

United States Securities And Exchange Commission

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 11, 2001

**Saf-T-Hammer Corporation**

(Exact name of registrant as specified in its charter)

<u>Nevada</u>	<u>000-29015</u>	<u>87-0543688</u>
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)
14500 North Northsight, Suite 221, Scottsdale, Arizona 85260 (Address of principal executive offices) (Zip Code)		
(480) 949-9700 (Registrant's telephone number)		

*Item 2. Acquisition or Disposition of Assets.*

Pursuant to a Stock Purchase Agreement (the "Acquisition Agreement") dated as of May 11, 2001 between Tomkins Corporation, a Delaware corporation ("Tomkins") and Saf-T-Hammer Corporation ("Saf-T-Hammer"), Saf-T-Hammer acquired (the "Acquisition") all of the issued and outstanding shares of Smith & Wesson Corp., a Delaware corporation ("Smith & Wesson"). As a result of the Acquisition, Smith & Wesson became a wholly owned subsidiary of Saf-T-Hammer. Saf-T-Hammer paid \$15 million dollars (the "Purchase Price") in exchange for all of the issued and outstanding shares of Smith & Wesson, \$5 million of which was paid at closing and the balance of \$10 million must be paid on or before May 11, 2002 pursuant to the terms of an unsecured promissory note issued by Saf-T-Hammer to Tomkins (the "Acquisition Note"). The Acquisition Note accrues interest at a rate of 9% per year and may be prepaid at any time without penalty or premium. The Purchase Price was the result of arm's length negotiations between Saf-T-Hammer and Tomkins. The Acquisition Agreement and the Acquisition Note are attached as Exhibits 2.3 and 2.4.

The assets owned by Smith & Wesson include two manufacturing facilities. The main facility is an approximately 660,000 square foot plant located in Springfield, Massachusetts. The other facility is an approximately 36,000 square foot plant in Houlton, Maine. Both facilities are used primarily to manufacture firearms. However,

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Smith & Wesson also uses its machine-tooling capabilities at the Springfield facility to manufacture bicycles, handcuffs, golf clubs, and component parts for various industries. Saf-T-Hammer intends to continue to devote these facilities to their current uses.

The Acquisition Agreement required Saf-T-Hammer 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"). In satisfaction of this condition, Saf-T-Hammer executed a Guaranty in favor of Tomkins dated May 11, 2001, a copy of which is attached to this report as Exhibit 2.5. The outstanding principal balance on the Tomkins Note immediately after the Acquisition was \$30 million. The Tomkins Note, as amended, accrues interest at a rate of 9% per year, is unsecured, and has a term of ten years commencing on May 11, 2001. It may be prepaid in part or in whole at any time. Although the Tomkins Note is unsecured, it does contain covenants restricting the use of Smith & Wesson's cash and other assets. Copies of the Tomkins Note and the First Amendment to Promissory Note dated May 11, 2001 between Tomkins and Smith & Wesson are attached hereto as Exhibits 2.6 and 2.7, respectively.

The initial payment of \$5 million was obtained as a loan (the "Loan") from Colton Melby, an individual, pursuant to a Promissory Note & Loan Agreement dated May 6, 2001 between Saf-T-Hammer and Mr. Melby (the "Note"), which is attached hereto as Exhibit 4.1. Interest accrues on the Note at a rate of 12% per year and matures on May 15, 2002. Pursuant to the terms of the Note, Saf-T-Hammer was required to make an interest prepayment of \$600,000 on the later of five business days after the consummation of the Acquisition or May 15, 2001. The Note was amended by a First Amendment to Promissory Note and Loan Agreement dated May 10, 2001 and attached hereto as Exhibit 4.2.

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 effective as of May 11, 2001 between Saf-T-Hammer and Mr. Melby (the "Pledge Agreement"); a copy of the

Pledge Agreement is attached hereto as Exhibit 4.3.

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"), which is attached hereto as Exhibit 4.4. 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 also entered into a Registration Rights Agreement with Mr. Melby dated May 6, 2001, pursuant to which Saf-T-Hammer must file, within 45 days after the date of the Acquisition, a registration statement covering the resale of all of the shares to be issued upon conversion of any portion of the Warrant. The Registration Rights Agreement is attached hereto as Exhibit 4.5. Warrants were also issued to Clifford L. Melby, Christopher A. Melby, and Jack Saxwold 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

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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 paid a finders fee to Bryan Saxwold and Corey Lambrecht 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 Bryan Saxwold and Corey Lambrecht in the form attached hereto as Exhibit 4.6.

The descriptions contained in this Item 2 of the terms and conditions of documents attached hereto as exhibits are qualified in their entirety by reference to the full text of such documents.

*Item 7. Financial Statements and Exhibits.*

(a) The financial statements of Smith & Wesson, as required by Item 7 are not included in this report but will be filed with the Securities and Exchange Commission no later than July 28, 2001.

