Licensor including, without limitation, Licensor's corporate and private names, other trademarks, symbols, designations, indices, slogans and other means of identifying products or services of Licensor, whether or not identified herein as a Mark.
- d. Licensee agrees that the Marks are distinctive and possess special, unique and extraordinary characteristics which make difficult the assessment of the monetary damages that Licensor would sustain by unauthorized use. Licensee recognizes that irreparable injury would be caused to Licensor by unauthorized use of the Marks and agrees that injunctive and other equitable relief would be appropriate in the event of a breach of this Agreement by Licensee, provided, however, that such remedy shall not be exclusive of other legal remedies otherwise available.
- e. Licensee's obligations and agreements set forth in Sections 3 through 11, 13, 14, 17, 19 and 20 survive any termination or expiration of this Agreement.

14. Notices

All notices and statements to be given hereunder shall be in writing, and any such notice or statement shall be deemed duly given if mailed by certified mail, return receipt requested, if to Licensor, at:

Smith & Wesson Corp.
2100 Roosevelt Avenue
P.O. Box 2208
Springfield, MA 01102-2208

Attention: Jack Sweeney
Director of Licensing

and if to Licensee, at:

Taylor Cutlery
1736 North Eastman Road
P.O. 1638
Kingsport, TN 37662

Attention: Stewart A. Taylor
President

15. No Joint Venture

Nothing in this Agreement shall be construed to place the parties in the relationship of partners or joint ventures, and Licensee shall have no power to bind Licensor in any manner whatsoever.

16. Cancellation

Licensee acknowledges that Licensor and its subsidiaries, affiliates and franchisees use the Marks to advance and promote Licensor's business, and that Licensor has a paramount obligation to preserve its ability to so use such Marks. Should the use by Licensee of any Mark on Licensed Articles be deemed by Licensor to be in violation of any federal, state or local law or to adversely affect the reputation of Licensor or affect the validity, enforceability or distinctiveness of the Mark as a designation of origin for Licensor's own products, then Licensor may terminate this Agreement on 15 days notice to Licensee in the event of an actual violation.

17. Assignments. Transfers and Sublicenses

Without the prior written consent of Licensor, which may be withheld in Licensor's sole discretion, a) Licensee shall not voluntarily or by operation of law, assign or transfer this Agreement or any of Licensee's rights or duties hereunder or any interest of Licensee herein, nor shall Licensee enter into any sublicense for use of the Marks by other persons; b) Licensee shall not sell or otherwise transmit or

transfer to any party engaged in the design or manufacture of items similar to any of the Licensed Articles, any design, style, know-how, technology or other item or knowledge of a technical or competitive nature, furnished to Licensee by or through Licensor. Any transfer of any interest in Licensee to any entity in which the present controlling shareholders of Licensee do not have voting control shall be deemed an assignment prohibited hereunder. The consent of Licensor to one assignment, transfer or sublicense shall not be deemed to be consent to any subsequent assignment, transfer or sublicense. Nothing provided herein shall limit Licensor's right to transfer and assign any of its rights hereunder. Any transfer of interest in Licensee would only be permissible with the consent of Licensor.

18. Scope and Modification

This Agreement sets forth the entire agreement between the parties, and supersedes all prior agreements and understandings between the parties, relating to the subject matter hereof. None of the terms of this Agreement may be waived or modified except as expressly agreed in writing by both parties.

19. Severability

Should any provision of this Agreement be declared void or unenforceable, the validity of the remaining provisions shall not be affected thereby.

20. Governing Laws

This Agreement shall be interpreted in accordance with and governed by the laws of the Commonwealth of Massachusetts.

The parties hereto have executed this Agreement as the date at the beginning hereof.

Witnessed By:

/s/ Peggy M. Cowell

Licensor:

SMITH & WESSON CORP.

by: /s/ Robert L. Scott

(Title) V.P. Sales & Mktg.

Licensee:

/s/ (signature not legible)

by: /s/ Stewart A. Taylor

(Title) Owner

EXHIBIT A - Licensed Marks

Smith & Wesson

.357 Magnum

Magnum

LadySmith

Airweight

Kit Gun

Chiefs Special

Combat Magnum

44 Magnum

Service Kit Gun

Target Kit Gun

.357 Combat Magnum

Distinguished Combat Magnum

Distinguished Service Magnum

EXHIBIT B - Licensed Articles

Cutlery

Cutlery/Gift Sets

EMPLOYMENT AGREEMENT

Agreement dated February 1, 2001 between Smith & Wesson Corp. (the "Company") and Mr. George C. Colclough, (the "Executive").

WHEREAS, The Company agrees to employ the Executive, and the Executive agrees to accept employment with the Company, on the terms and conditions set forth below,

NOW THEREFORE, for good and lawful consideration, the parties agree as follows:

1. Term of employment. Effective as of January 1, 2001, the Executive will begin employment with the Company under the terms of this Agreement.
2. Base Salary. The Company will pay the Executive a Base Salary of \$240,000 per year (which salary may be increased from time to time) less applicable withholdings, payable at the same time that other salaried employees are paid.
3. Bonus Compensation. So long as he is employed by the Company, and the Company remains a part of the Tomkins Group, the Executive will participate in the Company's FY01 Executive Annual Bonus Scheme and in any replacement executive bonus schemes.
4. Duties and Position. The Executive will be employed as President of the Company. His duties may be increased or reduced at the discretion of the Chairman.
5. The Executive to Serve as Director or Officer if Elected. If the Executive is elected or appointed director or any other officer of the Company during his employment, the Executive will serve in such office without further compensation. Nothing in this Agreement shall require the Company to cause the election or appointment of the Executive to any specific office.
6. The Executive to Devote Full Time to Company. The Executive will devote his entire time, attention and energies to the business of the Company and, during his employment, will not engage in any other business activity, regardless of whether such activity is pursued for profit, gain, or other pecuniary advantage, without the express written permission of the Chairman.
7. Office Facilities. During the Executive's employment, the Company will furnish the Executive with an office, secretary and any other facilities and services that the Company determines are reasonably necessary for the performance of his duties and suitable to his position.

8. Reimbursement of Expenses. The Executive may incur reasonable expenses for promoting the Company's business, including expenses for entertainment, travel and similar items. While the Executive is employed hereunder, the Company will reimburse the Executive for all reasonable business expenses upon presentation of an itemized account of such expenditures with proper support.

9. Vacation. Through May 27, 2001, the Executive will be entitled to take any unused vacation which he earned with the Company as described in the policies of the Company. Thereafter, he will be entitled to vacation of five (5) weeks for the periods commencing on May 27 of each year and ending on May 26 of the next year beginning on May 27, 2001. Vacation must be taken in the year in which it accrues and cannot be carried forward. Vacation shall be pro-rated in the event the Executive's employment is terminated prior to May 27 of the year in which vacation has been earned.

10. Fringe Benefits. The Executive shall remain entitled to participate in all employee benefit plans and arrangements commensurate with his position and length of service which are presently or hereafter made generally available to full time employees of the Company.

11. Car Allowance. The Company will provide a car allowance for the Executive of \$712 per month, or the provision a company car to a value of \$30,000.

12. Termination.

a) Death or Disability. This Agreement shall terminate in the event of the Executive's death. The Company also may terminate the Executive's employment and this Agreement in the event of a Disability of the Executive. "Disability" as used in this Agreement shall mean the Executive's absence from and his inability substantially to perform his duties with the Company for six or more months as a result of physical causes or mental illness. In the event of the Executive's death or Disability, the Company shall have no further obligation to the Executive under this Agreement except to pay the legal representative of the Executive's estate the amount of any unpaid base salary to the date of death or Disability, and in the event of death, the death benefit provided by the group life insurance in which the Executive was a participant. No benefit continuation will be provided except as required by COBRA.

b) By the Company for Cause. The Company may terminate the Executive's employment and this Agreement for Cause. "Cause" as used in this Agreement shall mean: (i) gross misconduct of the Executive; (ii) the conviction of the Executive of a felony by any criminal or military tribunal; (iii) willful and continuing failure by the Executive to substantially perform his reasonable duties after demand for substantial performance is delivered by the Company in writing that specifically identifies the manner in which the

Company believes the Executive has not substantially performed his duties; (iv) willful conduct of the Executive that results in gain or personal enrichment of the Executive at the expense of the Company, whether monetary or otherwise. In the event of a termination for Cause, the Employer shall have no further obligation to the Executive under this Agreement except to pay the Executive the amount of any unpaid base salary to the date of termination.

c) Without Cause. The Company may terminate the Executive's employment and this Agreement at any time, without Cause. In the event of the Executive's involuntary termination without Cause, the Executive shall be entitled to: (i) payment of the Executive's then current Base Salary, less applicable withholdings, in installments at the same time that other salaried employees are paid, for the duration of the Severance Period; (ii) life, disability, health, dental and medical coverage which is substantially equivalent to that provided by the Company to the Executive immediately prior to termination of his service, such coverage to be provided for the duration of the Severance Period; and (iii) accrued (but not taken) vacation pay with pro ration for any partial year of employment. "Severance Period" as used in this Agreement shall mean the period beginning on the date of termination and continuing for a number of months which is the difference between (i) forty-eight (48) months, and (ii) one-half (1/2) of one month for each full calendar month that the Executive remains employed by the Company after April 30, 20021. In no event, however, shall the Severance Period be less than 24 months.

d) By The Executive. If the Executive wishes voluntarily to terminate his employment hereunder, he shall give the Company six (6) months prior written notice. In the event of Executive's voluntary termination of his employment, the Company shall have no further obligation to the Executive under this Agreement except for unpaid Base Salary through the date of termination and no benefit continuation will be provided except as required by COBRA.

e) Sale of Assets or Stock. The sale of substantially all of the assets or stock of the Company to any unrelated person or entity shall not be deemed a termination of the Executive's employment. Consequently, no severance benefits shall be provided to Executive by the Company under this Agreement if Executive is offered continuous employment by the successor under conditions generally no less favorable in the aggregate (including severance) than are provided by this Agreement.

13. Assistance in Litigation. The Executive will, upon reasonable notice, furnish such information and proper assistance to the Company and any of its present or former affiliates as they may reasonably require in connection with any litigation in which the Company or its affiliates are, or may become, a party. This obligation shall

survive termination of the Executive's employment with the Company. In the event such services are required during the Severance Period, the Executive shall provide litigation support services without additional compensation. Thereafter, if further assistance is required by the Company or any present or former affiliate the Executive shall be compensated for all reasonable expenses and at an hourly rate of \$150 per hour.

14. Extraordinary Bonus. Provided that the Executive remains in the employ of the Company through the date that a Change in Control occurs, the Executive shall be entitled to an extraordinary bonus equal to five (5) months Base Salary payable thirty (30) days after any such Change in Control. "Change in Control" as used in this Agreement shall have the same meaning as in the "Smith & Wesson Corp. Severance Compensation and Extraordinary Bonus Plan for Tomkins Corporation Senior Staff Bonus Program Participants (Revised and Restated July 17, 2000)" (the "Severance Plan").

15. Waiver and Release of Rights under Severance Plan. In consideration of the rights conferred in this Agreement, the Executive agrees that, effective as of the date hereof, he is no longer a participant in the Severance Plan and waives all rights which he may have thereunder, including any claim or right to benefits under the Severance Plan.

16. Governing Law. This Agreement shall be governed by and construed under the laws of the State of Massachusetts applicable to agreements made to be performed in that State.

17. Severability. In the event that any one or more of the provisions of this Agreement shall be held to be invalid, illegal and unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. Moreover, if any one or more of the provisions contained in this Agreement shall be held to be excessively broad as to duration, geographical scope, activity or subject, such provisions shall be construed by limiting and reducing them so as to be enforceable to the maximum extent compatible with applicable law.

18. Entire Agreement. This Agreement is the entire agreement and supersedes all prior agreements and understandings concerning the Executive's employment by the Company. No provision of this Agreement may be altered, modified, changed or discharged except in writing signed by both the Company acting through its Board of Directors and the Executive. This Agreement is personal to the Executive and may not be assigned by him but may be assigned by the Company to any successor or assign to the business of the Company and shall inure to the benefit of and be binding upon the Company's successors and assigns.

IN WITNESS WHEREOF, the following parties have executed this Agreement.

SMITH & WESSON CORP..
(the "Company")

/s/ Anthony J. Reading

/s/ George C. Colclough

By: Anthony J. Reading
Chairman of the Board of Directors

George C. Colclough
(the "Executive")

EXHIBIT 10.11

George Colclough

May 14, 2001

Dear George:

This letter agreement will confirm our conversation of Monday, May 14, 2001 and our agreement regarding your continued employment by Smith & Wesson Corp. (the "Company"). Specifically, you and the Company have agreed as follows:

1. From and after the date hereof, you will remain in the employ of Smith & Wesson at the rate of pay and benefits in effect as of May 14, 2001 pursuant to your Employment Agreement with the Company dated February 1, 2001 (your "Employment Agreement"), which shall remain in effect pursuant to the terms and conditions set forth therein, except as expressly stated otherwise in this letter agreement.
2. Effective as of May 14, 2001, your title has become Vice President and General Counsel. Your primary duty will be to assist with the transition and provide advice as requested from time to time by myself and other officers of the Company regarding the various legal issues facing the Company. I also expect to solicit your advice and assistance on other Company issues as they may evolve. This change in you duties and position has been made pursuant to Section 4 of your Employment Agreement.
3. The Company will maintain an office here at the plant n Springfield, MA for your use as you deem necessary. You have been given the flexibility to work the hours you feel appropriate and from whatever location you feel appropriate.
4. Nothing set forth in this letter agreement shall be deemed to constitute an agreement by the Company to employ you for any particular duration or otherwise change the term of your employment as set forth in your Employment Agreement.
5. Inasmuch as your employment under your Employment Agreement was, as of the date hereof, terminated without Cause pursuant to Section 12(c) thereof, the Company acknowledges that you are entitled to the severance compensation set forth therein. By signing below, you hereby confirm that, in consideration for your continued employment by the Company as described above, you have irrevocably agreed to delay commencement of receipt of such severance compensation until such time as you are no longer employed by the company (regardless whether your employment is terminated by you or the Company). By signing below you further acknowledge and confirm that you understand the Company may terminate your employment at any time without further obligation except as set forth in your Employment Agreement, as amended hereby.
6. Please confirm your understanding and agreement as to the foregoing by signing and returning a copy of this letter agreement to me.

I look forward to your continuing assistance.

Sincerely,

/s/ Robert L. Scott

Robert L. Scott
President

Confirmed and Agreed (as of the date
first set forth above):

/s/ George Colclough

George Colclough

[LOGO] Western Massachusetts Electric
Springfield,

174 Brush Hill Avenue, W.
MA 01089

Western Massachusetts Electric Company
P.O. Box 2010
West Springfield, MA 01090-2010
(413)785-5871
Fax (413)787-9109

The Northeast Utilities System

July 6, 1998

Mr. Mauro De Maio
Facilities Manager
Smith & Wesson
2100 Roosevelt Avenue
Springfield, MA 01102-2208

Dear Mr. De Maio:

Reference: Energy Efficiency Services Project
#WM-97-S-645 Revision 1 Smith & Wesson Induction Furnaces

This revised agreement entirely replaces the previous agreement, dated February 26, 1998 and executed on March 6, 1998. To encourage electric energy efficiency, Western Massachusetts Electric Company (hereinafter, "WMECO") is pleased to offer Smith & Wesson (hereinafter, the "Participant") Energy Efficiency Services in connection with the Participant's 400,000 square foot facility located at 2100 Roosevelt Avenue, Springfield, Massachusetts subject to the following terms and conditions:

1. The Energy Efficiency Services Standard Terms and Conditions and Exhibit A are attached and are considered part of this Agreement.
2. All Energy Efficiency Measures ("EEMs" or "measures") must be installed by the Participant and accepted by both the Participant and WMECO within one (1) year of the Participant's execution of this Agreement.
3. The Participant shall provide invoices for all measures installed as described in Exhibit A of this Agreement.

Smith & Wesson Induction Furnaces
WM-97-S-645 Revision 1 July 6, 1998

Page 1 of 7

- 4. WMECO agrees to pay incentives for all EEMs that comply with the Standard Terms and Conditions and Exhibit A up to the amounts specified for the individual EEMs totaling approximately \$424,362.00 if all of the EEMs are installed. Payment will be made to

Smith & Wesson Corp.

 (type or print the name of the company or individual above)
 as indicated on the attached Form W-9, "Request for Taxpayer Identification Number and Certification", attn.: Mauro De Maio following inspection/commissioning. As previously discussed regarding the implementation plan, WMECO commits to incentive payments for installed EEMs as follows:

1998 payment (Machine A) will not exceed: \$141,454.00
 1999 payment (Machines B & C) balance: \$282,908.00

- 5. The listing of a specific manufacturer in this Agreement does not represent an endorsement of a specific product by WMECO. Listed manufacturers are those proposed by the Participant in their application. The Participant may substitute an equivalent product, which will produce equal or greater energy savings than the product originally proposed in this Agreement, with the prior approval of WMECO.
- 6. The Participant is not obligated to install any of the measures referred to in this Agreement, and, at any time, may decide to forego the listed incentive payments, and to forfeit all or part of the reimbursement of the Participant's cost for the energy analysis report.
- 7. This Agreement shall be signed before any measures are installed. No payment shall be made for EEMs not listed in Exhibit A, or for measures installed before this Agreement is signed, unless a prior agreement was established with WMECO.
- 8. The Participant may propose changes to the scope of this Agreement by giving written notice to WMECO. No change by the Participant shall be recognized without written approval of WMECO. This Agreement may not be modified or amended except in writing signed by both parties.
- 9. This Agreement shall be administered and interpreted under the laws of the Commonwealth of Massachusetts. If any part is found to be in conflict with applicable laws, such part shall be inoperative, null and void insofar as it is in conflict with said laws, but the remainder of the terms and conditions shall continue in full force and effect.

If the Participant agrees to the terms of this Agreement, please sign both copies and return both copies to me at the address indicated on page 1 for countersignature. This

Agreement shall be valid only if accepted by Participant, accepted by the owner of the facility and countersigned by WMECO within thirty (30) days from the date of this Letter of Agreement.

Sincerely,

/s/ [signature not legible] for

Edward J. O'Connor
Project Administrator
WMECO Conservation & Load Management

Accepted By: Smith & Wesson

/s/ John A. Kelly

John A. Kelly

Name (Print)

Vice President
Title of Participant

7/6/98

Date

Estimated Date of
Installation of Measures

Does the Participant own the facility described herein? YES

Accepted By: Western Massachusetts Electric Company

/s/ Robert G. Abair

Robert G. Abair
Vice President and Chief Administrative Officer
July 6, 1998

Date

Attachments to this agreement:

1. Energy Efficiency Services Standard Terms and Conditions
2. Form W-9, "Request for Taxpayer Identification Number and Certification"
IMPORTANT This is to be filled out at the time this agreement is signed
3. Exhibit A (Total number of pages: 3)
4. N/A
5. N/A

Western Massachusetts Electric Company

ENERGY EFFICIENCY SERVICES

STANDARD TERMS AND CONDITIONS

1. The Participant shall be responsible for the design and installation of the Energy Efficiency Measures (EEMS) contained in WMECO's Exhibit A of the Letter of Agreement.
2. The Participant shall obtain all necessary permits and comply with all applicable laws, ordinances, building codes, and regulations of all appropriate governing authorities. Moreover, the Participant shall be responsible for any infraction or violation thereof, and any expense or damage resulting therefrom.
3. The party receiving incentives shall be responsible for any tax liability associated with incentive payments. WMECO will issue a Form 1099 to all Participants who receive more than \$600 of incentives per year.
4. To be eligible for an incentive payment, the project must be inspected and verified to be installed and operating in accordance with Exhibit A, by both WMECO and the Participant. The Participant shall allow WMECO reasonable access to the facility to conduct such inspections and shall supply WMECO with copies of any documents necessary for it to verify that the project complies with the Letter of Agreement requirements.
5. WMECO will make no adjustments to the per unit incentives, even if the actual incremental cost varies from what was estimated in Exhibit A; however, the total amount of the incentive payment may be adjusted for the actual number of units installed, as long as a per unit incentive is listed and allowed.
6. Only Participants who are "full-distribution-service" customers are eligible for full incentives. A full-distribution-service customer is one that receives all of the electricity needed for the facility described in the Letter of Agreement via WMECO's distribution equipment and employs standby self-generation at that facility only during interruption of WMECO's distribution services.
7. If the Participant's facility is not and/or will not be a full-distribution-service customer of WMECO at the time incentives are paid, the incentive will be prorated by multiplying the full incentive by the percentage of the facility's total electrical needs that is delivered via WMECO's distribution equipment.