(b) Saf-T-Hammer Corporation's pro forma financial information required by Item 7 is not included in this report but will be filed with the Securities and Exchange Commission no later than July 28, 2001.

(c) Exhibits

2.3 Stock Purchase Agreement dated as of May 11, 2001 between Tomkins Corporation, a Delaware corporation and Saf-T-Hammer Corporation, pursuant to which Saf-T-Hammer Corporation acquired Smith & Wesson Corp.

2.4 Note issued by Saf-T-Hammer Corporation to Tomkins dated May 11, 2001.

2.5 Guaranty by and between Saf-T-Hammer Corporation and Tomkins dated May 11, 2001.

2.6 Promissory Note dated April 30, 1997 issued by Smith & Wesson to Tomkins.

2.7 First Amendment to Promissory Note dated May 11, 2001 between Tomkins and Smith & Wesson.

4.1 Promissory Note & Loan Agreement dated May 6, 2001 between Saf-T-Hammer Corporation and Colton Melby.

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4.2 First Amendment to Promissory Note and Loan Agreement between Saf-T-Hammer Corporation and Colton Melby dated May 10, 2001.

4.3 Stock Pledge Agreement effective as of May 11, 2001 between Saf-T-Hammer Corporation and Colton Melby.

4.4 Common Stock Purchase Warrant dated May 6, 2001.

4.5 Registration Rights Agreement between Saf-T-Hammer Corporation and Colton Melby dated May 6, 2001.

4.6 Form of common stock purchase warrant issued to Bryan Saxwold and Corey Lambrecht.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized on May 29, 2001.

Saf-T-Hammer Corporation,

a Nevada corporation

By: /s/ Mitchell A. Saltz

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Mitchell A. Saltz, Chief Executive  
Officer

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**SAF-T-HAMMER CORPORATION**

**EXHIBIT INDEX TO FORM 8-K**

**Dated May 11, 2001**

Exhibit

2.3 Stock Purchase Agreement dated as of May 11, 2001 between Tomkins Corporation, a Delaware corporation and Saf-T-Hammer, pursuant to which Saf-T-Hammer acquired Smith & Wesson Corp.

Schedules and attachments to Exhibit 2.3:

Disclosure Schedule

Exhibit A —Pending Litigation & Investigations

Exhibit B —Seller Obligations

Exhibit C —Guaranty

Exhibit D —Covenant Compliance Certificate

Exhibit E —Form of Buyer's Note

Exhibit F —Letters of Credit

2.4 Note issued by Saf-T-Hammer Corporation to Tomkins dated May 11, 2001.

2.5 Guaranty by and between Saf-T-Hammer Corporation and Tomkins dated May 11, 2001.

2.6 Promissory Note dated April 30, 1997 issued by Smith & Wesson to Tomkins.

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4.4 Common Stock Purchase Warrant dated May 6, 2001.

4.5 Registration Rights Agreement between Saf-T-Hammer and Colton Melby dated May 6, 2001.

4.6 Form of common stock purchase warrant issued to Bryan Saxwold and Corey Lambrecht.

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STOCK PURCHASE AGREEMENT

between

TOMKINS CORPORATION

and

SAF-T-HAMMER CORPORATION

Dated as of May 11, 2001

## STOCK PURCHASE AGREEMENT

STOCK PURCHASE AGREEMENT, dated as of May 11, 2001, (this "AGREEMENT"), between Tomkins Corporation, a company organized under the laws of the State of Delaware (the "SELLER"), and Saf-T-Hammer Corporation, a company organized under the laws of the State of Nevada (the "BUYER").

## RECITALS

A. WHEREAS, the Seller owns all of the issued and outstanding shares of Smith & Wesson Corp., a company organized under the laws of the State of Delaware (the "COMPANY"); and

B. WHEREAS, the Seller desires to sell to the Buyer, and the Buyer desires to purchase from the Seller, 800 shares of common stock, par value \$0.01 per share, representing all of the issued and outstanding shares of the Company (the "SHARES"), upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements contained herein, and intending to be legally bound hereby, the parties hereto agree as follows:

## ARTICLE I

## DEFINITIONS &amp; INTERPRETATION

Section 1.1 Definitions. For all purposes of this Agreement, the following terms have the following meanings:

"Act" has the meaning given in Section 4.5.

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such Person. For purposes of this definition, the term "control" (including the correlative terms "controlling," "controlled by" and "under common control with") means the possession, directly or indirectly, of the power (whether or not exercised) to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities or interests of such Person, by contract or otherwise.

"Balance Purchase Price" has the meaning given in Section

2.1.

"Boston Agreement" means the agreement, dated 11 December 2000, signed by the Company, the city of Boston and the Boston Public Health Commission.

"Business Day" means any day other than a Saturday, Sunday or one on which banks are authorized or required by law to close in New York, New York.

"Business Records" has the meaning given in Section 5.5.

"Buyer Damages" has the meaning given in Section 6.2.

"Buyer Indemnities" has the meaning given in Section 6.2.

"Buyer Material Adverse Effect" means an event, change or circumstance that would materially and adversely affect the ability of the Buyer to consummate the transactions contemplated in this Agreement or to perform its obligations under this Agreement.

"Buyer's Note" has the meaning given in Section 2.1.

"Change of Control" means, with respect to the Buyer or the

Company:

(i) whenever the Control Shareholders do not control the Buyer or the Company;

(ii) whenever the Control Shareholders sell or dispose of any of their shares in the Buyer, where such sale or disposal results in the Control Shareholders holding, in the aggregate, less than thirteen percent (13%) of the voting securities of the Buyer;

(iii) the sale of all or substantially all of the assets of the Buyer or the Company, or any of the capital stock of the Company; provided, that the Buyer shall be permitted to sell all or substantially all of the assets owned by the Buyer prior to the Closing and any assets it acquires after the

Closing Date unless any such sale constitutes a sale of all or substantially all of the assets of the Buyer; and

(iv) whenever the shares of the Buyer are no longer publicly traded.

For purposes of this definition, "control" shall mean the possession, directly or indirectly, of the power (whether or not exercised) to direct or cause the direction of the management and policies of the Buyer or Company, whether through the ownership of voting securities or interests of the Buyer or Company, by contract or otherwise.

"Closing" means the consummation of the sale of the Company by the Seller to the Buyer, in accordance with this Agreement.

"Closing Date" means the date of the Closing.

"Company Agreements" has the meaning given in Section 3.13.

"Company Disclosure Schedule" has the meaning given in Section

3.1.

"Company Group" means the Company and all of its Subsidiaries, both present and past.

"Company Liabilities" means any and all debts, obligations, contracts and liabilities of any kind, character or description (whether known or unknown, accrued, absolute, contingent, indirect or derivative, or otherwise) of any member of the Company Group, of any predecessor of any member of the Company Group, of any prior owner of all or part of their respective businesses or assets, or of any direct or indirect parent of the Company (including, but not limited to, the Seller and Tomkins) and any Affiliate of the Company where the debts, obligations, contracts or liabilities of such parent or Affiliate relate to any member of the Company Group, any predecessor of any member of the Company Group or any prior owner of all or part of the businesses or assets of any member of the Company Group or any predecessor of any member of the Company Group, and the agreement, action, omission or event which gave rise to such debt, obligation, contract or liability occurred prior to the Closing (provided, that the parties hereby agree that the Letters of Credit & Bond are liabilities which existed prior to Closing). Any such debts, obligations, contracts and liabilities include but are not limited to:

(v) all liabilities, whether contingent or otherwise, set forth in the balance sheets of any member of the Company Group;

(vi) all Environmental Liabilities;

(vii) all liabilities and obligations arising out of any action (including, but not limited to, any class actions), suit, investigation or proceeding before any arbitrator or Governmental Entity listed on Exhibit A hereto or otherwise;

(viii) all liabilities and obligations arising out of any action (including, but not limited to, any class actions), suit, investigation or proceeding before any arbitrator or Governmental Entity which may at any time (whether past, present or future) be made, commenced, asserted, or pursued, that in any way are based upon or arise from Company Products of any description anywhere in the world, including, but not limited to, all liabilities and obligations relating to or arising in any way from:

(A) the design, manufacture, marketing, development, advertising, research, distribution or sale of such products at any time; and

(B) any statement or other actions or omissions (including, but not limited to, a failure to give adequate warning) of any member of the Company Group (or any predecessor of any member of the Company Group or any prior owner of all or part of its businesses or assets) at any time;

(ix) all liabilities and obligations relating to any products manufactured or sold by the Company or any of its Subsidiaries (past or present) at any time, including, but not limited to, all warranty obligations and product liabilities and any liability or



obligation relating to the effects of, or exposure to, any products manufactured, sold or distributed by the Company or any of its Subsidiaries (past or present) at any time; and

(x) all liabilities or obligations relating to employee benefits or compensation arrangements with respect to any employee or former employee of the Company or any of its Subsidiaries (past or present) at any time.

"Company Material Adverse Effect" means a material adverse change in, or effect on, the business, results of operations or condition (financial or otherwise) of the Company and its Subsidiaries taken as a whole. In determining whether a Company Material Adverse Effect has occurred, the effects of changes that exist on the Closing Date and have been reflected in this Agreement or disclosed in the Company Disclosure Schedule, or that are generally applicable to the industry in which the Company and its Subsidiaries operate or to the United States economy generally, shall be excluded.

"Company Products" means:

(i) at any time prior to Closing, any products that the Company has manufactured, sold, distributed, represented, repaired, serviced, licensed or otherwise provided and any services that the Company has provided; and

(ii) at any time after Closing, any products that the Company will manufacture, sell, distribute, represent, repair, service, license or otherwise provide and any services that the Company will provide.