8. If, within three years after the last incentive payment is made, the Participant either becomes a non-full-distribution-service customer, or increases the use of electricity from self-generation equipment (at times when there is no interruption of WMECO's distribution services), the Participant must repay WMECO a prorated portion of the incentive.
9. In the event that the Participant has any outstanding balances due and owing to WMECO or any of its corporate affiliates, any incentive payment may be withheld and used to set off such outstanding debt(s) regardless of to whom the incentive payment would have been made.
10. Equipment for which WMECO has provided incentives is expected to remain in use and in its original location for at least three years, beginning when the final incentive payment is made for that project. Otherwise, WMECO reserves the right to demand a refund of all incentive sums paid for such equipment.
11. WMECO does not guarantee that the Participant's actual savings will occur at the level projected in the energy analysis report. Factors that are impossible to predict, such as facility expansion, cutbacks, or weather changes, all may impact the Participant's future electric energy use.
12. WMECO reserves the right to perform, at its own expense, and within two years of project completion, a confidential project evaluation, under actual operating conditions, to help determine the actual energy savings. The Participant shall provide information as necessary to facilitate this evaluation.
13. WMECO may, by written notice, terminate the Letter of Agreement for convenience, in whole or in part. In this event, WMECO shall pay the unit or pro rata price for the performed and accepted portion of the project, and a reasonable amount, not otherwise recoverable from other sources, for the unperformed or unaccepted portion of the project, provided that the total compensation does not exceed the total amount in the Letter of Agreement. No allowance will be made for anticipated profits. WMECO shall not be liable for any consequential or incidental damages for termination under this Article.
14. WMECO may, by written notice, terminate the Letter of Agreement for the Participant's refusal or failure to comply with its provisions, in whole or in part.
15. If the Participant requests additional time to complete the EEMS as defined in the Letter of Agreement, WMECO may grant an extension, in accordance with the Energy Efficiency Services Standard Terms and Conditions then in effect.

16. The Participant shall hold harmless WMECO, its directors, officers, employees, agents, affiliated companies, and representatives, against and from any and all loss, claims, actions, or suits, including cost and reasonable attorneys' fees, arising from the Participant's participation in WMECO's Energy Efficiency Services.
17. These Standard Terms and Conditions are binding on the heirs, successors and assigns of the Participant and WMECO. The Letter of Agreement shall not be assigned by either party without prior written consent of the other. The Participant agrees to include the Letter of Agreement in all leases, sales contracts, and other similar documents relating to the use and ownership of the facilities for which Energy Efficiency Services have been provided by WMECO.
18. These Standard Terms and Conditions are applicable only to the facilities described in the Letter of Agreement and not to any additions to the Participant's facility that may be serviced by WMECO in the future.

Exhibit A
Smith & Wesson Induction Furnaces
PROJECT NO.: WM-98-S-645
July 6, 1998

MEASURE 1 OF 3 (MACHINE A): Install a 300 kw, 10 kHz electric induction furnace and associated cooling system as specified by furnace manufacturer. Specific details are noted in Energy & Resource Solutions' July 1998 Custom Services Report.

BASELINE: 225 kw electric resistance, slot-type furnace as defined in Energy & Resource Solutions' July 1998 Custom Services Report

Unit Incentive	\$141,454.00
Quantity to be installed	1
TOTAL INCENTIVE FOR THIS MEASURE	\$141,454.00
Estimated Annual Energy Savings	360,018 kWh
Estimated Lifetime Energy Savings	7,200,360 kWh

COMMISSIONING SERVICE: The Participant or the Participant's design professional shall signify that they have satisfied themselves that the condensing unit is performing as intended for the following areas of interest:

1. Verification that the design professional's written documentation on how the system is intended to operate has been provided.
2. Verification of correct system installation and correct direction of rotation. The system shall be defined as per Appendix C of Energy Resource & Solutions' July 1998 Custom Services Report.
3. Verification that all sensors and control devices are field calibrated and the input and output signals are documented.
4. Verification that this control scheme automatically follows the intended operation and function as designed.
5. Verification that operation and maintenance manuals have been provided.
6. Verification that the Participant's representative and/or equipment operator has been instructed in the proper operation and maintenance of the equipment.

Commissioning has been accepted by:

Participant's Signature (at time of inspection)

Date

Exhibit A
Smith & Wesson Induction Furnaces
PROJECT NO.: WM-98-S-645
July 6, 1998

MEASURE 3 OF 3 (MACHINE C): Install a 300 kw, 10 kHz electric induction furnace and associated cooling system as specified by furnace manufacturer. Specific details are noted in Energy & Resource Solutions' July 1998 Custom Services Report.

BASELINE: 225 kw electric resistance, slot-type furnace as defined in Energy & Resource Solutions' July 1998 Custom Services Report

Unit Incentive	\$141,454.00
Quantity to be installed	1
 TOTAL INCENTIVE FOR THIS MEASURE	 \$141,454.00
 Estimated Annual Energy Savings	 447,961 kWh
Estimated Lifetime Energy Savings	8,959,220 kWh

COMMISSIONING SERVICE: The Participant or the Participant's design professional shall signify that they have satisfied themselves that the condensing unit is performing as intended for the following areas of interest:

1. Verification that the design professional's written documentation on how the system is intended to operate has been provided.
2. Verification of correct system installation and correct direction of rotation. The system shall be defined as per Appendix C of Energy Resource & Solutions' July 1998 Custom Services Report.
3. Verification that all sensors and control devices are field calibrated and the input and output signals are documented.
4. Verification that this control scheme automatically follows the intended operation and function as designed.
5. Verification that operation and maintenance manuals have been provided.
6. Verification that the Participant's representative and/or equipment operator has been instructed in the proper operation and maintenance of the equipment.

Commissioning has been accepted by:

Participant's Signature (at time of inspection) Date

[LOGO] WESTERN MASSACHUSETTS
ELECTRIC

174 Brush Hill Avenue, W.
Springfield, MA 01090
Western Massachusetts
Electric Company
P.O. Box 2010
West Springfield, MA
01090-2010
(413) 785-5871
Fax (413) 787-9352

The Northeast Utilities
System

December 18, 2000

Mr. Mauro DeMaio
Senior Plant Engineer
Smith & Wesson, Inc.
P. O. Box 2208
Springfield, MA 01102-2208

Dear Mr. DeMaio:

Reference: Energy Efficiency Services Project No. WM-00-R-001
Smith & Wesson, Inc. - HVAC Conversion

To encourage electric energy efficiency, Western Massachusetts Electric Company (hereinafter, "WMECO") is pleased to offer Smith & Wesson, Inc. (hereinafter, the "Participant") Energy Efficiency Services in connection with the Participant's 1,000,000 square foot facility located at 2100 Roosevelt Avenue, Springfield, Massachusetts, subject to the following terms and conditions:

1. The Energy Efficiency Services Standard Terms and Conditions and Exhibit A are attached and are considered part of this Agreement.
2. All Energy Efficiency Measures ("EEMs" or "measures") must be installed by the participant and accepted by both the Participant and WMECO within one (1) year of the Participant's execution of this Agreement.
3. The Participant shall provide invoices for all measures installed as described in Exhibit A of this Agreement.
4. WMECO agrees to pay incentives for all EEMs that comply with the Standard Terms and Conditions and Exhibit A up to the amounts specified for the individual EEMs totaling approximately \$765,000.00 if all of the EEMs are installed. Payment will be made to Smith & Wesson, Inc. as indicated on the attached Form W-9, "Request for Taxpayer Identification Number and Certification," attention Mauro DeMaio, following inspection/measure verification.
5. The listing of a specific manufacturer in this Agreement does not represent an endorsement of a specific product by WMECO. Listed manufacturers are those

- proposed by the Participant in their application. The Participant may substitute an equivalent product, which will produce equal or greater energy savings than the product originally proposed in this Agreement, with the prior approval of WMECO.
6. The Participant is not obligated to install any of the measures referred to in this Agreement, and, at any time, may decide to forego the listed incentive payments, and to forfeit all or part of the reimbursement of the Participant's cost for the energy analysis report.
 7. This Agreement shall be signed before any measures are installed. No payment shall be made for EEMs not listed in Exhibit A, or for measures installed before this Agreement is signed, unless a prior agreement was established with WMECO.
 8. The Participant may propose changes to the scope of this Agreement by giving written notice to WMECO. No change by the Participant shall be recognized without written approval of WMECO. This Agreement may not be modified or amended except in writing signed by both parties.
 9. This Agreement shall be administered and interpreted under the laws of the Commonwealth of Massachusetts. If any part is found to be in conflict with applicable laws, such part shall be inoperative, null and void insofar as it is in conflict with said laws, but the remainder of the terms and conditions shall continue in full force and effect.

If the Participant agrees to the terms of this Agreement, please sign all three (3) copies and forward all three (3) to the bidder, Advanced Research & Technology, 3 Braintree Court, Suffield, Connecticut 06078. If the bidder agrees to the terms of this Agreement, please sign all three (3) copies and return all copies to me at the address indicated on page 1, for countersignature. Copies of the executed Agreement will be returned for your records. This Agreement shall be valid only if accepted by Participant, accepted by the owner of the facility, accepted by the bidder and countersigned by WMECO within thirty (30) days from the date of this letter of Agreement.

Sincerely,

/s/ Ron Johnston
Ron Johnston
Associate
Conservation & Load Management

c: E.F. Murphy
J. A. Burke

Accepted By: Smith & Wesson, Inc.

By: Advanced Research & Technology

/s/ Mauro DeMaio

/s/ Alexander L. Baird

Signature of Participant

Signature of Bidder

Mauro DeMaio

Alexander L. Baird

Name (Print)

Name (Print)

Facilities Manager

President

Title of Participant

Title of Bidder

/s/ 12/21/00

/s/ 12/21/2000

Date

Date

Estimated Date of Installation of
Measures

Does the Participant own the facility described herein? YES

Accepted By: Western Massachusetts Electric Company

/s/ Kerry J. Kuhlman

Kerry J. Kuhlman
President & Chief Operating Officer

12/21/00

Date

Attachments to this agreement:

1. Energy Efficiency Services Standard Terms and Conditions
2. Form W-9, "Request for Taxpayer Identification Number and Certification"
IMPORTANT This is to be filled out at the time this agreement is signed

3. Exhibit A (Total number of pages: 1)

Western Massachusetts Electric Company

Energy Efficiency Services

STANDARD TERMS AND CONDITIONS

1. The Participant shall be responsible for the design and installation of the Energy Efficiency Measures (EEMS) contained in WMECO's Exhibit A of the Letter of Agreement.
2. The Participant shall obtain all necessary permits and comply with all applicable laws, ordinances, building codes, and regulations of all appropriate governing authorities. Moreover, the Participant shall be responsible for any infraction or violation thereof, and any expense or damage resulting therefrom.
3. The party receiving incentives shall be responsible for any tax liability associated with incentive payments: WMECO will issue a Form 1099 to all Participants who receive more than \$600 of incentives per year.
4. To be eligible for an incentive payment, the project must be inspected and verified to be installed and operating in accordance with the approved energy analysis report and/or Exhibit A, by both WMECO and the Participant. The Participant shall allow WMECO reasonable access to the facility to conduct such inspections and shall supply WMECO with copies of any documents necessary for it to verify that the project complies with the Letter of Agreement requirements.
5. WMECO will make no adjustments to the per unit incentives, even if the actual incremental cost varies from what was estimated in the approved energy analysis report and/or Exhibit A; however, the total amount of the incentive payment may be adjusted for the actual number of units installed, as long as a per unit incentive is listed and allowed.
6. Only Participants who are "full-distribution-service" customers are eligible for full incentives. A full-distribution-service customer is one that received all of the electricity needed for the facility described in the Letter of Agreement via WMECO's distribution equipment and employs standby self-generation at that facility only during interruption of WMECO's distribution services.
7. If the Participant's facility is not and/or will not be a full-distribution-service customer of WMECO at the time incentives are paid, the incentive will be prorated by multiplying the full incentive by the percentage of the facility's total electrical needs that is delivered via WMECO's distribution equipment.
8. If, within three (3) years after the last incentive payment is made, the Participant either becomes a non full-distribution-service customer, or increases the use of electricity from self-generation equipment (at times when there is no interruption of WMECO's

- distribution services), the Participant must repay WMECO a prorated portion of the incentive.
9. In the event that the Participant has any outstanding balances due and owing to WMECO or any of its corporate affiliates, any incentive payment may be withheld and used to set off such outstanding debt(s) regardless of to whom the incentive payment would have been made.
 10. Equipment for which WMECO has provided incentives is expected to remain in use and in its original location for at least three (3) years, beginning when the final incentive payment is made for that project. Otherwise, WMECO reserves the right to demand a refund of all incentive sums paid for such equipment.
 11. WMECO does not guarantee that the Participant's actual savings will occur at the level projected in the energy analysis report. Factors that are impossible to predict, such as facility expansion, cutbacks, or weather changes, all may impact the Participant's future electric energy use.
 12. WMECO reserves the right to perform, at its own expense, and within two (2) years of project completion, a confidential project evaluation, under actual operating conditions, to help determine the actual energy savings. The Participant shall provide information as necessary to facilitate this evaluation.
 13. WMECO may, by written notice, terminate the Letter of Agreement for convenience, in whole or in part. In this event, WMECO shall pay the unit or pro rata price for the performed and accepted portion of the project, and a reasonable amount, not otherwise recoverable from other sources, for the unperformed or unaccepted portion of the project, provided that the total compensation does not exceed the total amount in the Letter of Agreement. No allowance will be made for anticipated profits. WMECO shall not be liable for any consequential or incidental damages for termination under this Article.
 14. WMECO may, by written notice, terminate the Letter of Agreement for the Participant's refusal or failure to comply with its provisions, in whole or in part.
 15. If the Participant requests additional time to complete the EEMs as defined in the Letter of Agreement, WMECO may grant an extension, in accordance with the Energy Efficiency Services Standard Terms and Conditions then in effect.
 16. The Participant shall hold harmless WMECO, its directors, officers, employees, agents, affiliated companies, and representatives, against and from any and all loss, claims, actions, or suits, including cost and reasonable attorneys' fees, arising from the Participant's participation in WMECO's Energy Efficiency Services.
 17. These Standard Terms and Conditions are binding on the heirs, successors and assigns of the Participant and WMECO. The Letter of Agreement shall not be assigned by either party without prior written consent of the other. The Participant agrees to include the

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Letter of Agreement in all leases, sales contracts, and other similar documents relating to the use and ownership of the facilities for which Energy Efficiency Services have been provided by WMECO.

18. These Standard Terms and Conditions are applicable only to the facilities described in the Letter of Agreement and not to any additions to the Participant's facility that may be serviced by WMECO in the future.

Exhibit A
Advanced Research Technology
and
Smith & Wesson, Inc.
Springfield, MA 01102
Project Number: WM-00-R-001
December 18, 2000

I. GENERAL:

- A. The Owner will submit documents for review as required. WMECO will review construction documents to facilitate the verification of conformance with the energy efficiency improvement measures detailed in Item II, below.
- B. The listing of a specific manufacturer in this Contract does not represent an endorsement of a specific product by WMECO. Listed manufacturers are those proposed by the Owner in their application. The Owner may substitute an equivalent product, which will produce equal or greater energy savings than the product originally proposed, with the approval of WMECO.

II. ENERGY EFFICIENCY IMPROVEMENT MEASURES

MEASURE 1 OF 1: Installation of energy efficiency measures as reviewed by The Nicholas Group. Energy efficiency measures shall include converting 520 connected tons of rooftop DX constant volume cooling to a VAV system with chilled water coils, adding differential enthalpy control to the VAV system, an energy efficient water cooled chiller, primary secondary chilled water pumping, and heat recovery using cooling tower water as described in the proposal submitted on September 14, 2000 by Advanced Research Technology for Smith & Wesson Corporation in response to the WMECO request for energy efficiency proposals.

Estimated Installed Cost:	\$1,041,790
MAXIMUM INCENTIVE THIS MEASURE	\$765,000
Estimated Annual Energy Savings:	1,254,430 kWh
Estimated Lifetime Energy Savings:	22,932,585 kWh

Measure Verification: Inspection of completed installation.

AGREEMENT

PREAMBLE

The manufacturer parties to the Agreement and the Department of the Treasury, the Department of Housing and Urban Development, and the undersigned state, city and county parties to the Agreement enter into this Agreement to reduce the criminal misuse of firearms, combat the illegal acquisition, possession and trafficking of firearms, reduce the incidence of firearms accidents, and educate the public on the safe handling and storage of firearms. Furthermore, the manufacturer parties to the Agreement enter into this Agreement as a continuation of their efforts to make their firearms as safe as practicable for their customers and the public. Accordingly, in consideration of the commitments set forth below:

1. The undersigned state, city, and county parties to the Agreement dismiss the manufacturer parties to the Agreement with prejudice from the lawsuits specified in Appendix A subject to any consent orders entered pursuant to paragraph VIII; and
2. The undersigned state, city and federal parties to the Agreement agree to refrain from filing suit against the manufacturer parties to the Agreement on an equivalent cause of action.

The parties agree that this Agreement constitutes the full and complete settlement of any and all claims that were raised or could have been raised in the subject litigation. The parties agree further that this Agreement does not constitute an admission of any violation of law, rule or regulation by the manufacturer parties to the Agreement, or any of their employees. Nothing in this Agreement shall be construed to be an admission of liability. The adoption of standards for firearms design and distribution in this Agreement shall not be construed as an admission by the manufacturer parties to the Agreement that practices they engaged in prior to the execution of this Agreement were negligent.

I. SAFETY AND DESIGN.

A. Each firearm make and model sold by each manufacturer party to this Agreement shall be tested by ATF or an agreed upon proofing entity against the following standards. Existing makes and models shall meet these standards within 60 days of execution of this Agreement unless a longer period is specified in the standard. New makes and models shall not be manufactured and sold after the execution of this Agreement unless they conform to these standards.

1. STANDARDS APPLICABLE TO ALL HANDGUNS:

- a. SECOND "HIDDEN" SERIAL NUMBER. The gun must have both a visible serial number on the exterior of the frame or receiver, as well as a second serial number hidden on the interior of frame or receiver (e.g., under the grips) or visible only with the aid of an optical instrument.
- b. EXTERNAL LOCKING DEVICE. As an interim measure, until the implementation of I.A.1.c, within 60 days of execution of the Agreement, each firearm shall be supplied with an external locking device that effectively prevents the operation of the firearm when locked.
- c. INTERNAL LOCKING DEVICE. Within 24 months of execution of the Agreement, each firearm shall have a built-in, on-board locking system, by which the firearm can only be operated with a key or combination or other mechanism unique to that gun.
- d. AUTHORIZED USER TECHNOLOGY. The manufacturer parties to this Agreement shall each commit two percent of annual firearms sales revenues to the development of a technology that recognizes only authorized users and permits a gun to be used only by authorized persons. Within 36 months of the date of execution of this Agreement, this technology shall be incorporated in all new firearm designs, with the exception of curios and collectors' firearms. This

requirement does not apply to existing designs currently in production.

If the eight firearms manufacturers and/or importers with the largest United States firearms sales volume agree to incorporate authorized user technology in all firearms, the manufacturer parties to this Agreement will incorporate authorized user technology in all firearms.