"Control Shareholders" means Mitchell Saltz, Sherry Noreen, Theodore Saltz and Robert Scott.

"Covenant Certification" has the meaning given in Section

5.17.

"Environmental Laws" means any federal, state, local or foreign law (including, but not limited to, common law), treaty, judicial decision, regulation, rule, judgment, order, decree, injunction, permit or governmental restriction or any agreement with any Governmental Entity relating to the environment, the effect of the environment on human health and safety or to pollutants, contaminants, wastes or chemicals or any toxic, radioactive, ignitable, corrosive, reactive or otherwise hazardous substances, wastes or materials.

"Environmental Liabilities" means any and all liabilities at any time arising in connection with or in any way relating to the Company, any member of the Company Group or any activities or operations occurring or conducted at the real property used or held for use in the conduct of the Company (together with all buildings, fixtures and improvements thereon and, also including, but not limited to, offsite disposal), whether accrued, contingent, absolute, determined, determinable or otherwise, which arise under or relate to any Environmental Law, whether now or hereinafter in effect.

"ERISA" means the Employee Retirement Income Security Act of 1974 and all rules, regulations and orders issued thereunder, as any of the same may be amended.

"Expiration Date" means February 1, 2002 with respect to the Chase-NY/Insurance of Wasau letter of credit for \$500,000 and September 30, 2001 for all other Letters of Credit & Bond.

"GMBH" means Smith & Wesson Firearms Training Centre GMBH, a German company and one of the Subsidiaries of the Company.

"Governmental Entity" means any governmental or regulatory body, authority or court, domestic or foreign.

"Indebtedness" includes, but is not limited to:

(xi) all indebtedness for borrowed money;

(xii) that portion of obligations with respect to capital leases that is properly classified as a liability on a balance sheet in conformity with generally accepted accounting principles; and

(xiii) any direct or indirect guaranty by the Company, or the Subsidiaries of the Company, of any obligation of any other Person, whether for borrowed money or otherwise.

"Initial Purchase Price" has the meaning given in Section 2.1.

"Insurance Side Letter" means the side letter agreement, dated May 10, 2001, from the Seller to the Buyer which lists the insurance policies of the Tomkins' Group from which the Company Group will be removed as an insured from the Closing Date.

"Laws" has the meaning given in Section 3.5.

"LCB Account" has the meaning given in Section 2.10.

"LCB Interest Rate" means the rate of interest earned by the Seller on the LCB Account.

"Letters of Credit & Bond Amount" has the meaning given in Section 2.10(b).

"Letters of Credit & Bond" has the meaning given in Section 2.10.

"Lien" means, with respect to any property or asset, any mortgage, lien, pledge, charge, security interest or encumbrance in respect of such property or asset.

"Municipal Lawsuits" has the meaning given in Section 3.17.

"Non-Combined Tax Return" has the meaning given in Section 5.16(c)(ii).

"Note" means the promissory note held by the Seller, issued and payable by the Company, in the amount of \$73,830,000, due April 30, 2004, at an interest rate of 9% per annum.

"Note Amendment" means the first amendment to the Note, dated the date of this Agreement, between the Seller and the Company.

"Pension Plan" means any "employee pension benefit plan" as defined in Section 3(2) of ERISA (i) which is maintained for past or present employees of the Company Group, or (ii) to which the Company Group made, or was required to make, contributions within the preceding five years, as any of the same may be amended.

"Permits" has the meaning given in Section 3.18.

"Permitted Indebtedness" means Indebtedness incurred in the ordinary course of business (which ordinary course may include the leasing of equipment for the business conducted in the ordinary course by members of the Company Group) of the Company in connection with the purchase, acquisition or lease of equipment, the purchase or acquisition of inventory for the manufacture of products or delivery of services, for use in the business of the Company or any Subsidiary of the Company.

"Person" means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof (or any equivalent in any jurisdiction).

"Purchase Price" means \$15,000,000.

"Real Property" has the meaning given in Section 3.9.

"Restricted Payment" means:

(xiv) any dividend or other distribution, direct or indirect, on account of any shares of any class of stock of the Company, or any Subsidiary of the Company, now or hereafter outstanding other than the following:

(A) common stock dividends payable on common stock;

(B) dividends payable from a wholly-owned Subsidiary of the Company to the Company; and

(C) dividends payable by the Company to the Buyer in an amount not in excess of \$600,000 in the twelve (12) month period following the Closing and not in excess of \$1,800,000 per annum thereafter, subject to applicable law.

(xv) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or

indirect by any member of the Company Group, of any shares of any class of stock of the Company, or any Subsidiary of the Company, now or hereafter outstanding; and

(xvi) any payment made by any member of the Company Group to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of stock of the Company, or any Subsidiary of the Company, now or hereafter outstanding.

"Retention Amount" has the meaning given in Section 2.10.

"Seller Damages" has the meaning given in Section 6.3.

"Seller Group" means the Seller and its Affiliates.

"Seller Indemnities" has the meaning given in Section 6.3.

"Seller Obligations" has the meaning given in Section 2.10.

"Settlement Agreement" means the agreement, entitled 'Settlement Document', dated March 17, 2000, among the Company, the Department of Housing and Urban Development, the Department of Treasury and various states and municipalities.

"Shares" has the meaning given in Recital B.

"Subsidiary" of any person means another person, an amount of the voting securities, other voting ownership or voting partnership or membership interests of which is sufficient to elect at least a majority of its board of directors or other governing body (or, if there are no such voting interests, 50% or more of the equity interests of which) is owned or controlled directly or indirectly by such person.

"Tax" or "Taxes" means taxes of any kind, levies or other like assessments, customs, duties, imposts, charges or fees, including income, gross receipts, ad valorem, value added, excise, real or property, asset, sales, use, license, payroll, transaction, capital, net worth, withholding, estimated, social security, utility, workers' compensation, severance, production, unemployment compensation, occupation, premium, windfall profits, transfer and gains taxes or other

governmental taxes imposed or payable to the United States, or any state, county, local or foreign government or subdivision or agency thereof, together with any interest, penalties or additions with respect thereto and any interest in respect of such additions or penalties.

"Tax Claim" has the meaning given in Section 5.16.

"Tax Package" has the meaning given in Section 5.16.

"Tax Returns" means all returns, reports, statements, declarations, estimates and forms or other documents (including any related or supporting information), required to be filed with respect to any Taxes.

"Tax Sharing Agreement" has the meaning given in Section 5.16.

"Third Party Claims" has the meaning given in Section 6.4.

"Tomkins" means Tomkins PLC, a public company organized under the laws of England and Wales.

"Tomkins' Group" means Tomkins and all of its Subsidiaries.

"Transfer Taxes" has the meaning given in Section 5.16.

"Transitional Agreement" means the agreement, dated the date of this agreement, among the Seller, the Buyer and Tomkins, relating to the insurance coverage of the parties, particularly in relation to the Company Liabilities.

"Welfare Plan" means any "employee pension benefit plan" as defined in Section 3(2) of ERISA (i) which is maintained for past or present employees of the Company Group, or (ii) to which the Company Group made, or was required to make, contributions within the preceding five years, as any of the same may be amended.

Section 1.2 Interpretation. (a) Whenever the words "include", "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without limitation."

(b) The words "hereof", "herein" and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and

article, section, paragraph, exhibit and schedule references are to the articles, sections, paragraphs, exhibits and schedules of this Agreement unless otherwise specified.

(c) The meaning assigned to each term defined herein shall be equally applicable to both the singular and the plural forms of such term, and words denoting any gender shall include all genders. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

(d) A reference to any party to this Agreement or any other agreement or document shall include such party's successors and permitted assigns.

(e) A reference to any legislation or to any provision of any legislation shall include any amendment to, any modification or re-enactment thereof, any legislative provision substituted therefor and all regulations and statutory instruments issued thereunder or pursuant thereto.

(f) The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

(g) The headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

## ARTICLE II

### SALE OF STOCK

Section 2.1 Purchase and Sale. (a) Upon the terms and subject to the conditions of this Agreement, the Seller hereby sells, conveys, assigns, transfers and delivers to the Buyer, and the Buyer hereby purchases, acquires and accepts from the Seller the Shares, in consideration for which:

(i) the Buyer hereby pays to the Seller \$5,000,000 of the Purchase Price (the "INITIAL PURCHASE PRICE") by wire transfer of immediately available funds to an account or accounts designated in writing by the Seller; and

(ii) the Buyer hereby agrees to pay the Seller \$10,000,000 of the Purchase Price (the "BALANCE PURCHASE PRICE") on May 11, 2002 by wire transfer of immediately available funds to an account or accounts designated in writing by the Seller, pursuant to a promissory note issued by the Buyer in the form of the note in Exhibit E (the "BUYER'S NOTE") and delivered at the Closing.

(b) Except for the representations and warranties expressly stated by the Seller in Article III of this Agreement, all the Shares to be sold, conveyed, assigned, transferred and delivered pursuant to this Agreement shall be conveyed, assigned and transferred on an "as is" and "where is" basis with all faults, without any representations or warranties, expressed or implied, in fact or by law with respect to the Shares, the Company or the Subsidiaries of the Company, and without any recourse against the Seller.

Section 2.2 Deliveries by the Seller at Closing. The Seller hereby delivers the following to the Buyer:

(a) A certificate or certificates representing the Shares, accompanied by stock powers duly endorsed in blank or accompanied by duly executed instruments of transfer;

(b) The resignations of all members of the boards of directors of the Company and its Subsidiaries and all officers of the Company and its Subsidiaries, who are employees of the Seller; and

(c) Evidence that the transaction in Section 2.8(b) has been effected.