- e. CHILD SAFETY. Within 12 months of execution of the Agreement, each firearm shall be designed so that it cannot be readily operated by a child under the age of 6. Such mechanisms include: making the trigger pull resistance at least ten pounds in the double action mode; or designing the firing mechanism so that an average five year old's hands would be too small to operate the gun; or requiring multiple, sequenced actions in order to fire the gun.
- f. MINIMUM BARREL LENGTH. Each firearm make and model must have a barrel length of at least 3", unless it has an average group diameter test result of 1.7" or less at seven yards, 3.9" or less at 14 yards, and 6.3" or less at 21 yards. The average group diameter test result is the arithmetic mean of the results of three separate trials, each performed on a different sample firearm of the make and model at issue. For each trial, the firearm shall fire five rounds at a target from the specified distance and the largest spread in inches between the center of any of the holes made in a test target shall be the result of the trial.
- g. PERFORMANCE TEST: A sample of each firearm make and model will be test fired with "proof cartridges" (cartridges loaded to generate excess pressure as set forth in accepted specifications for proof cartridges) to ensure the integrity of the material. At least one cartridge shall be fired from each chamber. Following this test firing, the firearm will be examined for hairline cracks or other signs of material failure and will pass this test only if there are no hairline cracks or other signs of material failure. Each firearm make

and model shall also pass the following performance test: the gun shall fire 600 rounds, stopping only every 100 rounds to tighten any loose screws and to clean the gun (if required by the cleaning schedule recommended in the manual), or as needed to refill the empty magazine or cylinder to capacity before continuing. For any gun that loads other than with a detachable magazine, the tester shall pause every 50 rounds for ten minutes. The tester shall use the ammunition recommended in the user's manual, or if none is recommended, any standard ammunition of the correct caliber in new condition. A gun shall pass this test if it fires the first 20 rounds without a malfunction and the full 600 rounds with no more than 6 malfunctions and without any crack or breakage of an operating part of the gun that increases the danger of injury. Malfunctions caused by failure to clean and lubricate, or by defective ammunition, shall not be counted.

- h. DROP TEST. Pass the more rigorous of: (a) the SAAMI Standard drop test in effect on the date the firearm is sold; or (b) the following test: The gun shall be test-loaded, set such that it is ready to fire and dropped onto a steel plate or equivalent material of similar hardness from a height of one meter from each of the following positions: (1) normal firing position; (2) upside down; (3) on the grip; (4) on the muzzle; (5) on either side; and (6) on the exposed hammer or striker (or, if no exposed hammer or striker, on the rearmost part of the gun). If the gun is so designed so that its hammer or striker may be set in other positions, it shall be tested with the hammer or striker in each such position (but otherwise ready to fire).

2. ADDITIONAL STANDARDS FOR PISTOLS:

- a. SAFETY DEVICE. The pistol must have a positive manually operated safety device as determined by standards relating to imported guns promulgated by ATF.

- b. **MINIMUM LENGTH AND HEIGHT STANDARDS.** The pistol's combined length and height must not be less than 10" with the height being at least 4" and the length being at least 6", unless it has an average group diameter test result of 1.7" or less at seven yards, 3.9" or less at 14 yards, and 6.3" or less at 21 yards. The average group diameter test result is the arithmetic mean of the results of three separate trials, each performed on a different sample firearm of the make and model at issue. For each trial, the firearm shall fire five rounds at a target from the specified distance and the largest spread in inches between the center of any of the holes made in a test target shall be the result of the trial.
 - c. **MAGAZINE DISCONNECTOR.** Within 12 months of execution of the Agreement, each pistol shall have a magazine disconnecter available for those customers who desire the feature.
 - d. **CHAMBER LOAD INDICATOR.** Within 12 months of the execution of the Agreement, each pistol shall have a chamber load indicator painted in a prominent, contrasting color or a feature that allows the operator physically to see the round in the chamber.
 - e. **LARGE CAPACITY MAGAZINES.** No pistol make or model designed after January 1, 2000 shall be able to accept magazines manufactured prior to September 14, 1994, with a greater than 10 round capacity, and such models shall not be capable of being easily modified to accept such magazines. Nor shall ammunition magazines that are able to accept more than 10 rounds be sold by the manufacturer parties to this Agreement or their authorized dealers and distributors. See Part II.A.1.h, below.
 - f. **ADDITIONAL SAFETY FEATURES.** Each pistol must have a firing pin block or lock.
- B. **LAW ENFORCEMENT AND MILITARY EXCEPTION.** An exception to a requirement of paragraph A may be granted for firearms

manufactured or imported for sale to a law enforcement agency or the military if the law enforcement agency or military organization certifies to the manufacturer party to this Agreement that the exception is necessary for official purposes. Where a law enforcement agency authorizes or requires its officers to purchase firearms individually for official use, an appropriate certification from the agency will be permitted to apply to sales to a number of individual officers. The manufacturer party to this Agreement shall maintain the certification in its records and provide a copy to the Oversight Commission. Firearms sold to law enforcement or the military pursuant to this exception, which do not comply with the design standards of this Agreement, will be accompanied by a statement:

1. "On [date], [manufacturer parties to this Agreement] and [governmental parties to this Agreement] entered into an Agreement establishing certain design standards for firearms sold to civilians. Pursuant to that Agreement, we are obliged to inform you that this firearm does not comply with all of the design standards of the Agreement. We are further obliged to request that you not resell this firearm to civilians. This statement is not intended to suggest that there are any design flaws with this firearm, and you remain entitled to dispose of it in any lawful manner."

C. WARNINGS ABOUT SAFE STORAGE AND HANDLING. Within 6 months of execution of this Agreement, manufacturer parties to this Agreement shall include in the packaging of each firearm sold a warning on risk of firearms in the home and proper home storage. At a minimum, these warnings shall state in 14 point type, bold face:

"This handgun is not equipped with a device that fully blocks use by unauthorized users. More than 200,000 firearms like this one are stolen from their owners every year in the United States. In addition, there are more than a thousand suicides each year by younger children and teenagers who get access to firearms. Hundreds more die from accidental discharge. It is likely that many more children sustain serious wounds, or inflict such wounds accidentally

on others. In order to limit the chance of such misuse, it is imperative that you keep this weapon locked in a secure place and take other steps necessary to limit the possibility of theft or accident. Failure to take reasonable preventative steps may result in innocent lives being lost, and in some circumstances may result in your liability for these deaths."

D. ILLEGAL FIREARMS. The manufacturer parties to this Agreement shall not sell firearms that can be readily converted to an illegal firearm, that is, a weapon designed in a manner so that with few additional parts and/or minimal modifications an owner can convert the firearm to an illegal fully automatic weapon; nor shall the firearms be designed so that they are resistant to fingerprints.

II. SALES AND DISTRIBUTION.

In addition to complying with specific terms, the manufacturer parties to this Agreement will agree for themselves and as part of any distribution or agency agreement that they, and their authorized distributors and authorized dealers, including franchisees, shall commit to a standard of conduct to make every effort to eliminate sales of firearms that might lead to illegal firearm possession and/or misuse by criminals, unauthorized juveniles, and other prohibited persons ("suspect firearms sales"). Suspect firearm sales include sales made to straw purchasers, multiple sales of handguns without reasonable explanation (excluding sales to FFLs), and sales made to any purchaser without a completed background check.

As specified in Part II.A.2 below, the manufacturer parties to this Agreement will take action against dealers and distributors that violate these requirements if the manufacturers receive actual notice of such a violation.

A. AUTHORIZED DISTRIBUTORS AND DEALERS.

1. The manufacturer parties to this Agreement may sell only to authorized distributors and authorized dealers. In order to qualify to become an authorized distributor or authorized dealer, the distributor or dealer must agree in writing to:

- a. Possess a valid and current federal firearms license, and all other licenses and permits required by local, state or federal law, and certify on an manual basis, under penalty of perjury, compliance with all local, state and federal firearms laws.
- b. Execute in the presence of the purchaser the following elements of all firearms transactions at the premises listed on its federal firearms license: completion of the forms and related requirements under the Brady Act and the Gun Control Act and physical transfer of the firearm.
- c. Where available, carry insurance coverage against liability for damage to property and for injury to or death of any person as a result of the sale, lease, or transfer of a firearm in amounts appropriate to its level of sales, but at a minimum no less than \$1 million for each incident of damage, injury or death.
- d. Make no sales at gun shows unless all sales by any seller at the gun show are conducted only upon completion of a background check.
- e. Within 24 months of the date of execution of this Agreement, maintain an inventory tracking plan for the products of the manufacturer parties to this Agreement that includes at a minimum the following elements:
 - (1) Electronic recording of the make, model, caliber or gauge, and serial number of all firearms that are acquired no later than one business day after their acquisition and electronic recording of their disposition no later than one business day after their disposition. Monthly backups of these records shall be maintained in a secure container designed to prevent loss by fire, theft, or other mishap.
 - (2) All firearms acquired but not yet disposed of must be accounted for through an electronic inventory check

prepared once each month and maintained in a secure location.

- (3) For authorized dealers and franchisees, all ATF Form 4473 firearm transaction records shall be retained on the dealer's business premises in a secure container designed to prevent loss by fire, theft, or other mishap.
 - (4) If an audit of a distributor's or dealer's inventory reveals any firearms not accounted for, the distributor or dealer shall be subject to sanctions, including termination as an authorized distributor or dealer.
- f. Implement a security plan for securing firearms, including firearms in shipment. The plan must satisfy at least the following requirements:
- (1) Display cases shall be locked at all times except when removing a single firearm to show a customer, and customers shall handle firearms only under the direct supervision of an employee;
 - (2) All firearms shall be secured, other than during business hours, in a locked fireproof safe or vault in the licensee's business premises or in another secure and locked area; and
 - (3) Ammunition shall be stored separately from the firearms and out of reach of the customers.
- g. Require persons under 18 years of age to be accompanied by a parent or guardian when they are in portions of the premises where firearms or ammunition are stocked or sold.
- h. Not sell ammunition magazines that are able to accept more than 10 rounds regardless of the date of manufacture, not sell any semi automatic assault weapon as defined in 18 U.S.C. 921(a)(30) regardless of the date of manufacture, provide safety locks and warnings with firearms, as

specified in Section I above, and sell only firearms that comport with the design criteria of this Agreement.

- i. Provide law enforcement, government regulators conducting compliance inspections, and the Oversight Commission, for purposes of determining compliance with conditions imposed as a result of this Agreement, or for any other authorized purpose, full access to any documents related to the acquisition and disposition of firearms deemed necessary by one of those parties.
- j. Participate in and comply with all monitoring of firearms distribution by manufacturers, ATF or law enforcement.
- k. Maintain an electronic record of all trace requests initiated by ATF, and report those trace requests by make, model and serial number of firearm, date of trace, and date of sale to the manufacturer of the firearm on a monthly basis, unless ATF, for investigative reasons, directs the licensee not to report certain traces.
1. Agree to cooperate fully in the oversight mechanism established in Section III of this Agreement, including providing access to all necessary documents, and to be subject to the jurisdiction of the court enforcing this Agreement.
- m. Require all employees to attend annual training developed by manufacturers in consultation with ATF and approved by the Oversight Commission. The training shall cover at a minimum: the law governing firearms transfers by licensees and individuals; how to recognize straw purchasers and other attempts to purchase firearms illegally; how to recognize indicators that firearms may be diverted for later sale or transfer to those not legally entitled to purchase them; how to respond to those attempts; and the safe handling and storage of firearms. New employees will receive training on the above topics, based on materials developed for the annual training, before handling or selling

firearms and shall attend annual training thereafter. Such training may be delivered by electronic medium. Within 12 months of the date of execution of this Agreement and annually thereafter, the manufacturer parties to this Agreement will obtain from all authorized dealers and distributors certifications that such training has been completed, with a list of the names of all trained employees.

- n. Require all employees to pass a comprehensive written exam, which shall be developed by the manufacturers in consultation with ATF and approved by the Oversight Commission, on the material covered in the training before being allowed to sell or handle firearms. Any employee who fails to pass the exam shall be prohibited from selling or handling firearms on behalf of the distributor or dealer. The annual certification discussed in II.A.1.m, above, will include certification that all employees have passed the exam.
- o. Not complete any transfer of a firearm prior to receiving notice from the NICS that the transferee is not a prohibited person under the Gun Control Act.
- p. Verify the validity of a licensee's federal firearms license against an ATF database before transferring a firearm to that licensee.
- q. Forgo any transfer of a firearm to a licensee if the dealer or distributor knows the licensee to be under indictment for violations of the Gun Control Act or any violent felony or serious drug offense as defined in 18 U.S.C. Section 924(e)(2).
- r. Transfer firearms only:
 - (1) To individuals who have demonstrated that they can safely handle and store firearms through completion of a certified firearms safety training course or by having passed a certified firearms safety examination.

- (2) After demonstrating to the purchaser how to load, unload, and safely store the firearm, and how to engage and disengage all safety devices on the firearm.
 - (3) After providing the purchaser with a copy of the ATF Disposition of Firearms Notice.
 - (4) After obtaining the purchaser's signature on a form certifying that the purchaser has received the instruction described in subparagraph (2) and the notice described in subparagraph (3) and maintaining that form in its files.
 - (5) After providing the purchaser with a written record of the make, model, caliber or gauge, and serial number of each firearm transferred to enable the purchaser to accurately describe the firearm to law enforcement in the event that it is subsequently lost or stolen.
2. The manufacturer parties to the Agreement shall incorporate into any distribution or agency agreement with their authorized distributors and authorized dealers, including franchisees, procedures for terminating distributors, dealers or franchisees that engage in conduct in violation of this Agreement. Distributors and dealers shall agree to this enforcement system as a condition of becoming authorized. The manufacturer parties to this Agreement shall require annual certification by their authorized dealers and distributors that they are in compliance with the requirements in II.A.1(a-r) of this Agreement and applicable provisions of B. and C., below. If the manufacturer parties to this Agreement receive actual notice of a violation of the Agreement through their course of dealing with their authorized dealers and distributors, from ATF, state or local law enforcement, the Oversight Commission, another dealer or distributor, a customer or other credible source, the manufacturer parties to this Agreement will either immediately terminate sales to the dealer or distributor in violation or take the following actions. The manufacturer(s) that have authorized the dealer or distributor to sell its/their firearms will,

individually or collectively, notify the dealer or distributor within seven (7) business days of learning of such violation and inform the dealer or distributor of the breach and request information regarding the breach. The distributor or dealer will then have fifteen (15) days to provide the manufacturer(s) with the requested information. If the manufacturer(s) determine that the dealer or distributor is in violation of this section of the Agreement, the manufacturer(s) will provide no further product to the distributor or dealer until the manufacturer(s) determine that the distributor or dealer is in compliance with the Agreement.

The manufacturer(s) shall inform the Oversight Commission and ATF of its/their notifications and decisions and provide them with the information provided by the dealer or distributor. If the Oversight Commission determines that suspension or termination of the dealer or distributor is warranted, and the manufacturer(s) did not take this action, the Oversight Commission shall direct the manufacturer(s) to do so.

B. AUTHORIZED DISTRIBUTORS - ADDITIONAL PROVISION.

Authorized distributors must agree to sell the manufacturer's products only to other authorized distributors or authorized dealers or directly to government purchasers.

C. AUTHORIZED DEALERS -- ADDITIONAL PROVISIONS.

In addition to the requirements in section II(A)(1), authorized dealers must agree:

1. Not to sell any of the manufacturers' products to any federal firearms licensee that is not an authorized distributor or authorized dealer of that manufacturer.
2. Not to engage in sales that the dealer knows or has reason to know are being made to straw purchasers.

3. To adhere to the following procedure for multiple handgun sales. If a purchaser wants to purchase more than one handgun, the purchaser may take from the dealer only one handgun on the day of sale. The dealer at that point will file a Multiple Sales Report with ATF. The purchaser may take the additional handguns from the dealer 14 days thereafter. This provision shall not apply to sales to qualified private security companies licensed to do business within the State where the transfer occurs for use by the company in its security operations.

D. MANUFACTURERS.

Each manufacturer must:

1. Provide quarterly reports of its own sales data and downstream sales data, with the volume of sales by make, model, caliber and gauge, to ATF's National Tracing Center.
2. Not market any firearm in a way that would make the firearm particularly appealing to juveniles or criminals, such as advertising a firearm as "fingerprint resistant."
3. Refrain from selling any modified or sporterized semi-automatic assault pistol of a type that cannot be imported into the United States.
4. Reaffirm their longstanding policy and practice of not placing advertisements in the vicinity of schools, high crime zones, or public housing.
5. Verify the validity of a license against an ATF database before transferring a firearm to any licensee.
6. Forgo any transfer of a firearm to a licensee if the manufacturer knows the licensee to be under indictment violations of the Gun Control Act or any violent felony or serious drug offense as defined in 18 U.S.C. 924(e)(2).

7. Implement a security plan for securing firearms, including firearms in shipment. The plan will include the following elements.
 - a. Employee and visitor movement into and out of the manufacturer's facility will be only through designated security control points, and visitors will be admitted only after positive identification and confirmation of the validity of the visit. Employees and visitors will pass through a metal detector before leaving.
 - b. All areas where firearms are assembled and stored will be designated as restricted areas. Access will be authorized only for those employees whose work requires them to enter these areas or for escorted visitors. Protective barriers will be installed in restricted areas to deny or impede unauthorized access.
 - c. Each facility or area where firearms, ammunition, or components are stored will be provided with a system to detect unauthorized entry.
 - d. If firearms are shipped in cartons, the cartons will bear no identifying marks or words. The manufacturer parties to this Agreement will use only very strong cartons to protect against concealed pilferage in truck shipments, and large cartons will be secured with steel strapping in two directions. The manufacturer parties to this Agreement will use only carriers and freight forwarders that warrant in writing that they conduct criminal background checks on delivery personnel and report all thefts or losses of firearms to ATF within 48 hours of learning of the theft or loss. The manufacturer parties to this Agreement will inspect carriers' and forwarders' local facilities periodically.
8. Encourage its authorized dealers and distributors to consent to up to three unannounced ATF compliance inspections each year.

E. CORPORATE RESPONSIBILITY.

If ATF or the Oversight Commission informs the manufacturer parties to this Agreement that a disproportionate number of crime guns have been traced to a dealer or distributor within three years of the gun's sale, the manufacturer(s) that have authorized the dealer or distributor to sell guns will either immediately terminate sales to the dealer or distributor or take the following actions. The manufacturers will, individually or collectively, notify the dealer or distributor of the disproportionate number within seven (7) days and demand an explanation and proposal to avoid a disproportionate number of traces in the future. The dealer or distributor will have fifteen (15) days to provide the explanation and proposal. If the manufacturer(s) determine that the explanation and proposal are not satisfactory, the manufacturer(s) will terminate supplies to the dealer or distributor. If the manufacturer(s) determine that the explanation and proposal are satisfactory, the manufacturer will continue supplies, but will closely monitor traces to the dealer or distributor in question. If disproportionate traces continue, the manufacturer(s) will terminate supplies to the dealer or distributor.

The manufacturer(s) shall inform the Oversight Commission and ATF of its/their notifications and decisions and provide them with the information provided by the dealer or distributor. If the Oversight Commission determines that suspension or termination of the dealer or distributor is warranted, and the manufacturer(s) did not take this action, the Oversight Commission shall direct the manufacturer(s) to do so.

Disproportionate number of crime guns: Upon execution of this Agreement, the Oversight Commission will convene to determine a formula to identify what constitutes a disproportionate number of crime guns. In determining the formula, the Oversight Commission shall consider the available data and establish procedures to ensure that the relevant data is obtained. This provision will not take effect until the Oversight Commission sets the formula and a mechanism for its implementation.

III. OVERSIGHT

A. OVERSIGHT COMMISSION.

1. COMPOSITION. An Oversight Commission comprised of five members shall be formed. The Commission members shall serve five-year terms except for first terms as noted and shall be appointed as follows:
 - a. Two members by the city and county parties to the Agreement. First appointees to serve two- and three-year terms, respectively.
 - b. One by the State parties to the Agreement. First appointee to serve a three-year term.
 - c. One member by the manufacturer parties to the Agreement. First appointee to serve a four-year term.
 - d. One selected by ATF. First appointee to serve a five-year term.
2. AUTHORITY. -- The Oversight Commission, which will operate by majority vote, will be empowered to oversee the implementation of this Agreement. Its authorities will include but not be limited to the authority to (1) review the findings of ATF or the proofing entity that will oversee the design and safety requirements of Part T of this Agreement, (2) maintain records of firearms sold pursuant to the law enforcement exception, as set forth in Part I.B of this Agreement, (3) review the safety training materials and test set forth in Parts II.A.1.m-n of this Agreement, and (4) participate in the oversight of the distribution and sales provisions established in Part II of this Agreement, as set forth in Parts II.A.2 and II.E.