(d) A certificate of its Secretary, dated as of the date of this Agreement, certifying (i) that correct and complete copies of each resolution of its



board of directors approving this Agreement and the other instruments and transactions to be executed in connection herewith and authorizing the execution hereof and thereof and the consummation of the transactions contemplated hereby and thereby and attached thereto and (ii) the incumbency and signatures of the officers of the Seller authorized to execute and deliver this Agreement and the other documents and instruments required by this Agreement.

(e) For each of the Company and its Subsidiaries, a certificate of the Secretary of State of such entity's state of incorporation, dated as of a recent date, as to the legal existence and good standing of such entity, except for GMBH as to which applicable German corporate documents, if any, will be provided.

(f) The Company Disclosure Schedule, containing such items as required by this Agreement.

Section 2.3 Deliveries by the Buyer at Closing. At the Closing, the Buyer hereby delivers to the Seller:

(a) the Initial Purchase Price, in immediately available funds, in the manner set forth in Section 2.1 of this Agreement.

(b) the Buyer's Note, duly executed by the Buyer on the Closing Date.

Section 2.4 Note Amendment. Immediately following the Closing, the Buyer shall cause the Company to, and the Seller shall, execute the Note Amendment and the Buyer shall deliver the same to the Seller.

Section 2.5 Repayment. Immediately following the execution of the Note Amendment by the Company and the Seller, the Buyer will cause the Company to repay \$20 million of the total amount owing under the Note, as amended by the Note Amendment, to the Seller, by wire transfer of immediately available funds to an account or accounts designated by the Seller.

Section 2.6 Books and Records of the Company. The Seller agrees that, upon the Closing, the books and records of the Company and its Subsidiaries shall be delivered to the Buyer or the Company, including, but not limited to, correspondence, memoranda, books of account, personnel, payroll records and the like; provided, however, that neither the Buyer nor any of its Affiliates shall have the right to receive or obtain any information relating to Taxes or Tax Returns of the Seller, any of the Seller's Affiliates, or any of Seller's Affiliates' respective predecessors, other than information relating solely to the Company and its Subsidiaries.

Section 2.7 Transition Services. All data processing, accounting, tax, insurance, banking, personnel, legal, communications and other products and services provided to the Company and its Subsidiaries by the Seller or any Affiliate of the Seller (other than the Company Group), including any agreements or understandings (written or oral) with respect thereto, hereby terminate without any further action or liability on the part of the parties thereto.

Section 2.8 Inter-company Accounts.

(a) As of the date of this Agreement, all inter-company accounts (including, but not limited to, inter-company loans, but excluding the Note) between the Company or its Subsidiaries, on the one hand, and the Seller or its Affiliates (excluding the Company and its Subsidiaries) on the other hand, shall be settled through a cash payment of the full amount of the respective obligation by the obligor to the creditor party.

(b) The parties acknowledge that, immediately prior to the Closing, the principal amount of the Note shall be reduced to \$50,000,000 by way of, in the discretion of the Seller, a capital contribution in kind of, an offset of, a cash payment of an amount equal to (but only to the extent of cash contributed to the Company by the Seller for such purpose), or such other manner selected by the Seller to reduce the principal amount of the Note by, the portion of the principal amount of the Note in excess of \$50,000,000.

Section 2.9 Insurance. Simultaneously with the execution of this Agreement, the Seller, the Buyer and another party have executed the Transitional Agreement which shall govern the parties' respective post-Closing rights and

obligations in relation to accessing liability insurance coverage existing prior to and as of the date of Closing.

Section 2.10 Treatment of Seller Obligations. (a) Except as provided in clause (b) below, following the Closing, the Buyer shall cause the Company to use its commercially reasonable efforts to release and cancel the obligations of the Seller set out in Exhibit B (the "SELLER OBLIGATIONS") within 90 days of the Closing; provided, however, that to the extent that any of the Seller Obligations cannot be so released and cancelled, the Buyer shall use its commercially reasonable efforts to cause itself to be substituted for the Seller and any of its Affiliates in respect of such Seller Obligations (or if not possible, added as the primary obligor under the Seller Obligations). In any event, the Buyer shall indemnify, defend and hold harmless the Seller and its Affiliates, as applicable, for all liabilities or expenses that might arise or be incurred by any of the Seller and its Affiliates under the Seller Obligations.

(b) In the case of:

(i) the current \$5,000,000 bond (Bond number 137703854) placed with the Department of Industrial Accidents, Massachusetts for worker's compensation (the "BOND"), the Buyer hereby acknowledges that the Company has initiated the process to replace the Bond using the cash of the Company;

(ii) the letters of credit set out in Exhibit F and the Bond (together, the "LETTERS OF CREDIT & BOND"), which total \$7,235,000.00, the Buyer hereby agrees that the Seller shall retain \$7,235,000.00 (the "RETENTION AMOUNT"), which Retention Amount includes a "Collateralization Factor" required by Chase Bank, in its account when it calculates its inter-company account obligations to the Company in accordance with Section 2.8(a) until the Letters of Credit & Bond are replaced or expire; provided, as each of such Letters of Credit & Bond is replaced or expires the Seller shall within five (5) days thereafter release from the Retention Amount and pay to the Company the amount of such released Letter of Credit or Bond along with a pro rata portion of the Collateralization Factor; provided, however, that the Seller shall not be obligated to release any portion of the Collateralization Factor until it has been released under the

Seller's arrangement with Chase Bank unless all of the Letters of Credit & Bond have either been replaced or have expired. Notwithstanding the foregoing, if the Letters of Credit & Bond have not been replaced or have not expired by the Expiration Date, then the Seller will be entitled to keep the Retention Amount or any portion thereof which has not been so replaced or so expired. The Seller shall maintain the Retention Amount in an interest bearing account (the "LCB ACCOUNT") with Chase Bank or a comparable institution. Within five (5) days after receipt of interest on the LCB Account, from time to time, the Seller shall pay to the Company interest on the outstanding balance of the Retention Amount, which interest shall be an amount equal to one-half of one percent (0.5%) less than the LCB Interest Rate.

### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES OF THE SELLER

The Seller hereby represents and warrants to the Buyer as

follows:

Section 3.1 Organization. (a) Each of the Company and its

Subsidiaries:

(i) is a corporation validly existing and, except for GMBH, is in good standing under the laws of the jurisdiction of its organization; and

(ii) has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business substantially as it is now being conducted.

(b) Section 3.1 of the disclosure schedule being delivered by the Seller to the Buyer concurrently herewith (the "COMPANY DISCLOSURE SCHEDULE") sets forth a complete list, as of the date of this Agreement, of all of the Subsidiaries of the Company and their respective jurisdictions of organization and, except for GMBH, their respective capitalization. Except as set forth in Section 3.1 of the Company Disclosure Schedule, the Company does not own any equity interest

in any corporation or other entity. The Seller has previously delivered to the Buyer true and correct copies of the certificate of incorporation and by-laws or comparable organizational documents of the Company and its Subsidiaries as in effect on the date of this Agreement. The minute books and stock record books of the Company Group are complete and correct in all material respects. The minute books of the Company Group contain a record of all shareholder and director action which is accurate and complete in all material respects.

(c) The Company wholly owns Smith & Wesson Distributing, Inc., Smith & Wesson, Inc. and Smith & Wesson Firearms Training Centre GMBH and the Company made an initial capital contribution of \$50,000 to Walther USA, LLC.

Section 3.2 Authority. The Seller has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated by this Agreement have been duly and validly authorized by the board of directors of the Seller.

Section 3.3 Validity of Agreement. This Agreement has been duly and validly executed and delivered by the Seller and (assuming this Agreement has been duly authorized, executed and delivered by the Buyer) constitutes a valid and binding agreement of the Seller, enforceable against the Seller in accordance with its terms, except that:

(a) such enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally; and

(b) enforcement of this Agreement, including by, among other things, the remedy of specific performance or injunctive or other forms of equitable relief, may be subject to equitable defenses and would be subject to the discretion of the court before which any such proceeding may be brought.

Section 3.4 Ownership of Shares. The Shares represent all of the outstanding capital stock of the Company. All Shares are validly issued, fully paid

and non-assessable. The Seller is the record and beneficial owner of the Shares which are held free and clear of all Liens. No other stock or other securities of any kind whatsoever are issued or outstanding, including, without limitation:

(a) bonds, debentures, or any other debt security; options, rights, or warrants to purchase or subscribe for, or any commitment or obligation of any kind to issue, any stock or securities of the Company; and

(b) securities convertible into stock of the Company.

There are no declared or accrued and unpaid dividends.

Section 3.5 Consents and Approvals; No Violations. Except as set forth in Section 3.5 of the Company Disclosure Schedule, neither the execution and delivery of this Agreement by the Seller, nor the consummation by the Seller or the Company of the transactions contemplated hereby will:

(a) conflict with or result in any breach of any provision of the certificate of incorporation or by-laws or comparable organizational documents of the Seller or the Company or any Subsidiary of the Company;

(b) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under, or require any consent under, any indenture, license, contract, agreement or other instrument or obligation to which the Seller, the Company or any Subsidiary of the Company is a party or by which any of them or any of their respective properties or assets are bound;

(c) violate any order, writ, injunction, decree or award rendered by any Governmental Entity or any statute, rule or regulation (collectively, "LAWS") applicable to the Seller, the Company or any Subsidiary of the Company or any of their respective properties or assets; or

(d) require any filing with, or the obtaining of any permit, authorization, consent or approval of, any Governmental Entity,

except in the case of clauses (b), (c) and (d) of this Section 3.5 for any such violations, breaches, defaults, rights of termination, cancellation or acceleration or requirements that, individually or in the aggregate,

(i) would not have a Company Material Adverse Effect or would not adversely affect the ability of the Seller to consummate the transactions contemplated by this Agreement; or

(ii) become applicable as a result of the business or activities in which the Buyer is or proposes to be engaged (in each case, other than activities of the Company and its Subsidiaries) or as a result of any acts or omissions by, or the status of or any facts pertaining to, the Buyer.