The Oversight Commission shall have a staff, which will be entitled to inspect participating manufacturers and their authorized dealers and distributors to ensure compliance with the Agreement. The costs of the Commission shall be funded

by the parties to the Agreement. Each manufacturer party to this Agreement will pay no more than \$25,000 annually.

B. ROLE OF ATF. -- ATF will continue to issue, regulate and inspect federal firearms licensees, collect multiple sales forms, conduct firearms traces, investigate firearms traffickers and straw purchasers, enforce the Gun Control Act and the National Firearms Act and fulfill its other statutory responsibilities. To the extent consistent with law and the effective accomplishment of its law enforcement responsibilities, ATF will work with the manufacturer parties to the Agreement and the Oversight Commission to assist them in meeting their obligations under the Agreement. In particular, to the extent that ATF uncovers violations of the following provisions in its inspections or other contacts with federal firearms licensees, it will inform the Oversight Commission: II(A)(1)(a), (b), (e), (h), (i), (j), (k), (o), (p), and (q), (C)(2) and (D)(1) and (5). Nothing in this paragraph shall diminish the obligation of the manufacturer parties to this Agreement to make reasonable efforts to identify noncompliance and respond to notifications of violations from parties other than ATF.

C. MANUFACTURER COOPERATION.

1. Each manufacturer shall designate an executive level manager to serve as a compliance officer and shall provide the compliance officer with sufficient resources and staff to fulfill the officer's responsibilities under this agreement.
2. The compliance officer shall be responsible for
 - a. Ensuring that the manufacturer fulfills its obligations under this agreement;
 - b. Training the manufacturer's officers and employees on the obligations imposed by this agreement; and
 - c. Serving as the liaison to the Oversight Commission.

3. Each manufacturer shall commit to full cooperation in the implementation and enforcement of this Agreement.

IV. COOPERATION WITH LAW ENFORCEMENT.

- A. The manufacturer parties to this Agreement reaffirm their commitment to cooperate fully with law enforcement and regulators to eliminate illegal firearms sales and possession.
- B. Within six (6) months of the effective date of this Agreement, if technologically available, the manufacturer parties to this Agreement shall fire each firearm before sale and enter the digital image of its casing along with the weapon's serial number into a system compatible with the National Integrated Ballistics Identification Network system. The digital image shall be made available electronically to ATF's National Tracing Center.
- C. Manufacturers shall participate in ATF's Access 2000 program to facilitate electronic linkage to their inventory system to allow for rapid responses to ATF's firearms trace requests.

V. LEGISLATION.

The parties to this Agreement will work together to support legislative efforts to reduce firearms misuse and the development of authorized user technology.

VI. EDUCATION TRUST FUND.

Upon resolution of the current lawsuits brought by cities, counties, or States, the manufacturer parties to this Agreement shall dedicate one percent of annual firearms revenues to a trust fund to implement a public service campaign to inform the public about the risk of firearms misuse, safe storage, and the need to dispose of firearms responsibly.

VII. MOST FAVORED ENTITY.

If the manufacturer parties to this Agreement enter into an agreement with any other entity wherein they commit to institute design or distribution reforms that are more expansive than any of the above-enumerated items, such reforms will become a part of this Agreement as well.

In addition, if firearms manufacturers that are not party to this Agreement agree to design or distribution reforms that are more expansive than any of the above-enumerated items, and if the manufacturers who are party to the other agreement(s) with more expansive terms, in combination with the manufacturer parties to this Agreement, account for fifty percent or more of United States handgun sales, manufacturer parties to this Agreement will agree to abide by the same design and distribution measures.

VIII. ENFORCEMENT.

The Agreement will be entered and is enforceable as a Court order and as a contract.

Dated this 17 day of March, 2000.

Approved and Authorized by:

MANUFACTURER PARTIES TO THIS AGREEMENT:

/s/ L.E. Shultz

Smith & Wesson

GOVERNMENTAL PARTIES TO THIS AGREEMENT:

- -----
Department of the Treasury

/s/ [signature not legible]
- -----
Department of Housing and Urban Development

STATE PARTIES TO THIS AGREEMENT:

- -----
State of New York

- -----
State of Connecticut

CITY AND COUNTY PARTIES TO THIS AGREEMENT:

- -----

- -----

- -----

- -----

- -----

DEPARTMENT OF THE TREASURY
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

May 2, 2000

VIA FACSIMILE (413) 739-8528

Mr. L. Edward Shultz
President & Chief Executive Officer
Smith & Wesson
2100 Roosevelt Avenue
Springfield, MA 01102-2208

Dear Ed:

This letter is to confirm your understanding that the agreement entered into with the Departments of Housing and Urban Development and Treasury and state and local governments on March 17, 2000 (the "Agreement") does not obligate the parties to the Agreement other than Smith & Wesson to contribute money to the oversight committee described in Section III.A. of the Agreement. To be more specific, Section III.A.2. of the Agreement was not intended to and does not create a financial liability for the federal, state and local signatories of the Agreement.

Please verify your agreement with this letter by countersigning below.

Sincerely,

/s/ Neal S. Wolin

/s/ Max I. Stier

Neal S. Wolin
General Counsel
Department of the Treasury

Max I. Stier
Deputy General Counsel for Litigation
Department of Housing and Urban Development

/s/ L. E. Shultz

L.E. Shultz
President & Executive Officer
Smith & Wesson

SETTLEMENT AGREEMENT

PREAMBLE

Smith & Wesson Corp., ("Smith & Wesson"), the City of Boston, and the Boston Public Health Commission enter into this Agreement to reduce the criminal misuse of firearms, combat the illegal acquisition, possession, and trafficking of firearms, reduce the incidence of firearms accidents, and educate the public on the safe handling and storage of firearms. Furthermore, Smith & Wesson enters into this Agreement as a continuation of its efforts to make its firearms as safe as practicable for its customers and the public. Accordingly, in consideration of the commitments set forth below, the City of Boston and the Boston Public Health Commission dismiss Smith & Wesson with prejudice from the lawsuit entitled The City of Boston, et al. v. Smith & Wesson Corp., et al., Civil Action No. SUCV1999-02590-C subject to any consent orders entered pursuant to paragraph VII.

The parties agree that this Agreement constitutes the full and complete settlement of any and all claims that were raised or could have been raised in the subject litigation. The parties agree further that this Agreement does not constitute an admission of any violation of law, rule, or regulation by Smith & Wesson or any of its employees. Nothing in this Agreement shall be construed to be an admission of liability. The adoption of standards for firearms design and distribution in this Agreement shall not be construed as an admission by Smith & Wesson that practices it engaged in prior to the execution of this Agreement were negligent.

I. SAFETY AND DESIGN OF SMITH & WESSON FIREARMS.

- A. STANDARDS. Each firearm make and model sold by Smith & Wesson shall be tested against the following standards by a proofing entity selected by a government regulator that is designated by the City of Boston and the Boston Public Health Commission, or if no such selection is made, by ATF. Existing makes and models shall meet these standards within 60 days of execution of this Agreement unless a longer period is specified in the standard. New makes and models shall not be manufactured and sold after the execution of this Agreement unless they conform to these standards.

1. STANDARDS APPLICABLE TO ALL HANDGUNS.

- a. SECOND "HIDDEN" SERIAL NUMBER. The handgun must have both a visible serial number on the exterior of the frame or receiver, as well as a second serial number that is not susceptible to eradication. A serial number is not

susceptible to eradication if: (1) it is placed on the interior of the handgun; or (2) it is placed on the exterior of the handgun in a way that is not visible to the unaided eye, but is visible with the aid of an infrared detector or other device.

- b. EXTERNAL LOCKING DEVICE. As an interim measure, until the implementation of Section I.A.1.c, within 60 days of execution of the Agreement, each handgun shall be supplied with an external locking device that effectively prevents the operation of the firearm when locked.
- c. INTERNAL LOCKING DEVICE. Within 24 months of execution of the Agreement, each handgun shall have a built-in, on-board locking system, by which the handgun can only be operated with a key, a combination unique to that handgun, or another mechanism unique to that handgun.
- d. AUTHORIZED USER TECHNOLOGY. Smith & Wesson shall commit two percent of annual firearms sales revenues to the development of a technology that recognizes only authorized users and permits a handgun to be used only by authorized persons. Within 36 months of execution of this Agreement, Smith & Wesson shall use its best efforts to incorporate this technology in all new handgun designs, with the exception of curios and collectors' handguns. This requirement does not apply to existing designs currently in production. If it is not technologically, mechanically, or fiscally feasible to incorporate this technology into all new handgun designs within 36 months, Smith & Wesson will continue to commit two percent of annual firearms revenues to the development of this technology or an alternate technology agreed upon by the parties to this Agreement.
- e. CHILD SAFETY. Within 12 months of execution of the Agreement, each handgun shall be designed to effectively preclude an average five year old child from operating the handgun when it is ready to fire. Such mechanisms shall include but are not limited to: raising trigger resistance to at least a ten pound pull, altering the firing mechanism so that an average five year old child's hands are too small to operate the handgun, or requiring a series of multiple motions in order to fire the handgun.

This provision shall not apply to handguns that have a hammer deactivation device.

- f. **MINIMUM BARREL LENGTH.** Each handgun make and model must have a barrel length of at least 3", unless the manufacturer has documented test data demonstrating that the handgun has an average group diameter test result of 1.7" or less at seven yards, 3.9" or less at 14 yards, and 6.3" or less at 21 yards. The average group diameter test result is the arithmetic mean of the results of three separate trials, each performed on a different sample handgun of the make and model at issue. For each trial, the handgun shall fire five rounds at a target from the specified distance, and the largest spread in inches between the center of any of the holes made in a test target shall be the result of the trial.
- g. **PERFORMANCE TEST.** A sample of each handgun make and model will be test-fired with "proof cartridges" (cartridges loaded to generate excess pressure as set forth in accepted specifications for proof cartridges) to ensure the integrity of the material. At least one cartridge shall be fired from each chamber. Following this test firing, the handgun will be examined for hairline cracks or other signs of material failure and will pass this test only if there are no hairline cracks or other signs of material failure. Each handgun make and model shall also pass the following performance test: the handgun shall fire 600 rounds, stopping only every 100 rounds to tighten any loose screws and clean the handgun (if required by the cleaning schedule recommended in the manual), or as needed to refill the empty magazine or cylinder to capacity before continuing. For any handgun that loads other than with a detachable magazine, the tester shall pause every 50 rounds for ten minutes. The tester shall use the ammunition recommended in the user's manual, or if none is recommended, any standard ammunition of the correct caliber in new condition. A handgun shall pass this test if it fires the first 20 rounds without a malfunction and the full 600 rounds with no more than 6 malfunctions and without any crack or breakage of an operating part of the handgun that increases the danger of injury. Malfunction shall not include a misfire caused by a faulty cartridge whose primer fails to detonate when properly hit by the handgun's firing mechanism.

- h. DROP TEST. Each handgun must pass the more rigorous of: (a) the SAAMI Standard drop test in effect on the date the handgun is sold; or (b) the following test: the handgun shall be test-loaded, set such that the handgun is ready to fire, and dropped onto a solid slab of concrete from a height of one meter from each of the following positions: (1) normal firing position; (2) upside down; (3) on the grip; (4) on the muzzle; (5) on either side; and (6) on the exposed hammer or striker (or, if there is no exposed hammer or striker, then on the rearmost part of the handgun). If the handgun is designed so that its hammer or striker may be set in other positions, it shall be tested with the hammer or striker in each such position (but otherwise ready to fire).

2. ADDITIONAL STANDARDS FOR PISTOLS.

- a. SAFETY DEVICE. The pistol must have a positive manually operated safety device as determined by standards relating to imported guns promulgated by ATF.
- b. MINIMUM LENGTH AND HEIGHT STANDARDS. The pistol's combined length and height must not be less than 10" with the height being at least 4" and the length being at least 6", unless it has an average group diameter test result of 1.7" or less at seven yards, 3.9" or less at 14 yards, and 6.3" or less at 21 yards. The average group diameter test result is the arithmetic mean of the results of three separate trials, each performed on a different sample firearm of the make and model at issue. For each trial, the firearm shall fire five rounds at a target from the specified distance and the largest spread in inches between the center of any of the holes made in a test target shall be the result of the trial.
- c. MAGAZINE SAFETY DISCONNECT OR CHAMBER LOAD INDICATOR. Within 12 months of execution of this Agreement, each pistol shall have either a magazine safety disconnect or a chamber load indicator. This provision applies only to handguns that have a mechanism to load cartridges via a magazine.
- d. LARGE CAPACITY MAGAZINES. No pistol make or model designed after January 1, 2000 shall be able to accept

magazines manufactured prior to September 14, 1994, with a greater than 10 round capacity, and such models shall not be capable of being easily modified to accept such magazines. Nor shall Smith & Wesson ammunition magazines that are able to accept more than 10 rounds be sold by Smith & Wesson or its authorized distributors and dealers. See Section II.A.1.h, below.

e. ADDITIONAL SAFETY FEATURES. Each pistol must have a firing pin block or lock.

3. ADDITIONAL STANDARD FOR REVOLVERS. Each revolver make and model must pass a safety test. Each make and model must have a safety feature which automatically (for a double action revolver) or by manual operation (for a single action revolver) causes the hammer to retract to a point where the firing pin does not rest upon the primer of the cartridge. The safety device must withstand, no less than five consecutive times, the impact of a weight equal to the weight of the revolver dropping from a distance of 1 meter in a line parallel to the barrel upon the rear of the hammer spur without firing a primed case inserted into the chamber and aligned with the barrel.

B. LAW ENFORCEMENT AND MILITARY EXCEPTION. An exception to a requirement of paragraph A may be granted for firearms manufactured or imported for sale to a law enforcement agency or the military if the law enforcement agency or military organization certifies to Smith & Wesson that the handgun(s) are for official purposes. Where a law enforcement agency authorizes or requires its officers to purchase firearms individually for official use, an appropriate certification from the agency will be permitted to apply to sales to a number of individual officers. Smith & Wesson shall maintain the certification in its records. Firearms sold to law enforcement or the military pursuant to this exception, which do not comply with the design standards of this Agreement, will be accompanied by a statement:

1. "On [date], Smith & Wesson, the City of Boston, and the Boston Public Health Commission entered into an Agreement establishing certain design standards for firearms sold to civilians. Pursuant to that Agreement, we are obliged to inform you that this firearm does not comply with all of the design standards of the Agreement. We are further obliged to request that you not resell this firearm to civilians. This statement is not intended to suggest that there are any design flaws with this firearm, and you remain entitled to dispose of it in any lawful manner."

- C. WARNINGS ABOUT SAFE STORAGE AND HANDLING. Within 6 months of execution of this Agreement, Smith & Wesson shall include in the packaging of each firearm sold a warning on risk of firearms in the home and proper home storage. These warnings shall state in at least 12 point type:

"This handgun is not equipped with a device that fully blocks use by unauthorized users. More than 200,000 firearms like this one are stolen from their owners every year in the United States. In addition, there are more than a thousand suicides each year by younger children and teenagers who get access to firearms. Hundreds more die from accidental discharge. It is likely that many more children sustain serious wounds, or inflict such wounds accidentally on others. In order to limit the chance of such misuse, it is imperative that you keep this weapon locked in a secure place and take other steps necessary to limit the possibility of theft or accident. Failure to take reasonable preventative steps may result in innocent lives being lost, and in some circumstances may result in your liability for these deaths."

- D. ILLEGAL FIREARMS. Smith & Wesson shall not sell firearms that can be readily converted to an illegal firearm (i.e., a weapon designed in a manner so that with few additional parts and/or minimal modifications an owner can convert the firearm to an illegal fully automatic weapon); nor shall the firearms be designed so that they are resistant to fingerprints.

II. SALES AND DISTRIBUTION OF SMITH & WESSON FIREARMS.

Smith & Wesson agrees that both it and, as part of any distribution or agency agreement, its authorized distributors, authorized dealers, and franchisees (collectively referred to as "authorized distributors and dealers") shall commit to a standard of conduct to make every effort to eliminate sales of firearms that might lead to illegal firearm possession and/or misuse by criminals, unauthorized juveniles, and other prohibited persons ("suspect firearms sales"). Suspect firearm sales include sales made to straw purchasers, multiple sales of handguns without reasonable explanation (excluding sales to FFLs), and sales made to any purchaser without a completed background check.

The parties to this Agreement agree that the obligations in Section II of this Agreement shall apply to Smith & Wesson's authorized distributors and dealers only with respect to firearms manufactured by Smith & Wesson.

As specified in Sections II.A.2 and II.A.3 below, Smith & Wesson will take action against authorized distributors and dealers that are not compliant with these requirements if Smith & Wesson receives a request for a compliance

review from a compliance liaison designated by the City of Boston and the Boston Public Health Commission ("Plaintiffs' compliance liaison"), ATF, or state or local law enforcement.

A. AUTHORIZED DISTRIBUTORS AND DEALERS.

1. REQUIREMENTS. Within 6 months of execution of this Agreement, Smith & Wesson will sell its firearms only to authorized distributors and dealers. In order to qualify to become an authorized distributor or dealer, the distributor or dealer must agree in writing to:
 - a. LICENSES AND CERTIFICATION. Possess a valid and current federal firearms license, and all other licenses and permits required by local, state, or federal law, and certify on an annual basis, under penalty of perjury, compliance with all local, state, and federal firearms laws.
 - b. TRANSACTION REQUIREMENTS. For each transaction involving a Smith & Wesson firearm, perform (in the presence of the purchaser and at the premises listed on its federal firearms license) the following:
 - (1) The completion of the forms and related requirements under the Brady Act and the Gun Control Act.
 - (2) The physical transfer of the firearm.
 - c. INSURANCE. Where available, carry liability insurance coverage of at least \$1 million per incident for damage to property and for injury to or the death of any person resulting from the sale, lease, or transfer of a firearm.
 - d. SALES AT GUN SHOWS. Make no sales of Smith & Wesson firearms at gun shows unless all sales by any seller at the gun show are conducted only upon completion of a background check.
 - e. INVENTORY TRACKING. Within 24 months of execution of this Agreement, maintain an inventory tracking plan for Smith & Wesson firearms that includes at a minimum the following elements:

- (1) Within one business day after the acquisition (or disposition) of a Smith & Wesson firearm, a record shall be made of the make, model, caliber or gauge, serial number, and acquisition (or disposition) date. Monthly backups of these records shall be maintained in a secure container designed to prevent loss by fire, theft, or other mishap.
 - (2) All Smith & Wesson firearms acquired but not yet disposed of shall be accounted for through an inventory check prepared once each month and maintained in a secure location.
 - (3) For authorized dealers and franchisees, all ATF Form 4473 firearm transaction records for Smith & Wesson firearms shall be retained on the dealer's or franchisee's business premises in a secure container designed to prevent loss by fire, theft, or other mishap.
 - (4) If an audit of an authorized distributor's or dealer's inventory reveals any Smith & Wesson firearms not accounted for, the authorized distributor or dealer shall be subject to termination as an authorized distributor or dealer as specified in Section II.A.2 below.
- f. SECURITY. Implement a plan for securing Smith & Wesson firearms, including firearms in transit. The plan must satisfy at least the following requirements:
- (1) During business hours, display cases containing Smith & Wesson firearms shall be locked at all times except when removing firearms to show a customer. Customers shall not be left alone or unattended at any time while handling Smith & Wesson firearms.
 - (2) During non-business hours, Smith & Wesson firearms shall be secured in a locked fireproof safe or vault, or in another secure and locked area, or by the use of a security system that is designed to prevent loss by theft.

- (3) Smith & Wesson firearms shall be stored separately from handgun ammunition.
- g. PERSONS UNDER 18. Not permit any person under 18 to handle a Smith & Wesson firearm unless he or she is under the direct supervision of both an employee and a parent or guardian. However, a person under 18 may handle a Smith & Wesson firearm as a part of an organized training program while under the direct supervision of an employee.
- h. SALE OF PRODUCTS. Not sell Smith & Wesson ammunition magazines that are able to accept more than 10 rounds regardless of the date of manufacture; not sell any Smith & Wesson semi-automatic assault weapon as defined in 18 U.S.C. 921(a)(3) regardless of the date of manufacture; provide safety locks and warnings with new Smith & Wesson firearms, as specified in Section I above; and sell new Smith & Wesson firearms that comport with Section I above. Law enforcement and export sales are exempt from this paragraph.
- i. ACCESS TO DOCUMENTS REGARDING COMPLIANCE. For purposes of determining compliance with the requirements of Section II, or for any other authorized purpose, provide Smith & Wesson with full access to any documents related to the acquisition and disposition of Smith & Wesson firearms deemed necessary for purposes of complying with Sections II.A.2 and II.A.3.
- j. MONITORING OF DISTRIBUTION. Participate in and comply with all monitoring of firearms distribution by Smith & Wesson, ATF, or law enforcement.
- k. TRACE REQUESTS. Maintain a record of all trace requests of Smith & Wesson firearms initiated by ATF, and report those trace requests (by make, model, and serial number of firearm, date of trace, and date of sale) to Smith & Wesson on a monthly basis, unless ATF, for investigative reasons, directs the authorized distributor or dealer not to report certain traces.
- l. EMPLOYEE TRAINING AND CERTIFICATION. Within 12 months of execution of this Agreement, require all employees involved in the sale of Smith & Wesson firearms to

receive training prior to handling or selling Smith & Wesson firearms. The training shall be developed by Smith & Wesson in consultation with ATF. The training shall cover at a minimum: the law governing firearms transfers by licensees and individuals; how to recognize straw purchasers and other attempts to purchase firearms illegally; how to recognize indicators that firearms may be diverted for later sale or transfer to those not legally entitled to purchase them; how to respond to those attempts; and the safe handling and storage of firearms. Additionally, all such employees shall receive annual training on the aforementioned topics. Such training may be delivered by electronic medium. If the firearms industry develops a national training program that is approved by ATF, and such national training program is acceptable to the parties to this Agreement, the national training program may be substituted for the training program described in this paragraph.

Within 12 months of execution of this Agreement and annually thereafter, Smith & Wesson will obtain from all authorized distributors and dealers certifications that the training has been completed, with a list of the names of all employees who have received such training.

- m. EMPLOYEE TESTING AND CERTIFICATION. Within 12 months of execution of this Agreement, require all employees to pass a comprehensive written exam, which shall be developed by Smith & Wesson in consultation with ATF, on the material covered in the training before being allowed to sell or handle Smith & Wesson firearms. Any employee who fails to pass the exam shall be prohibited from selling or handling Smith & Wesson firearms on behalf of the authorized distributor or dealer. The annual certification discussed above will include certification that all employees have passed the exam.
- n. TRANSFER PREREQUISITES - NICS NOTICE. Not complete any transfer of a Smith & Wesson firearm prior to receiving notice from the NICS that the transferee is not a prohibited person under the Gun Control Act.
- o. TRANSFER PREREQUISITES - VALID LICENSE. Verify the validity of a licensee's federal firearms license against an ATF database such as the ATF database "FFL eZ Check"

before transferring a Smith & Wesson firearm to that Licensee.

- p. TRANSFER LIMITATIONS. Forego any transfer of a Smith & Wesson firearm to a federal firearms licensee if the authorized distributor or dealer knows the licensee to be under indictment for violations of the Gun Control Act, for any violent felony, or for any serious drug offense as defined in 18 U.S.C. 924(e)(2).
- q. TRANSFER PREREQUISITES - PURCHASER EDUCATION AND NOTIFICATION. Transfer Smith & Wesson firearms only:
 - (1) To individuals who have demonstrated that they can safely handle and store firearms through completion of a certified firearms safety training course or by having passed a certified firearms safety examination. This requirement shall apply only to individuals who purchase such a firearm(s) any time after 6 months following the execution of this Agreement.
 - (2) After demonstrating to the purchaser how to load, unload, and safely store the firearm, and how to engage and disengage all safety devices on the firearm.
 - (3) After providing the purchaser with a copy of the ATF Disposition of Firearms Notice.
 - (4) After obtaining the purchaser's signature on a form certifying that the purchaser has received the instruction described in subparagraph (2) and the notice described in subparagraph (3) and retaining a copy of that form for its files.
 - (5) After providing the purchaser with a written record of the make, model, caliber or gauge, and serial number of each firearm transferred to enable the purchaser to accurately describe the firearm to law enforcement in the event that it is subsequently lost or stolen.
- 2. ENFORCEMENT. Smith & Wesson shall incorporate into any distribution or agency agreement with its authorized distributors

and dealers procedures for terminating agreements with authorized distributors or dealers that engage in conduct in violation of this Agreement. Authorized distributors and dealers shall agree to this enforcement system as a condition of becoming authorized. Smith & Wesson shall require annual certification by its authorized distributors and dealers that they are in compliance with the requirements in Section II.A.1 (a-q) of this Agreement and applicable provisions of Section II.B and C, below.

3. NONCOMPLIANCE WITH THE AGREEMENT. If Smith & Wesson receives a request for a compliance review from Plaintiffs' compliance liaison, ATF, or state or local law enforcement as a result of alleged noncompliance with this Agreement by an authorized distributor or dealer, Smith & Wesson will either immediately terminate sales to the authorized distributor or dealer allegedly in noncompliance or will take the following actions. Within seven (7) business days of receiving such a request for a compliance review, Smith & Wesson will notify the authorized distributor or dealer, will inform the authorized distributor or dealer of the alleged noncompliance, and will request information regarding the alleged noncompliance. The authorized distributor or dealer will then have fifteen (15) days to provide Smith & Wesson with the requested information. If Smith & Wesson determines that the authorized distributor or dealer is in violation of the Agreement, Smith & Wesson will provide no further product to the authorized distributor or dealer until Smith & Wesson determines that the authorized distributor or dealer is in compliance with the Agreement.

Smith & Wesson shall inform Plaintiffs' compliance liaison (and, if applicable, ATF and the state or local law enforcement agency if it initiated the request for a compliance review) of its notifications and decisions and shall provide them with the information provided by the authorized distributor or dealer. If Plaintiffs' compliance liaison determines that suspension or termination of the authorized distributor or dealer is warranted, and Smith & Wesson has not taken this action, Plaintiffs' compliance liaison may request that the court approving and issuing a consent decree pursuant to this Agreement direct Smith & Wesson to do so.

B. AUTHORIZED DISTRIBUTORS - ADDITIONAL PROVISION.

Authorized distributors must agree to sell Smith & Wesson firearms only to other authorized distributors or dealers or directly to government purchasers.

C. AUTHORIZED DEALERS - ADDITIONAL PROVISIONS.

In addition to the requirements in Section II.A.1 above, authorized dealers must agree:

1. LIMITATION ON SALES TO FEDERAL FIREARMS licensees. Not to sell any Smith & Wesson firearms to any federal firearms licensee that is not a Smith & Wesson authorized distributor or dealer.
2. STRAW PURCHASES. Not to engage in sales of Smith & Wesson firearms that the dealer knows or has reason to know are being made to straw purchasers.
3. MULTIPLE HANDGUN SALES. In addition to federal, state, and local regulations relating to multiple handgun sales, to adhere to the following procedures for multiple Smith & Wesson handgun sales. If a purchaser wants to purchase more than one Smith & Wesson handgun, the purchaser may take from the dealer only one Smith & Wesson handgun on the day of sale. The purchaser may take the additional Smith & Wesson handgun(s) from the dealer 14 days thereafter. This provision shall not apply to sales to qualified private security companies licensed to do business within the State where the transfer occurs for use by the company in its security operations.
4. MASSACHUSETTS FORM. For sales that require dealers to fill out Commonwealth of Massachusetts form FA-10, on that form the dealer will indicate at the end of the section entitled "Weapon Information" the following two facts:
 - a. If the sale was made to law enforcement personnel.
 - b. If the handgun sold was manufactured prior to October 1, 1998.

D. SMITH & WESSON.

Smith & Wesson must:

1. Provide quarterly reports of its own sales data and downstream sales data, with the volume of sales by make, model, caliber, and gauge, to ATF's National Tracing Center.
2. Not market any firearm in a way that would make the firearm particularly appealing to juveniles or criminals, such as advertising a firearm as "fingerprint resistant."
3. Refrain from selling any modified or sporterized semi-automatic assault pistol of a type that cannot be imported into the United States.
4. Reaffirm its longstanding policy and practice of not placing advertisements in the vicinity of schools, high crime zones, or public housing.
5. Verify the validity of a licensee's federal firearms license against an ATF database such as the ATF database "FFL eZ Check" before transferring a Smith & Wesson firearm to any licensee.
6. Forego any transfer of a firearm to a federal firearms licensee if Smith & Wesson knows the licensee to be under indictment for violations of the Gun Control Act, for any violent felony, or for any serious drug offense as defined in 18 U.S.C. 924(e)(2).
7. Implement a plan for securing Smith & Wesson firearms, including firearms in shipment. The plan will include the following elements:
 - a. Employee and visitor movement into and out of Smith & Wesson's facility will be only through designated security control points, and visitors will be admitted only after positive identification and confirmation of the validity of the visit. Employees and visitors must pass through a metal detector before leaving.
 - b. All areas where firearms are assembled and stored will be designated as restricted areas. Access will be authorized only for those employees whose work requires them to enter these areas or for escorted visitors. Protective barriers will be installed in restricted areas to deny or impede unauthorized access.

- c. Each facility or area where firearms, ammunition, or components are stored will be provided with a system to detect unauthorized entry.
 - d. If firearms are shipped in cartons, the cartons will bear no identifying marks or words. Smith & Wesson will use only very strong cartons to protect against concealed pilferage in truck shipments, and large cartons will be secured with steel strapping in two directions. Smith & Wesson will use only carriers and freight forwarders that warrant in writing that they conduct criminal background checks on delivery personnel and will report all thefts or losses of firearms to ATF within 48 hours of learning of the theft or loss. Smith & Wesson will inspect carriers' and forwarders' local facilities periodically.
8. Encourage its authorized distributors and dealers to consent to up to three unannounced ATF compliance inspections each year.
 9. Use its best efforts to provide its authorized distributors and dealers with safety locks, at a nominal cost, for use with used Smith & Wesson firearms.

III. IMPLEMENTING THE AGREEMENT.

A. SMITH & WESSON'S CORPORATE RESPONSIBILITY.

1. Within a reasonable time after execution of this Agreement, and upon ATF's consent, ATF will establish a formula to identify what constitutes a disproportionate number of crime guns. In determining the formula, ATF shall consider the available data and establish procedures to ensure that the relevant data is obtained. This provision will not take effect until ATF establishes the formula and a mechanism for its implementation.
2. If ATF informs Smith & Wesson that a disproportionate number of crime guns have been traced to an authorized distributor or dealer within three years of the gun's sale, Smith & Wesson will either immediately terminate sales to the authorized distributor or dealer or take the following actions. Smith & Wesson will notify the authorized distributor or dealer of the disproportionate number of crime guns within seven (7) days and demand an explanation and proposal to avoid a disproportionate number of traces in the future. The authorized distributor or dealer will have fifteen (15) days to provide the explanation and proposal.

If Smith & Wesson determines that the explanation and proposal are not satisfactory, Smith & Wesson will terminate sales to the authorized distributor or dealer. If Smith & Wesson determines that the explanation and proposal are satisfactory, Smith & Wesson will continue sales, but will closely monitor traces to the authorized distributor or dealer in question. If disproportionate traces continue, Smith & Wesson will terminate sales to the authorized distributor or dealer.

3. Smith & Wesson shall inform Plaintiffs' compliance liaison and ATF of its notifications and decisions and provide them with the information provided by the authorized distributor or dealer. If Plaintiffs' compliance liaison determines that suspension or termination of the authorized distributor or dealer is warranted, and Smith & Wesson did not take this action, Plaintiffs' compliance liaison may request that the court approving and issuing a consent decree pursuant to this Agreement direct Smith & Wesson to do so.

- B. **ROLE OF ATF.** ATF will continue to issue, regulate, and inspect federal firearms licensees, collect multiple sales forms, conduct firearms traces, investigate firearms traffickers and straw purchasers, enforce the Gun Control Act and the National Firearms Act, and fulfill its other statutory responsibilities. To the extent consistent with law and the effective accomplishment of its law enforcement responsibilities, ATF will work with Smith & Wesson to assist it in meeting its obligations under the Agreement. Nothing in this paragraph shall diminish the obligation of Smith & Wesson to make reasonable efforts to identify noncompliance and to respond to notifications of violations from parties other than ATF.

- C. **SMITH & WESSON'S COMPLIANCE LIAISON.**

1. Smith & Wesson shall designate an executive level manager to serve as a compliance officer and shall provide the compliance officer with sufficient resources and staff to fulfill the officer's responsibilities under this Agreement.
2. The compliance officer shall be responsible for:
 - a. Ensuring that Smith & Wesson fulfills its obligations under this Agreement;
 - b. Training Smith & Wesson's officers and employees on the obligations imposed by this Agreement; and

c. Serving as the liaison to Plaintiffs' compliance liaison.

3. Smith & Wesson shall commit to full cooperation in the implementation and enforcement of this Agreement.

IV. COOPERATION WITH LAW ENFORCEMENT.

- A. Smith & Wesson reaffirms its commitment to cooperate fully with law enforcement and regulators to eliminate illegal firearms sales and possession.
- B. Within 6 months of execution of this Agreement, if technologically available and reasonably able to be incorporated into the manufacturing process, Smith & Wesson shall fire each firearm before sale and shall enter the digital image of its casing along with the weapon's serial number into a system compatible with the National Integrated Ballistics Identification Network system. The digital image shall be made available electronically to ATF's National Tracing Center. If this technology is not available and reasonably able to be incorporated into the manufacturing process, Smith & Wesson shall fire each firearm before sale and shall supply the fired shell casing, suitably packaged and identified, with the subject handgun upon transfer from Smith & Wesson to an authorized distributor or dealer for compliance with applicable laws and regulations.
- C. Smith & Wesson shall participate in ATF's Access 2000 program to facilitate electronic linkage to its inventory system to allow for rapid responses to ATF's firearms trace requests.

V. LEGISLATION.

The parties to this Agreement will work together to support legislative efforts to reduce firearms misuse and the development of authorized user technology.

VI. EDUCATION TRUST FUND.

Upon resolution of the current lawsuits brought by cities, counties, or States, the manufacturer parties to this Agreement shall dedicate one percent of annual firearms revenues to a trust fund to implement a public service campaign to inform the public about the risk of

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firearms misuse, safe storage, and the need to dispose of firearms responsibly.

VII. MOST FAVORED ENTITY.

If the manufacturer parties to this Agreement enter into an agreement with any other entity wherein they commit to institute design or distribution reforms that are more expansive than any of the above-enumerated items, such reforms will become a part of this Agreement as well.

In addition, if firearms manufacturers that are not party to this Agreement agree to design or distribution reforms that are more expansive than any of the above-enumerated items, and if the manufacturers who are party to the other agreement(s) with more expansive terms, in combination with the manufacturer parties to this Agreement, account for fifty percent or more of United States handgun sales, manufacturer parties to this Agreement will agree to abide by the same design and distribution measures.

VIII. ENFORCEMENT.

The Agreement will be entered and is enforceable as a Court order and as a contract.

SMITH & WESSON CORP.

TRADEMARK LICENSE AGREEMENT

This Agreement, effective as of August 1, 1996, by and between SMITH & WESSON CORP., a Delaware Corporation with its principal office at 2100 Roosevelt Avenue, Springfield, Massachusetts 01102-2208, U.S.A. (hereinafter called "Licensor"), and UMAREX Sportwaffen, GmbH, a Corporation having its principal office at Donnerfeld 2, 59757, Germany (hereinafter called "Licensee"). In consideration of the mutual promises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Licensor and Licensee, the parties agree as follows:

1. Definitions: As used in this Agreement, the following terms shall have the following meanings:
 - a. "Marks" shall mean those trademarks and also any trade dress identified in Exhibit A, attached hereto, and all of the Licensor's rights in such Marks including, without limitation, common law rights, and registrations and applications for registration of any such Marks in any state, federal or other jurisdiction.
 - b. "Licensed Articles" shall mean the articles of merchandise listed in Exhibit B, attached hereto and marked with one or more of the Marks.
 - c. "Net Sales Price" shall be the invoiced price at which Licensed Articles are sold or provided by Licensee, less any sales tax, and less any credits for returns actually made or allowances in lieu of returns, provided that such returns and/or allowances relate to sales which were previously included in royalty calculations under this Agreement and less trade discounts and/or retailer promotional programs. The Net Sales Price on account of sales, giveaways, or other transactions, without charge or at discounted prices, and sales to any person directly or indirectly related to or affiliated with Licensee shall be computed based on regular selling prices to the trade. There shall be no deduction from the Net Sale Price on which royalties are due hereunder for uncollectible accounts, advertising expenses or other expenses of any kind except those specifically identified in this Section.
 - d. "Territory" is the geographic area identified in Section 2(a) of this Agreement.

- e. "Minimum Guaranteed Royalties" shall have the meaning set forth in Section 3(e) of this Agreement.
- f. "Contract Year" and "First Contract Year" shall have the meanings given those respective terms set forth in Section 2(b) of this Agreement.

2. Grant of License Term, Licensee's Duties

- a. Licensor hereby grants to Licensee an exclusive, indivisible, worldwide license, without the right to sublicense, to use the Marks in connection with the retail sale of Licensed Articles. Licensee shall not use, or permit the use of, the Marks with any other product, except as specifically provided in this Agreement. Licensee shall take all steps and timely notify Licensor of all steps as shall be necessary to protect Licensor's trademark rights in such Marks, and to assure Licensor's exclusive ownership thereof.
- b. Notwithstanding the provisions of sub-paragraph (a) above, at any time after the expiry of the second Contract Year, the Licensor shall have the option to terminate this Agreement with regard to any Licensor-specified Licensed Article(s) in a Licensor specified country, provided it first gives the Licensee prior written notice of One Hundred and Eighty (180) days of its intention to do so, which termination will only become effective should the Licensee not commence to market the specified Licensed Article(s) in such specified country, or submit to Licensor an acceptable business plan to market said specified Licensed Article(s) in such specified country prior to the expiry of such one hundred and eighty day period.
- c. The term of this Agreement shall be for three (3) years, five (5) months commencing August 1, 1996 and ending December 31, 1999 at midnight, unless sooner terminated. Each period from January 1 through December 31 during the term hereof is hereinafter referred to as a "Contract Year", with the exception of the "First Contract Year", which shall be for the period from August 1, 1996 through December 31, 1996. This Agreement shall be automatically extended for successive Contract Years after termination of the initial term unless Licensor or Licensee gives the other party written notice of its intention not to extend this Agreement at least one hundred eighty (180) days prior to the expiration of a Contract Year or of any extension. A party's determination not to extend this Agreement may be effected without cause.

- d. Licensee shall use its best efforts to promote the sale of Licensed Articles in the Territory and shall maintain resources and a sales force sufficient and adequate to accomplish Licensee's obligations hereunder.
- e. Licensee shall make available to Licensor or its designated agent(s) any Licensed Article on the most favorable terms and conditions offered by Licensee for that Licensed Article.

3. Royalties and Payment Minimum Guaranteed Royalties, Reporting

- a. Licensee shall pay Licensor a royalty equal to seven (7%) percent of the Net Sales Price of all Licensed Articles as set out in Exhibit B sold, distributed or otherwise provided by Licensee during or after the term of this Agreement.
- b. On or before the fifteenth day of the first month of each calendar quarter, Licensee shall furnish to Licensor full and accurate statements, certified by the Chief Financial Officer of Licensee, showing the number, description, total Net Sales Prices and gross revenue of the Licensed Articles sold, distributed or otherwise provided by the Licensee during the preceding calendar quarter. Licensee shall, simultaneously with such statements, pay to Licensor the royalties due thereon. Licensee may credit against any such payment any Minimum Guaranteed Royalty payment made by Licensee contemporaneously with such quarterly statement. Any Minimum Guaranteed Royalty paid for any Contract Year shall not be refunded to Licensee, and may not be credited to royalties due in any subsequent Contract Year, regardless of the sales of Licensed Articles. On or before the first day of the fourth month following the end of each Contract Year, Licensee shall furnish to Licensor a statement certified by the Chief Financial Officer of Licensee showing total sales of Licensed Articles, gross revenues therefrom as well as royalties and royalties paid for the preceding Contract Year. If such statement discloses that the amount of royalties paid during any period to which such statement relates were less than the amount required to be paid, Licensee shall pay such deficiency concurrently with the delivery of the statement. The quarterly and yearly statements shall each show in detail all calculations used in the computation of royalties.
- c. For purposes of this Agreement, a Licensed Article shall be considered sold or provided when such Article has been shipped, distributed, paid for, billed or invoiced, whichever first occurs.
- d. Notwithstanding anything to the contrary set forth herein, Licensee shall pay to Licensor minimum royalties ("Minimum Guaranteed Royalties"),

as follows for each Contract Year, or portion thereof, included in the term of this Agreement, until changed by mutual written agreement of the parties:

First Contract year	\$10,000
Second Contract year	\$28,000
Third Contract year	\$28,000
Fourth Contract year	\$28,000

- e. For the First Contract Year, the Minimum Guaranteed Royalty shall be payable as follows: Five Thousand Dollars (\$5,000.00) on August 1, 1996, Five Thousand Dollars (\$5,000) on November 1, 1996. Thereafter, for each Contract Year during which this Agreement is in effect, the Minimum Guaranteed Royalty shall be paid in four equal installments on the dates on which each royalty payment is due, pursuant to Section 3(c) of this Agreement.
- f. Any delinquent amounts under this Agreement shall bear simple interest at the rate of 1.5 percent per month, or if lower, the highest rate permitted by Massachusetts law, from the due date thereof until paid.
- g. The parties agree to renegotiate the amount of the Minimum Guaranteed Royalties should the German government enact legislation which significantly restricts the marketing of the Licensed Articles. Any change in the amount of the Minimum Guaranteed Royalties will become effective in next Contract Year.

4. Protection of Marks

- a. Licensee acknowledges Licensor's exclusive right, title and interest in and to the Marks, both at common law and under applicable laws in the United States and all other jurisdictions, and will not, either directly or indirectly, at any time, do anything to discredit, encumber or diminish any part of such right, title or interest or challenge the validity of this License. Licensee agrees that its use of the Marks will inure entirely to the benefit of Licensor. Licensee shall assist Licensor, to the extent necessary or appropriate, upon request by Licensor, in the procurement of any protection of Licensor's rights in the Marks. Upon Licensor's request from time to time, Licensee shall provide Licensor with six specimens of any Mark used on Licensed Articles and whatever other documentation or information may be requested by Licensor for the registration of any Mark in any category into which the Licensed Articles fall.

- b. Licensee shall use the Marks only in the form and manner and with appropriate legends as prescribed from time to time by Licensor, and shall not use any other trademark or service mark in combination with any Mark without prior written approval of Licensor. In any written materials, such as the packaging, advertising materials, catalogs, brochures and the like associated with the Licensed Articles, in addition to the "(R)" symbol displayed adjacent to the Mark, as appropriate, Licensee shall use the following notice at least once in each such document: "Licensed Trademark of Smith & Wesson Corp."
- c. Licensee recognizes that the SMITH & WESSON name, all trade dress and associated marks are world famous and that, even if not registered in any country, the unauthorized use thereof would seriously dilute the distinctiveness of such name, trade dress and the associated marks and would irreparably harm the Licensor.
- d. Licensee shall immediately notify Licensor in writing of any infringements or third party imitations of any Mark or other act of a third party which may concern the Mark(s), of which Licensee becomes aware. Licensor shall have the sole right to determine whether or not any action shall be taken on account of such infringements or imitations. Licensee shall not institute any suit or take any action on account of any such infringements or imitations without first obtaining the written consent of Licensor to do so.
- e. Licensor shall undertake to apply for and obtain registration, in its name and at its own expense, of any of the Marks in association with the Licensed Articles in any country in which Licensee may request and as deemed by Licensor to be necessary or appropriate to protect the Marks and the goodwill associated therewith.

5. Assignment of Marks

If Licensee shall acquire by act or operation of law by deed or operation of law any rights in the marks in any country, Licensee shall notify Licensor and immediately assign such rights to Licensor, together with any goodwill that may have inured to the benefit of the Licensee. Licensee shall not permit any other person to use any of the Marks without Licensor's prior written consent, and shall cause any manufacturer or other person involved in the production, promotion, sale or provision of Licensed Articles to agree to assign to Licensor any rights in any Mark acquired by such manufacturer or other person.

6. Indemnification

- a. Licensee shall at all times, and to the fullest extent permitted by law, indemnify and hold harmless Licensor and its successors, assigns, franchisees, subsidiaries, affiliates, licensing agents and distributors, and the directors, officers, agents and employees of each of the foregoing entities, from and against any and all damages, demands, claims, suits, actions, investigations, charges, costs and expenses including, without limitation, attorneys fees and court costs, settlement amounts, judgments, compensation for damages to Licensor's reputation and any losses of any nature which arise out of or are based upon any of the following:
- (1) Any actual or alleged design defect, manufacturing defect, failure to warn or instruct, breach of warranty, negligence, strict liability in tort, or any other product liability legal theory associated with Licensed Articles;
 - (2) The infringement, alleged infringement or any other violation or alleged violation of any patent, trademark or copyright rights or other proprietary rights owned or controlled by third parties by reason of the manufacture, use, advertising, sale, distribution or provision of the Licensed Articles;
 - (3) The violation, or alleged violation, of any federal, state or local law, regulation, ruling, standard or directive or of any industry standard with respect to the Licensed Articles;
 - (4) Licensee's breach of any warranty, representation, agreement or obligation hereunder; or
 - (5) Any other acts or omissions of Licenses, or its agents, servants or contractors with respect to the manufacture, promotion, provision or sale of Licensed Articles.
- b. Licensee shall promptly give Licensor notice of any action, suit, proceeding, claim, demand, inquiry or investigation relating to the Marks or Licensed Articles. Licensor may, at its sole option, elect to undertake the defense of any such action, suit, proceeding, claim, demand, inquiry or investigation, provided that such an undertaking by Licensor shall not diminish Licensee's obligation hereunder to indemnify Licensor and to hold it harmless. All losses and expenses incurred under this Section shall be chargeable to Licensee pursuant to its obligations to indemnify under this Section, regardless of any actions, activity or defense undertaken by Licensor or the subsequent success or failure of such actions, activity or defense.

- c. Licensor assumes no liability whatsoever for the acts and omissions of Licensee, or any of those with whom Licensee may contract for the promotion, manufacture, distribution, sale or provision of Licensed Articles notwithstanding any prior consent by Licensor to such contract.

7. Insurance

Licensee shall maintain, throughout the term, of this Agreement at its own expense, liability insurance from an insurance company, with such liability coverages and limits as are acceptable to Licensor with an amount of (\$1,000,000) one million dollars per occurrence, including a contracted liability endorsement, for the U.S. market and (\$3,500,000) three and one-half million dollars per occurrence, including a contracted liability endorsement, for the remaining world market. The policy for the United States market shall name Licensor as an additional insured and shall provide that Licensor shall receive at least 30 days prior written notice of intent to cancel, alter or amend such policy. Licensee shall provide Licensor within thirty (30) days of the execution of this Agreement and upon Licensor's request from time to time thereafter, with certificates or other evidence of insurance required by this Section. Licensee shall keep all insurance coverages required by this Agreement in full force and effect for a period of three years after the termination of this Agreement.

8. Quality of Licensed Articles

- a. Licensee agrees, represents and warrants to Licensor, that all Licensed Articles shall be state-of-the-art, of high safety and structural standards, of such style, appearance, quality and consistency as shall be suitable for distribution and satisfactory for consumer usage, and otherwise merchant-able and fit for the purposes for which they are intended to be used. At least 30 days before manufacturing or promoting, and again before distributing, selling or providing any Licensed Article, and upon Licensor's request from time to time, Licensee shall submit to Licensor, for its written approval, not to be unreasonably withheld, samples of the Mark usage, or description of each Licensed Article together with any labeling, packaging, or promotion material and literature in respect of which such Licensed Article is to be marketed, sold or provided. The number of samples to be furnished by Licensee shall be such reasonable number as Licensor may from time to time request. All samples shall be provided without charge to Licensor. No Licensed Article shall be distributed, sold or provided pursuant to this Agreement until Licensee has obtained Licensor's written approval of the samples submitted. It is understood, however that failure of the Licensor to provide Licensee with written approval or rejection of the samples submitted within twenty (20) business days of the Licensor's receipt of

such samples shall be deemed to constitute approval on the part of the Licensor of such samples.

- b. All Licensed Articles shall be of the same quality and workmanship as the approved sample, and in the manufacture and provision thereof, Licensee shall cause to be used state-of-the-art manufacturing processes, techniques and quality control procedures in order to ensure that the Licensed Articles will consistently comply with the highest product quality standards. Under no circumstances shall Licensee sell, distribute, give away or otherwise deal or cause to have sold, distributed, given away or otherwise dealt Licensed Articles that are seconds or sub-standard, that bear a distortion of the Marks or that otherwise do not comply with this Agreement.
- c. Licensee shall consistently distinguish the Licensed Articles from other products and services manufactured, sold and provided by Licensee and shall avoid any confusing similarity between such other products and services and the Licensed Articles. Licensee shall take such actions as are necessary to maintain the Licensed Articles as separate and distinct lines of styling, design and merchandising from any other product and service manufactured, sold or provided by Licensee.
- d. Licensee shall, no later than 90 days before the expiration of any Contract Year, furnish Licensor a statement showing the number and description of Licensed Articles in inventory and in process.

9. Compliance with Government, Regulations, Industry Standards and Product Testing

- a. Licensee agrees that the manufacture, distribution and sale of the Licensed Articles will conform at all times to all applicable federal, state and local laws, regulations, industry standards, ordinances and other enactments, including, without limitation, those relating to product and service safety.
- b. The Licensed Articles shall comply with all relevant government regulations and meet all industry standards applicable thereto.

10. Promotional Material

Licensee shall not use the Marks or any reproduction thereof in any advertising, promotional or display material without Licensor's prior written approval. Under no circumstances will promotional materials or programs be used by Licensee that reflect unfavorably on the Marks or

disparage marks of third parties. All advertising, display or promotional copy utilizing or in any way connected with the Marks, shall carry a notice that the Marks are the property of Licensor, and at least six copies of such advertising, display or promotional copy shall be submitted to Licensor for prior written approval, not to be unreasonably withheld, at least 30 days in advance of production and upon Licensor's request from time to time thereafter. Any approval granted by Licensor under this Section will extend only to Licensee's use of the Marks. It is understood, however, that failure of the Licensor to provide Licensee with written approval or rejection of the copies submitted within twenty (20) business days of the Licensor's receipt of such copies shall be deemed to constitute approval on the part of the Licensor of such copies. Licensor shall not be liable for content or accuracy of such advertising, promotional or display material nor for infringement of patents, copyrights, trademarks, or any other proprietary rights owned, used, or controlled by third parties, by reason of Licensee's promotional activities.

11. Records

- a. Licensee shall keep accurate books of account and records covering all transactions relating to the license herein granted. Licensor and its duly authorized independent accountants or other representatives shall, from time to time, have the right at reasonable times upon Licensor's prior written request of at least five (5) business days to examine such books of account and records and other documents and material in Licensee's possession or under its control with respect to Licensee's activities in connection with this Agreement, and such persons shall have free and full access for such purposes and may make copies thereof or extracts therefrom. Licensee shall keep all such records available to Licensor for at least three years after expiration or termination of this Agreement. Licensee will designate a symbol or number which will be used exclusively in connection with the Licensed Articles and with no other articles or services which Licensee may manufacture, sell or distribute, and that duplicates of all billings by Licensee to its customers with respect to Licensed Articles shall be kept by Licensee for inspection as is herein provided.
- b. If any audit by Licensor shall reveal a shortfall of royalties paid by Licensee against royalties actually due in accordance with this Agreement, Licensee shall within fifteen (15) days make payment to Licensor of such shortfall, plus simple interest at the rate of 1.5 percent per month or if lower, the highest rate permitted by Massachusetts law, for the period of such shortfall. In addition, if such audit shall reveal a shortfall of more than five percent of royalties due, Licensee shall

reimburse Licensor for the services of its accountant and for any other expenses of Licensor incident thereto including, without limitation, any attorneys' fees and costs of collection.

12. Licensor's Obligations

- a. Within thirty (30) days of the execution of this Agreement, Licensor will provide Licensee with its current customer list and will provide Licensee with updates thereon at the commencement of each Contract Year. Licensee acknowledges that the customer list is a valuable asset of the Licensor and remains Licensor's exclusive property. Licensee will not divulge any contents of the list nor make any use of the list not contemplated by this Agreement.

13. Termination

In addition to any other rights which Licensor may otherwise have, Licensor may terminate this Agreement at any time, immediately upon written notice:

- a. If within six (6) months from the date of this Agreement, Licensee shall not have begun the bona fide design, specification and/or concluded contracts for production, distribution, sale and provision of the Licensed Articles; or
- b. If Licensee shall, after said written notice, fail for a period in excess of three consecutive months to continue the bona fide design, specification, distribution, sale or provision of the Licensed Articles; or
- c. If Licensee shall fail to make any payment due hereunder or to deliver any of the statements required hereunder, and if such default shall continue for a period of 15 days after notice of such default by Licensor to Licensee or if such a failure shall occur twice in any consecutive 12-month period even if both failures are corrected as provided hereunder; or
- d. If Licensee or its property:
 - 1) Becomes subject to a receiver or trustee; or
 - 2) Becomes insolvent; or
 - 3) Becomes subject to an involuntary or voluntary petition under National Bankruptcy Laws, or

- 4) Makes an assignment for the benefit of its creditors; or
- e. If there is any deliberate deficiency in the Licensee's reporting which affects royalties or gross revenue share payable or any other aspect of this Agreement; or
- f. If any warranty, representation or covenant made by Licensee hereunder, or any information as to product quality or safety provided by Licensee hereunder, is false or misleading; or
- g. If Licensee fails to comply with any term or condition of this Agreement, other than those specifically set forth in clauses a. through f. above, and such non-compliance continues beyond a period of 15 days after notice thereof is given by the Licensor.

Any termination by Licensor shall be without prejudice to any of Licensor's other rights or remedies.

14. Effect of Termination

- a. After expiration or other termination of this Agreement, Licensee shall have no further right to manufacture, distribute, sell, exploit, provide, render or otherwise deal in any Licensed Articles which utilize the Marks, except that Licensee may dispose of Licensed Articles which are on hand or in process or to be provided at the time of expiration or termination so long as (1) Licensee reports in writing to Licensor, no later than 30 days after termination of this Agreement, the total number of Licensed Articles which will be disposed of, (2) the sale or provision thereof is completed within six months, (3) all payments when due are made to Licensor, (4) such disposal or provision of Licensed Articles shall be in accordance with the terms of this Agreement; and (5) statements and royalty and gross revenue share payments with respect to that period are made by Licensee in accordance with Section 3. Notwithstanding the foregoing, in the event this Agreement is terminated pursuant to Sections 13(c), 13(d), 13(e), 13(f), or 13(g), Licensee shall not dispose of or provide any Licensed Articles which are on hand, in process, in force or to be provided at the time of termination in association with the Marks. A final statement and payment shall be made by Licensee within 15 days after the end of such six-month period.

Upon expiration of such six-month period herein, all molds, plates, prints and other materials used to reproduce the Marks for the manufacture or provision of the Licensed Articles and related

advertising shall be destroyed and evidence of such destruction shall be given to the Licensor.

- b. In the event this Agreement expires or is otherwise terminated for any reason, Licensee shall, and hereby does agree to assign to Licensor any and all rights of Licensee in the Marks, including associated goodwill, and the designs, trade dress and styles of the Licensed Articles to the extent such design or styles contain or employ any of the Marks, and shall not thereafter market, manufacture or sell any such designs or styles or use the Marks in any manner in connection with any provided services.
- c. Except as provided in subsection (a) of this paragraph, upon the expiration or termination of this Agreement, Licensee shall immediately cease all further use of the Marks and any names, trademarks, trade dress, characters, symbols, designs, likenesses or visual representations as might be likely to cause confusion or deceive purchasers or prospective purchasers or dilute any trade name, trademark, trade dress or service mark of Licensor including, without limitation, Licensor's corporate and private names, other trademarks, trade dress symbols, designations, indices, slogans and other means of identifying products or services of Licensor, whether or not identified herein as a Mark.
- d. Licensee agrees that the Marks are distinctive and possess special, unique and extraordinary characteristics which make difficult the assessment of the monetary damages that Licensor would sustain by unauthorized use. Licensee recognizes that irreparable injury would be caused to Licensor by any unauthorized use of the Marks and agrees that preliminary and/or permanent injunctive and other equitable relief would be appropriate in the event of a breach of this Agreement by Licensee provided, however, that such remedy shall not be exclusive of other legal remedies otherwise available.
- e. Licensee's obligations and agreements set forth in Sections 3 through 11, 14, 15, 18, 20 and 21 shall survive any termination or expiration of this Agreement.

15. Notices:

All notices and statements to be given hereunder shall be in writing, any such notice or statement shall be deemed duly given if mailed by certified mail, return receipt requested, if to Licensor, at:

Smith & Wesson Corp.
2100 Roosevelt Avenue

P.O. Box 2208
Springfield, MA 01102-2208, U.S.A.
Attention: Director of Licensing

and if to Licensee, at:

UMAREX Sport waffen GmbH & Co. KG
Donnerfeld 2
59757 Amsberg, Germany
Attention: Wulf-H. Pflaumer

16. No Joint Venture

Nothing in this Agreement shall be construed to place the parties in the relationship of partners or joint ventures, and Licensee shall have no power to bind Licensor in any manner whatsoever.

17. Cancellation

Licensee acknowledges that Licensor and its subsidiaries, affiliates and franchisees use the Marks to advance and promote Licensor's business, and that Licensor has a paramount obligation to preserve its ability to so use such Marks. Should the use by Licensee of any Mark on Licensed Articles be deemed by Licensor in its discretion to be in violation of any federal, state or local law or to adversely affect the reputation of Licensor or affect the validity, enforceability or distinctiveness of the Mark as a designation of origin for Licensor's own products, then Licensor may terminate this Agreement on one hundred and eighty (180) days notice to Licensee.

18. Assignments Transfers and Sublicenses

Without the prior written consent of Licensor, which may be withheld in Licensor's sole and reasonable discretion, a) Licensee shall not voluntarily or by operation of law, assign or transfer this Agreement or any of Licensee's rights or duties hereunder or any interest of Licensee herein, except to a third party which is controlled by Licensee, nor shall Licensee enter into any sublicense for use of the Marks by other persons otherwise than as contemplated by this Agreement; b) Licensee shall not sell or otherwise transmit or transfer to any party engaged in the design or manufacture of items similar to any of the Licensed Articles, any design, style, know-how, technology or other item or knowledge of a technical or competitive nature, furnished to Licensee by or through Licensor. Any transfer or attempt to transfer of this license to any entity in which the present directors of Licensee do not have voting control shall be deemed an assignment prohibited hereunder. The consent of Licensor to one assignment, transfer or sublicense

shall not be deemed to be consent to any subsequent assignment, transfer or sublicense. Nothing provided herein shall limit Licensor's right to transfer and/or assign any of its rights hereunder.

19. Scope and Modification

This Agreement sets forth the entire agreement between the parties, and supersedes all prior agreements and understandings between the parties, relating to the subject matter hereof. None of the terms of this Agreement may be waived or modified except as expressly agreed in writing by both parties.

20. Severability

Should any provision of this Agreement be declared void or unenforceable, the validity of the remaining provisions shall not be affected thereby.

21. Governing Laws

This Agreement shall be made in the Commonwealth of Massachusetts and its terms shall be interpreted in accordance with and governed by the laws thereof.

22. Miscellaneous

In accordance with the terms of the German Doppelbesteuerungsabkommen, Licensor shall execute an application for tax exemption for license fees paid by Licensee to Licensor hereunder, as such application has been prepared by Licensee, and submit the application for approval by the appropriate U.S. tax authority.

Licensor:

Witnessed By:

SMITH & WESSON CORP.

By: /s/ [signature not legible]

(Title) President and CEO

Date: 10 July 1996

Licensee:

By: /s/ [signature not legible]

(Title) President and CEO

Date: 10 July 1996

EXHIBIT "A" -Licensed Marks

SMITH & WESSON - Germany Registration No. 191.232

S & W MONOGRAM - Germany Registration No. 2.063.741

S & W - Germany Registration No. 215.639

Agent

Chiefs Special

5904

Trade dress for Smith & Wesson's models "Agent", "Chief's Special" and "Model 5904", each of which are pictured below

[depictions of Agent, Chief's Special and Model 5904 pistols]

Tear gas weapons

Starter pistols

[SMITH & WESSON LOGO]
Smith & Wesson(R)
February 3, 1998

Mr. Charles Finkelstein, President
Canadian Security Agency
4480 Cote de Liesse, Suite 306
Montreal, Quebec H4N 2R1, Canada

Dear Charles:

This letter will serve as a Letter of Amendment to the License Agreement between Smith & Wesson and Canadian Security Agency of May, 1996.

Contingent upon the full compliance by Canadian Security Agency with the terms and conditions of the Agreement between Smith & Wesson and Canadian Security Agency of May, 1996, that Agreement shall be renewed for a five (5) year term beyond the expiration thereof on December 31, 2006. The forgoing modification shall supersede all terms as to renewals or extension in the Agreement as originally executed for the five (5) year period. The Minimum Guaranteed Royalty for each Contract Year for said five (5) year term shall be the greater of (1) the value set forth below:

Twelfth Contract Year	\$699,600
Thirteenth Contract Year	\$799,600
Fourteenth Contract Year	\$846,600
Fifteenth Contract Year	\$931,300
Sixteenth Contract Year	\$1,024,430

or, (2) an Alternative Minimum Guaranteed Royalty for each Contract Year which equals eighty percent (80%) of the total royalties due for the preceding Contract Year. All references to "dollars", "royalties", "taxes", "credits", as well as any and all other monetary values set forth herein and in the May 1996 Agreement shall refer to or be computed in U.S. Dollars.

An additional (5) five year period renewal beyond Year 16 will be executed if full compliance of all terms and conditions through Year 16 have taken place, based on a 10% increase in Minimum Guaranteed Royalty each subsequent year, or the Alternative Minimum Guaranteed Royalty as described above.

Sincerely,

/s/ John Steele

/s/ Charles Finkelstein

John Steele
Director of Licensing and Merchandising

Charles Finkelstein
President

2100 ROOSEVELT AVENUE, PO. BOX 2208, SPRINGFIELD, MA 01102-2208 * (413) 781-8300

ASSIGNMENT OF LICENSE

WHEREAS Canadian Security Agency, Inc. (the "Licensee") is the licensee under a certain license, dated May 31, 1996, titled "Trademark License Agreement", a copy of which is annexed hereto (the "License"), by and between the Licensee and Smith & Wesson Corp. (the "Licensor");

WHEREAS Charles Finkelstein and Terrence Corcoran, sole shareholders of the Licensee (the "Shareholders"), have formed and incorporated International Licensing Corporation, a Florida corporation, for the purpose of succeeding to the rights of the Licensee, for the purpose of holding, developing and operating the License (the Assignee"); and

WHEREAS the Assignee is controlled by the Shareholders of the Licensee and the present directors of Licensee have voting control of the Assignee, in accordance with the requirements of Section 18 of the Trademark License Agreement,

NOW THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged, Licensee, Licensor and Assignee, hereby agree to the following assignment (the "Assignment"):

Licensee hereby assigns, transfers and conveys to Assignee all its rights and interests under the Trademark License Agreement and the License.

This Assignment shall remain in full force and effect from October 19, 1998 for all of the remainder of the License term, including all amendments or extensions thereto, subject to as conditions, covenants, and terms, including payment of royalties to Licensor.

This Assignment shall inure to be benefit of, and be binding on, the parties hereto, their heirs, successors and assigns.

Dated this 21 day of October 1998.

Canadian Security Agency, Inc.

Smith & Wesson Corp.

/s/ Terrence Corcoran

/s/ George Colclough

By: T. Corcoran

G. Colclough

International Licensing Corporation

/s/ Charles Finkelstein

By C. Finkelstein

2100 ROOSEVELT AVENUE, PO. BOX 2208, SPRINGFIELD, MA 01102-2208 * (413) 781-8300

TRADEMARK LICENSE AGREEMENT

This Agreement effective as of May 31, 1996, by and between SMITH & WESSON CORP., a Delaware Corporation with its principal office at 2100 Roosevelt Avenue, Springfield, Massachusetts 01102-2208, (hereinafter called Licensor"), and Canadian Security Agency Inc., a Corporation, having its principal office at 4480 Cote de Liesse, Suite 306, Montreal, Quebec, Canada, H4N 2R1, (hereinafter called "Licensee"). In consideration of the mutual promises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Licensor and Licensee, the parties agree as follows:

1. Definitions: As used in this Agreement, the following terms shall have the following meanings:
 - a. "Marks" shall mean those trademarks and service marks identified in Exhibit A, attached hereto, and all of the Licensor's rights in such Marks including, without limitation, common law rights, and registrations and applications for registration of any such Marks in any state, federal or other jurisdiction.
 - b. "Licensed Articles" shall mean the articles of merchandise listed in Exhibit B, attached hereto and marked with one or more of the Marks.
 - c. "Licensed Services" shall mean the services listed in Exhibits C & D attached hereto and carried out in association with one or more of the Marks.
 - d. "Net Sales Price" shall be the invoiced price at which Licensed Articles and Licensed Services are sold or provided by Licensee, less any sales tax, and less any credits for returns actually made or allowances in lieu of returns, provided that such returns and/or allowances relate to sales which were previously included in royalty calculations under this Agreement and less trade discounts and/or retailer promotional programs. The Net Sales Price on account of sales, giveaways, or other transactions, without charge or at discounted prices, and sales to, any person directly or indirectly related to or affiliated with Licensee shall be computed based on regular selling prices to the trade. There shall be no deduction from the Net Sale Price on which royalties are due hereunder for uncollectible accounts, advertising expenses or other expenses of any kind except those specifically identified in this Section.

- e. "Territory" is the geographic area identified in Section 2(a) of this Agreement.
- f. "Minimum Guaranteed Royalties" shall have the meaning set forth in Section 3(e) of this Agreement.
- g. "Contract Year" and "First Contract Year" shall have the meanings given those respective terms set forth in Section 2(c) of this Agreement.

2. Grant of License, Term, Licensee's Duties

- a. Except as set forth hereinafter in paragraph F, Licensor hereby grants to Licensee an exclusive worldwide license to use and/or sublicense the use of the Marks in connection with the retail sale of Licensed Articles and Services in the private and proprietary security industry. Under this grant, Licensee may only sublicense in strict accordance with the provisions of this Agreement. Licensee shall not use, or permit the use of, the Marks with any other product or for any other services, except as specifically provided in this Agreement. No sublicense agreement shall be concluded with any third party without the Licensor's prior written consent, which consent shall not be unreasonably withheld, and unless such sub-license agrees in writing to be bound by all of the terms and conditions of this Agreement. A copy of such written agreement shall be provided directly to the Licensor. Licensee shall take all steps and timely notify Licensor of all steps as shall be necessary to protect Licensor's trademark rights in such marks, and to assure Licensor's exclusive ownership thereof.
- b. Notwithstanding the provisions of sub-paragraph (a) above, at any time after the expiry of the Third Contract Year, the Licensor shall have the option to terminate this Agreement with regard to any Licensor specified licensed product(s) and/or licensed service(s) in a Licensor specified country, provided it first gives the Licensee prior written notice of One Hundred and Eighty (180) days of its intention to do so, which termination will only become effective should the Licensee and/or a duly appointed sub-licensee not commence to market the specified licensed product(s) and/or licensed service(s) in such specified country, or submit to Licensor an acceptable business plan to market said specified licensed product(s) and/or licensed service(s) in such specified country prior to the expiry of such one hundred and eighty day period.
- c. The term of this Agreement shall be for ten (10) years and seven (7) months commencing May 31, 1996 and ending December 31, 2006 at midnight, unless sooner terminated. Each period from January 1

through December 31 during the term hereof is hereinafter referred to as a "Contract Year", with the exception of the "First Contract Year", which shall be for the period from the date hereof through December 31, 1996. This Agreement shall be automatically extended for successive Contract Years after termination of the initial term unless Licensor or Licensee gives the other party written notice of its intention not to so extend this Agreement at least one hundred eighty (180) days one (1) year prior to the expiration date of the current Contract Year. Moreover, the Licensee shall have the option to terminate this Agreement during the First and Second Contract Years, provided it gives the Licensor written notice of such intention at least one hundred and eighty (180) days prior to the expiration date thereof. A party's determination not to extend this Agreement may be effected without cause.

- d. Licensee shall use its best efforts to promote the sale of Licensed Articles and Services in the Territory and shall maintain resources and a sales force sufficient and adequate to accomplish Licensee's obligations hereunder.
- e. The articles of merchandise and services respectfully set forth on Exhibits B, C and D are exemplary and can be modified from time to time by written agreement of the parties without altering the scope of the license grant or other terms of this Agreement.
- f. If Licensee shall enter into any sublicense agreement pursuant to the authority granted in this Agreement, then

(1) Licensee shall be jointly and severally liable with such sublicensee to indemnify Licensor in accordance with the terms of this Agreement (regardless of whether or not such sublicensee is legally determined to have direct liability to Licensor hereunder) with respect to any actions by such sublicensee or any party acting through such sublicensee which would give rise to an indemnification obligation of Licensee under this Agreement were such actions taken by Licensee itself;

(2) Licensee shall be fully liable to Licensor for the payment of any costs and expenses which are incurred as the result of the exercise of any rights hereunder by Licensee or its sublicensees under this Agreement where this Agreement provides that such costs and expenses shall be for the account of Licensee or its sublicensees; and

(3) All Licensed Articles and Licensed Services sold, distributed, rendered or otherwise provided under any sublicense granted pursuant to this Agreement shall be subject to the royalty and

revenue provisions in this Agreement as though sold, distributed or otherwise provided by Licensee; and Licensee guarantees the payment of any and all royalties due to Licensor under any sublicense, and agrees to monitor all of its sublicensees to ensure the accurate and prompt payment of all royalties accruing under such sublicenses.

- g. Licensee acknowledges that Licensor has and continues to develop and market products and services for the security industry either directly or through third parties. These same products and services are separate from this Agreement and are not governed by its terms and conditions. No provisions of this Agreement shall be interpreted to preclude Licensor from continuing to develop or from continuing to make or have made these products or from rendering or causing to be rendered these services to the security industry.
- h. Licensee shall make available to Licensor or its designated agent(s) any Licensed Article and/or Licensed Service on the most favorable terms and conditions offered by Licensee for that Licensed Article and/or Licensed Service.

3. Royalties and Payment, Minimum Guaranteed Royalties, Reporting

- a. Licensee shall pay Licensor a royalty equal to two and one-half (2 1/2%) percent of the Net Sales Price of all Licensed Articles and/or Licensed Services as set out in Exhibits B and C sold, distributed or otherwise provided by Licensee or any of its sub-licensees during or after the term of this Agreement.
- b. Licensee shall pay Licensor a fifty percent (50%) share of the gross revenue derived from the provision of those Licensed Services as set out in Exhibit D by the Licensee or any of its sub-licensees.
- c. On or before the fifteenth day of the first month of each calendar quarter, Licensee shall furnish to Licensor full and accurate statements, certified by the Chief Financial Officer of Licensee, showing the number, description, total Net Sales Prices and gross revenue of the Licensed Articles and Licensed Services sold, distributed or otherwise provided by the Licensee and any of its sublicensees during the preceding calendar quarter. Licensee shall, simultaneously with such statements, pay to Licensor the royalties and/or gross revenue share due thereon. Licensee may credit against any such payment any Minimum Guaranteed Royalty payment made by Licensee contemporaneously with such quarterly statement. Any Minimum Guaranteed Royalty paid for any Contract Year shall not be refunded to Licensee, and may not be credited to royalties due in any subsequent Contract Year, regardless

of the sales of Licensed Products and Licensed Services. On or before the first day of the fourth month following the end of each Contract Year, Licensee shall furnish to Licensor a statement certified by the Chief Financial Officer of Licensee showing total sales of Licensed Articles and Licensed Services, gross revenues therefrom as well as royalties and/or gross revenue share due and royalties and/or gross revenue share paid for the preceding Contract Year. If such statement discloses that the amount of royalties and/or gross revenue share paid during any period to which such statement relates were less than the amount required to be paid, Licensee shall pay such deficiency concurrently with the delivery of the statement. The quarterly and yearly statements shall each show in detail all calculations used in the computation of royalties and gross revenue share.

- d. For purposes of this Agreement, a Licensed Article or Service shall be considered sold or provided when such Article or Service has been shipped, distributed, rendered, paid for, billed or invoiced, whichever first occurs.
- e. Notwithstanding anything to the contrary set forth herein, Licensee shall pay to Licensor minimum royalties ("Minimum Guaranteed Royalties"), as follows for each Contract Year, or portion thereof, included in the term of this Agreement, until changed by mutual written agreement of the parties:

First Contract year	\$15,000
Second Contract year	\$45,000
Third Contract year	\$65,000
Fourth Contract year	\$90,000
Fifth Contract year	\$132,000
Sixth Contract year	\$171,000
Seventh Contract year	\$223,000
Eighth Contract year	\$290,000
Ninth Contract year	\$377,000
Tenth Contract year	\$489,000
Eleventh Contract year	\$636,000

- f. For the First Contract Year, the Minimum Guaranteed Royalty shall be payable as follows: Five Thousand Dollars (\$5,000.00) upon signing of the Agreement, Ten Thousand Dollars (\$10,000) August 31, 1996. For the Second Contract Year the Minimum Guaranteed Royalty shall be payable as follows: Fifteen Thousand (\$15,000) March 30, 1997, August 31, 1997, November 30, 1997. Thereafter, for each Contract Year during which this Agreement is in effect, the Minimum Guaranteed Royalty shall be paid in four equal installments on the dates

on which each royalty payment is due, pursuant to Section 3(c) of this Agreement

- g. Any delinquent amounts under this Agreement shall bear simple interest at the rate of 1.5 percent per month, or if lower, the highest rate permitted by Massachusetts law, from the due date thereof until paid.

4. Protection of Marks

- a. Licensee acknowledges Licensor's exclusive right, title and interest in and to the Marks; both at common law and under applicable laws in the United States and all other jurisdictions, and will not, either directly or indirectly, at any time, do anything to discredit, encumber or diminish any part of such right, title or interest or challenge the validity of this License. Licensee agrees that its use and any use by its sublicensees of the Marks will inure entirely to the benefit of Licensor. Licensee shall assist Licensor, to the extent necessary or appropriate, upon request by Licensor, in the procurement of any protection of Licensor's rights in the Marks. Upon Licensor's request from time to time, Licensee shall provide Licensor with six specimens of any Mark used on Licensed Articles and Licensed Services and whatever other documentation or information may be requested by Licensor for the registration of any Mark in any category into which the Licensed Articles and Licensed Services fall.
- b. Licensee shall use the Marks only in the form and manner and with appropriate legends as prescribed from time to time by Licensor, and shall not use any other trademark or service mark in combination with any Mark without prior written approval of Licensor. In any written materials, such as the packaging, advertising materials, catalogs, brochures and the like associated with the Licensed Articles or Licensed Services, in addition to the "(R)" symbol displayed adjacent to the Mark, as appropriate, Licensee shall use the following notice at least once in each such document: "Licensed Trademark of Smith & Wesson Corp."
- c. Licensee recognizes that the SMITH & WESSON name, all trade dress and associated marks are world famous and that, even if not registered in any country, the unauthorized use thereof would seriously dilute the distinctiveness of such name, trade dress and the associated marks and would irreparably harm the Licensor.
- d. Licensee shall immediately notify Licensor in writing of any infringements or third party imitations of any Mark or other act of a third party which may concern the mark(s), of which Licensee becomes

aware. Licensor shall have the sole right to determine whether or not any action shall be taken on account of such infringements or imitations. Licensee shall not institute any suit or take any action on account of any such infringements or imitations without first obtaining the written consent of Licensor to do so.

- e. Licensor shall undertake to apply for and obtain registration, in its name and at its own expense, of any of the Marks in association with the Licensed Articles and Licensed Services in any country in which Licensee may request and as deemed by Licensor to be necessary or appropriate to protect the Marks and the goodwill associated therewith, provided Licensee provides Licensor with bona fide evidence of use or intended imminent use of such Marks in association with any of the Licensed Articles or Licensed Services in such country.

5. Assignment of Marks

If Licensee shall acquire by act or operation of law by deed or operation of law any rights in the marks in any country, Licensee shall notify Licensor and immediately assign such rights to Licensor, together with any goodwill that may have inured to the benefit of the Licensee. Licensee shall not permit any other person to use any of the Marks without Licensor's prior written consent, and shall cause any sub-licensee, manufacturer or other person involved in the production, promotion, sale or provision of Licensed Articles and Licensed Services to agree to assign to Licensor any rights in any Mark acquired by such sub-licensee, manufacturer or other person.

6. Indemnification

- a. Licensee shall at all times, and to the fullest extent permitted by law, indemnify and hold harmless Licensor and its successors, assigns, franchisees, subsidiaries, affiliates, licensing agents and distributors, and the directors, officers, agents and employees of each of the foregoing entities, from and against any and all damages, demands, claims, suits, actions, investigations, charges, costs and expenses including, without limitation, attorneys fees and court costs, settlement amounts, judgments, compensation for damages to Licensor's reputation and any losses of any nature which arise out of or are based upon any of the following:

(1) Any actual or alleged design defect, manufacturing defect, failure to warn or instruct, breach of warranty, negligence, strict liability in tort, or any other product liability legal theory associated with Licensed Articles and Licensed Services;

(2) The infringement, alleged infringement or any other violation or alleged violation of any patent, trademark or copyright rights or other proprietary rights owned or controlled by third parties by reason of the manufacture, use, advertising, sale, distribution or provision of the Licensed Articles and Licensed Services;

(3) The violation, or alleged violation, of any federal, state or local law, regulation, ruling, standard or directive or of any industry standard with respect to the Licensed Articles and Licensed Services;

(4) Licensee's breach of any warranty, representation, agreement or obligation hereunder; or

(5) Any other acts or omissions of Licenses, or its agents, servants or contractors with respect to the manufacture, promotion, provision or sale of Licensed Articles and Licensed Services.

- b. Licensee shall promptly give Licensor notice of any action, suit, proceeding, claim, demand, inquiry or investigation relating to the Marks or Licensed Articles and Licensed Services. Licensor may, at its sole option, elect to undertake the defense of any such action, suit, proceeding, claim, demand, inquiry or investigation, provided that such an undertaking by Licensor shall not diminish Licensee's obligation hereunder to indemnify Licensor and to hold it harmless. Licensor may, at any time and without notice, order or consent to a recall, the making of refunds or settlements, or the giving of notice to consumers or similar remedies with respect to the Licensed Articles and Licensed Services. All losses and expenses incurred under this Section shall be chargeable to Licensee pursuant to its obligations to indemnify under this Section, regardless of any actions, activity or defense undertaken by Licensor or Licensee or the subsequent success or failure of such actions, activity or defense.
- c. Licensor assumes no liability whatsoever for the acts and omissions of Licensee, or any of those with whom Licensee may contract for the promotion, manufacture, distribution, sale or provision of Licensed Articles and Licensed Services, notwithstanding any prior consent by Licensor to such contract.

7. Insurance

Licensee shall maintain, throughout the term of this Agreement, at its own expense, liability insurance from an insurance company, with such liability coverages and limits as are acceptable to Licensor with an amount of (\$5,000,000) five million dollars per occurrence, including a contracted

liability endorsement. Such policies shall name Licensor as an additional insured and shall provide that Licensor shall receive at least 30 days prior written notice of intent to cancel, alter or amend such policy. Licensee shall provide Licensor within thirty (30) days of the execution of this Agreement and upon Licensor's request from time to time thereafter, with certificates or other evidence of insurance required by this Section. Licensee shall keep all insurance coverages required by this Agreement in full force and effect for a period of three years after the termination of this Agreement.

8. Quality of Licensed Articles

- a. Licensee agrees, represents and warrants to Licensor, that all Licensed Articles and Services shall be state-of-the-art, of high safety and structural standards, of such style, appearance, quality and consistency as shall be suitable for distribution and satisfactory for consumer usage, and otherwise merchantable and fit for the purposes for which they are intended to be used. At least 30 days before manufacturing or promoting, and again before distributing, selling or providing any Licensed Article or Licensed Service, and upon Licensor's request from time to time, Licensee shall submit to Licensor, for its written approval, not to be unreasonably withheld, of the Mark usage, samples or description of each Licensed Article or Licensed Service together with any labeling, packaging, or promotion material and literature in respect of which such Licensed Article is to be marketed, sold or provided. The number of samples to be furnished by Licensee shall be such reasonable number as Licensor may from time to time request. All samples shall be provided without charge to Licensor. No Licensed Article or Service shall be distributed, sold or provided pursuant to this Agreement until Licensee has obtained Licensor's written approval of the samples submitted. It is understood, however, that failure of the Licensor to provide Licensee with written approval or rejection of the samples submitted within twenty (20) business days of the Licensor's receipt of such samples shall be deemed to constitute approval on the part of the Licensor of such samples.
- b. All Licensed Articles and Licensed Services shall be of the same quality and workmanship as the approved sample, and in the manufacture and provision thereof, Licensee shall cause to be used state-of-the-art manufacturing processes, techniques and quality control procedures in order to ensure that the Licensed Articles and Licensed Services will consistently comply with the highest product quality standards. Under no circumstances shall Licensee sell, distribute, give away or otherwise deal or cause to have sold, distributed, given away or otherwise dealt Licensed Articles or Licensed Services that are seconds or

sub-standard, that bear a distortion of the Marks or that otherwise do not comply with this Agreement.

- c. Licensee shall consistently distinguish the Licensed Articles and Licensed Services from other products and services manufactured, sold and provided by Licensee and shall avoid any confusing similarity between such other products and services and the Licensed Articles and Licensed Services. Licensee shall take such actions as are necessary to maintain the Licensed Articles and Licensed Services as separate and distinct lines of styling, design and merchandising from any other product and service manufactured, sold or provided by Licensee.
- d. Licensee shall, no later than 90 days before the expiration of any Contract Year, furnish Licensor a statement showing the number and description of Licensed Articles in inventory and in process and of Licensed Services being provided.

9. Compliance with Government, Regulations, Industry Standards and Product Testing

- a. Licensee agrees that the manufacture, distribution and sale of the Licensed Articles and rendering of Licensed Services will conform at all times to all applicable federal, state and local laws, regulations, industry standards, ordinances and other enactments, including, without limitation, those relating to product and service safety.
- b. The Licensed Articles and Licensed Services shall comply with all relevant government regulations and meet all industry standards applicable thereto. All those individuals engaged in the offering of the Licensed Services shall be the highest ethical and moral character and shall be certified by the appropriate industry boards and/or government agencies to the highest level appropriate to each individual's respective position.

10. Promotional Material

Licensee shall not use the Marks or any reproduction thereof in any advertising, promotional or display material without Licensor's prior written approval. Under no circumstances will promotional materials or programs be used by Licensee that reflect unfavorably on the Marks or disparage marks of third parties. All advertising, display or promotional copy utilizing or in any way connected with the Marks, shall carry a

notice that the Marks are the property of Licensor, and at least six copies of such advertising, display or promotional copy shall be submitted to Licensor for prior written approval, not to be unreasonably withheld, at least 30 days in advance of production and upon Licensor's request from time to time thereafter. Any approval granted by Licensor under this Section will extend only to Licensee's use of the Marks. It is understood, however, that failure of the Licensor to provide Licensee with written approval or rejection of the copies submitted within twenty (20) business days of the Licensor's receipt of such copies shall be deemed to constitute approval on the part of the Licensor of such copies. Licensor shall not be liable for content or accuracy of such advertising, promotional or display material nor for infringement of patents, copyrights, trademarks, or any other proprietary rights owned, used, or controlled by third parties, by reason of Licensee's promotional activities.

11. Records

- a. Licensee shall keep accurate books of account and records covering all transactions relating to the license herein granted. Licensor and its duly authorized independent accountants or other representatives shall, from time to time, have the right at reasonable times upon Licensor's prior written request of at least five (5) business days to examine such books of account and records and other documents and material in Licensee's possession or under its control with respect to Licensee's activities in connection with this Agreement, and such persons shall have free and full access for such purposes and may make copies thereof or extracts therefrom. Licensee shall keep all such records available to Licensor for at least three years after expiration or termination of this Agreement. Licensee will designate a symbol or number which will be used exclusively in connection with the Licensed Articles and Licensed Services and with no other articles or services which Licensee may manufacture, sell or distribute, and that duplicates of all billings by Licensee to its customers with respect to Licensed Articles and Licensed Services shall be kept by Licensee for inspection as is herein provided.
- b. If any audit by Licensor shall reveal a shortfall of royalties and gross revenue share paid by Licensee against royalties and gross revenue share actually due in accordance with this Agreement, Licensee shall within fifteen (15) days make payment to Licensor of such shortfall, plus simple interest at the rate of 1.5 percent per month or if lower, the highest rate permitted by Massachusetts law, for the period of such shortfall. In addition, if such audit shall reveal a shortfall of more than five percent of royalty and gross revenue share due, Licensee shall

reimburse Licensor for the services of its accountant and for any other expenses of Licensor incident thereto including, without limitation, any attorneys' fees and costs of collection.

12. Licensor's Obligations

- a. Within thirty (30) days of the execution of this Agreement, Licensor will provide Licensee with its current customer list and will provide Licensee with updates thereon at the commencement of each Contract Year. Licensee acknowledges that the customer list is a valuable asset of the Licensor and remains Licensor's exclusive property. Licensee will not divulge any contents of the list nor make any use of the list not contemplated by this Agreement.
- b. Within seven (7) days of the execution of this Agreement, Licensor will issue a press release announcing the execution of this Agreement.
- c. Licensor will, at the sole expense of Licensee, undertake to expand the contents of its annual catalogue to illustrate therein the Licensed Articles and Licensed Services contemplated by this Agreement.
- d. Licensor will provide Licensee access to and full information as to its existing distribution channels and will endeavor to enable Licensee to make full use thereof.
- e. Licensor will advise each of its existing Licensees of the nature of the Licensed Articles and Licensed Services covered by this Agreement.

13. Termination

In addition to any other rights which Licensor may otherwise have, Licensor may terminate this Agreement at any time, immediately upon written notice:

- a. If within six (6) months from the date of this Agreement, Licensee shall not have begun the bona fide design, specification and/or concluded contracts for production, distribution, sale and provision of the Licensed Articles and Licensed Services; or
- b. If Licensee shall, after said written notice, fail for a period in excess of three consecutive months to continue the bona fide design, specification, distribution, sale or provision of the Licensed Articles and Licensed Services; or
- c. If Licensee shall fail to make any payment due hereunder or to deliver any of the statements required hereunder, and if such default shall

continue for a period of 15 days after notice of such default by Licensor to Licensee or if such a failure shall occur twice in any consecutive 12-month period even if both failures are corrected as provided hereunder; or

- d. If Licensee or its property:
 - 1) Becomes subject to a receiver or trustee; or
 - 2) Becomes insolvent; or
 - 3) Becomes subject to an involuntary or voluntary petition under the Canadian Bankruptcy Laws, or
 - 4) Makes an assignment for the benefit of its creditors; or
- e. If there is any deliberate deficiency in the Licensee's reporting which affects royalties or gross revenue share payable or any other aspect of this Agreement; or;
- f. If any warranty, representation or covenant made by Licensee hereunder, or any information as to product quality or safety provided by Licensee hereunder, is false or misleading; or
- g. If Licensee fails to comply with any term or condition of this Agreement, other than those specifically set forth in clauses a. through f. above, and such non-compliance continues beyond a period of 15 days after notice thereof is given by the Licensor.

Any termination by Licensor shall be without prejudice to any of Licensor's other rights or remedies.

14. Effect of Termination

- a. After expiration or other termination of this Agreement, Licensee shall have no further right to manufacture, distribute, sell, exploit, provide, render or otherwise deal in any Licensed Articles and Licensed Services which utilize the Marks, except that Licensee may dispose of Licensed Articles which are on hand or in process or complete the Licensed Services already in force or to be provided at the time of expiration or termination so long as (1) Licensee reports in writing to Licensor, no later than 30 days after termination of this Agreement, the total number of Licensed Articles which will be disposed of, (2) the total number of contracts for Licensed Services which are in force or to be provided, (3) the sale or provision thereof is completed within six

months, (4) all payments when due are made to Licensor, (5) such disposal or provision of Licensed Articles and Licensed Services shall be in accordance with the terms of this Agreement, and (6) statements and royalty and gross revenue share payments with respect to that period are made by Licensee in accordance with Section 3. Notwithstanding the foregoing, in the event this Agreement is terminated pursuant to Sections 13(c), 13(d), 13(e), 13(f), or 13(g), Licensee shall not dispose of or provide any Licensed Articles or Licensed Services which are on hand, in process, in force or to be provided at the time of termination in association with the Marks. A final statement and payment shall be made by Licensee within 15 days after the end of such six-month period. Upon expiration of such six-month period herein, all molds, plates, prints and other materials used to reproduce the Marks for the manufacture or provision of the Licensed Articles and advertising of Licensed Services shall be destroyed and evidence of such destruction shall be given to the Licensor.

- b. In the event this Agreement expires or is otherwise terminated for any reason, Licensee shall, and hereby does agree to assign to Licensor any and all rights of Licensee in the Marks, including associated goodwill, and the designs trade dress and styles of the Licensed Articles and Licensed Services to the extent such design or styles contain or employ any of the Marks, and shall not thereafter market, manufacture or sell any such designs or styles or use the Marks in any manner in connection with any provided services.
- c. Except as provided in subsection (a) of this paragraph, upon the expiration or termination of this Agreement, Licensee shall immediately cease all further use of the Marks and any names, trademarks, characters, symbols, designs, likenesses or visual representations as might be likely to cause confusion or deceive purchasers or prospective purchasers or dilute any trade name, trademark, trade dress or service mark of Licensor including, without limitation, Licensor's corporate and private names, other trademarks, symbols, designations, indices, slogans and other means of identifying products or services of Licensor, whether or not identified herein as a Mark.
- d. Licensee agrees that the Marks are distinctive and possess special, unique and extraordinary characteristics which make difficult the assessment of the monetary damages that Licensor would sustain by unauthorized use. Licensee recognizes that irreparable injury would be caused to Licensor by any unauthorized use of the Marks and agrees that preliminary and/or permanent injunctive and other equitable relief

would be appropriate in the event of a breach of this Agreement by Licensee provided, however, that such remedy shall not be exclusive of other legal remedies otherwise available.

- e. Licensee's obligations and agreements set forth in Sections 3 through 11, 14, 15, 18, 20 and 21 shall survive any termination or expiration of this Agreement.

15. Notices:

All notices and statements to be given hereunder shall be in writing, any such notice or statement shall be deemed duly given if mailed by certified mail, return receipt requested, if to Licensor, at:

Smith & Wesson Corp.
2100 Roosevelt Avenue
P.O. Box 2208 Springfield, MA 01102-2208

Attention: Robert L. Scott
Vice President Sales & Marketing

and if to Licensee, at:

Canadian Security Agency, Inc.
4480 Cote de Liesse
Suite 306
Montreal, Quebec H4N 2R1

Attention: Charles Finkelstein
President

16. No Joint Venture

Nothing in this Agreement shall be construed to place the parties in the relationship of partners or joint ventures, and Licensee shall have no power to bind Licensor in any manner whatsoever.

17. Cancellation

Licensee acknowledges that Licensor and its subsidiaries, affiliates and franchisees use the Marks to advance and promote Licensor's business, and that Licensor has a paramount obligation to preserve its ability to so use such Marks. Should the use by Licensee of any mark on Licensed Articles or Services be deemed by Licensor in its discretion to be in violation of any federal, state or local law or to adversely affect the reputation of Licensor or affect the validity, enforceability or distinctiveness of the Mark as a

designation or origin for Licensor's own products, then Licensor may terminate this Agreement on one hundred and eighty (180) days notice to Licensee.

18. Assignments, Transfers and Sublicenses

Without the prior written consent of Licensor, which may be withheld in Licensor's sole and reasonable discretion, a) Licensee shall not voluntarily or by operation of law, assign or transfer this Agreement or any of Licensee's rights or duties hereunder or any interest of Licensee herein, except to a third party which is controlled by Licensee, nor shall Licensee enter into any sublicense for use of the Marks by other persons otherwise than as contemplated by this Agreement; b) Licensee shall not sell or otherwise transmit or transfer to any party engaged in the design or manufacture of items similar to any of the Licensed Articles or Licensed Services, any design, style, know-how, technology or other item or knowledge of a technical or competitive nature, furnished to Licensee by or through Licensor. Any transfer or attempt to transfer of this license to any entity in which the present directors of Licensee do not have voting control shall be deemed an assignment prohibited hereunder. The consent of Licensor to one assignment, transfer or sublicense shall not be deemed to be consent to any subsequent assignment, transfer or sublicense. Nothing provided herein shall limit Licensor's right to transfer and/or assign any of its rights hereunder.

19. Scope and Modification

This Agreement sets forth the entire agreement between the parties, and supersedes all prior agreements and understandings between the parties, relating to the subject matter hereof. None of the terms of this Agreement may be waived or modified except as expressly agreed in writing by both parties.

20. Severability

Should any provision of this Agreement be declared void or unenforceable, the validity of the remaining provisions shall not be affected thereby.

21. Governing Laws

This Agreement shall be made in the Commonwealth of Massachusetts and its terms shall be interpreted in accordance with and governed by the laws thereof.

The parties hereto have executed this Agreement as of the date at the beginning hereof.

Licensor:

SMITH & WESSON CORP.

Witnessed By:

By: /s/ Robert L. Scott

(Title)

Vice President & Sales & Marketing

Licensee:

CANADIAN SECURITY AGENCY

Witnessed By:

By: /s/ Charles Finkelstein

(Title)

President

EXHIBIT "A" -Licensed Marks

SMITH & WESSON - Canadian Registration No. 87/21255

S & W MONOGRAM - Canadian Registration No. 92/22375

S & W - Canadian Registration No. 90/21947

S & W MONOGRAM - U.S. Registration No. 93,766

S & W - U.S. Registration No. 93,767

SMITH & WESSON - U.S. Registration No. 95,164

EXHIBIT B - Licensed Articles

Electronic Security Products and Systems:

- Personal
 - o Briefcase Lock Sensors
 - o Telephone Security Devices
 - o Child Find Receivers/
 - Transmitters
 - o Joggers Alarm
 - o Medical Alert Alarm
 - o Bicycle Alarm
 - o Police Emergency Automatic Dial
 - o Telephone Scramblers
 - o Communication Line
 - o Analyzers
 - o Marine Alarms
- Domicile
 - o Seismic Intrusion Detectors
 - o Keypads
 - o Infrared Sensors
 - o Main Panel Circuit Boxes
 - o Closed Circuit Television
 - o Camera/Monitors
 - o Automatic Lighting
 - o Thermal Detectors
 - o Automatic Wireless
 - o Dial Controllers
 - o Hardware and Tape Alarms
 - o External Motion Detectors
- Business
 - o Letter Scanners
 - o Metal Detectors
 - o Shredders
 - o Facsimile Encryption
 - o Automated Anti-Intrusion Software/Hardware
 - o Telephone Security
- Business
 - o Panic Button/Automatic Dial
 - o Controllers
 - o Card Access
 - o Closed Circuit Television Cameras/ Monitors
 - o Electronic Article Surveillance
 - o X-Ray Equipment
- Vehicle
 - o Tracking Modules (Satellite, Emitters)
 - o Visual Alarms
 - o Audible Alarms
 - o Automatic Panic Dial Controllers
 - o Perimeter Alarms
 - o Glass Break Detectors
 - o Motion/Gravity Change Sensors
 - o Remote Start Controllers
 - o Ignition "Kill" Switches
 - o Bomb Detectors
- Crime Detection
 - o Voice Stress Analyzers
 - o Night Vision Systems
 - o Thermal Sensors
 - o Covert Camera Equipment
 - o Theft Detection Powders/Pigments
 - o RF Detectors
 - o Telephone Analyzers
 - o Lie Detectors
- Data Recording
 - o Loggers
 - o Tape Recorders
 - o Video Recorders/Monitors

EXHIBIT B - Licensed Articles (continued)

- Data Recording (continued)
 - o Alarm Triggered Video
 - o Transmitters
 - o Telephone Recorders
 - o Video Analyzers
- Safety Products:
 - Protective
 - o Smoke Detectors
 - o Carbon Monoxide Detectors
 - o Fire Extinguishers
 - o First Aid Kits
 - o Noise Abatement Equipment
 - o Safety Ladders
 - o Safety Cones
 - Surveillance -
 - o Wireless Microphones
 - o "Walkie Talkies"
- Surveillance (continued)
 - o Scanners
 - o Scopes
- Illumination
 - o Spot Illuminators
 - o Road Flairs
 - o High Powered Beam Lights
 - o Light Sticks
 - o Strobes
- Detection
 - o Chemical Sensors
 - o Water Seepage Analyzers
 - o Pipe Burst Monitors (Gas Liquid)
- Measuring
 - o Alcho-Test
 - o Breathalyzers

EXHIBIT C -Licensed Services

Security Service:

- Monitoring Station
 - o Underwriter Laboratory
 - o Certified Computer Systems
 - o Analog and Digital Reception Equipment
 - o Telephone Response - Personal
 - o Telephone Response - Automated
 - o Guard Response
 - o Video Analyzers
 - o Post Alarm Response Recorders
 - o Guard/Police Communication Systems
 - o Remote Response (Voice, Alarm) Controllers
- Tracking System
 - o Satellite Data Processing
 - o Computers
- Tracking Systems (continued)
 - o Automated Video, Audio, Data Transmitters
 - o Mobile Patrol Stations
 - o Airborne Trackers
- Investigative
 - o Loss Prevention
 - o Private Investigation
 - o Personnel Certification
- Surveillance
 - o Uniformed Guard Services
 - o Closed Circuit Video Monitoring
 - o Intelligence Gathering (Air, Vehicle, Stationary)
 - o Service and Integrity Testing
 - o Undercover
 - o Executive Protection

INSURANCE COVERAGE:

- - Personal
 - o Life Insurance
 - o Disability Income Insurance
 - o Medical and Hospitalization Insurance
 - o Group Insurance (Medical, Dental)
- - Domicile
 - o Home Owner Insurance Policy
 - o Tenant Insurance
 - o Condominium Insurance
 - o Supplemental and Travel Insurance
- - Vehicle
 - o Collision Insurance
 - o Fire and Theft Insurance
 - o Loss of Use Insurance
 - o Replacement Cost Insurance
 - o Accident Benefit Insurance
 - o Personal Liability Insurance
- - Business
 - o Comprehensive General Liability
 - o Business Interruption Insurance
 - o Umbrella Policy Coverage
 - o Failure to Perform Insurance