Section 3.6 Brokers; Finders and Fees. Except for Dunn Johnston & Company, Inc., the fees of which will be paid by the Seller, neither the Seller nor the Company and its Subsidiaries has employed any investment banker, broker or finder or incurred any liability for any investment banking fees, brokerage fees, commissions or finders' fees in connection with this Agreement or the transactions contemplated hereby.

Section 3.7 Tax Matters. Except as set forth in the Company Disclosure Schedule:

(a) The Company and each Subsidiary of the Company has timely filed (or there have been filed on its behalf) with appropriate taxing authorities all material Tax Returns required to be filed by it on or prior to the date hereof (taking into account all extensions timely filed), and such Tax Returns are correct in all material respects.

(b) There are no liens for Taxes upon any property or assets of the Company or any Subsidiary of the Company except for liens for Taxes not yet due.

(c) No federal, state, local or foreign audits, examinations, investigations or other administrative proceedings or court proceedings (collectively, for purposes of this subsection (c) only, "investigations") are presently pending with regard to any Taxes or Tax Returns filed by or on behalf of the Company or any Subsidiary of the Company. Neither the Company nor the Seller has received any written notice of any investigation.

(d) There are no outstanding requests, agreements, consents or waivers to extend the statutory period of limitations applicable to the assessment of any Taxes or deficiencies against the Company or any Subsidiary of the Company.

(e) Neither the Company nor any Subsidiary of the Company is a party to any material tax sharing, tax indemnity or other agreement or arrangement with any Person.

(f) All Taxes for which the Company or any Subsidiary of the Company is liable that are due and payable or required to be withheld by the Company or any Subsidiary of the Company on or before the date of this Agreement have been paid or withheld in full.

Section 3.8 Cash Held in Company Account. The cash of the Company in its cash bank accounts as of 12:01am on May 11, 2001 (excluding amounts which as of the date hereof have been provisionally credited to the Company and which credits are hereafter ultimately not sustained as a result of an error by the bank or an act or omission by a Person other than the Seller) will be no less than \$29,485,00.00 after taking into account the payment of \$20,000,000 to be made on account of the Note, which payment will be made by the Company, at the direction of the Buyer, after Closing in accordance with Section 2.5.

Section 3.9 Title to Real Property and Other Assets.

(a) Except as otherwise disclosed on the Company Disclosure Schedule, the Company has:



(i) good and marketable title to the real property which is disclosed on the Company Disclosure Schedule; and

(ii) good leasehold title to the real property leased by it which is disclosed on the Company Disclosure Schedule (collectively, the property in (i) and (ii) are hereafter referred to as the "REAL PROPERTY"),

in each case free and clear of all Liens, except (A) inchoate Liens for taxes not yet due and payable; (B) Liens on the Real Property in connection with indebtedness reflected on the financial statements of the Company; (C) all existing covenants, conditions and restrictions affecting the Real Property; (D) zoning laws and all other laws, ordinances, rules and regulations of any kind, whether now or hereafter affecting, limiting or defining the type or character of, or the right to construct buildings or improvements in or about the Real Property, or the use to which the Real Property may be put or which in any way affects the ownership or use of the Real Property; (E) easements and rights-of-way, if any, of record and to such state of facts as an inspection and accurate survey would disclose; (F) the standard printed exceptions contained in the usual form of Owner's Title Policy; and (G) other encumbrances of a non-financial nature which would not materially impair the current use of the Real Property.

(b) Except for the Real Property and as otherwise disclosed on the Company Disclosure Schedule, the Company has:

(i) good and marketable title to the assets purported to be owned by it; and

(ii) good leasehold title to the assets purported to be leased by it,

in each case free and clear of all Liens, except inchoate Liens for taxes not yet due and payable and Liens on assets in connection with indebtedness reflected on the financial statements of the Company.

Section 3.10 Pension Plans. Except as set forth on the Company Disclosure Schedule, none of the Company or its Subsidiaries maintains, nor have any of them previously maintained, any Pension Plan.

Section 3.11 Welfare Plans and Other Benefit Plans.

(a) Except as set forth on the Company Disclosure Schedule, none of the Company or its Subsidiaries maintains any Welfare Plans.

(b) The Company Disclosure Schedule sets forth, and the Seller has delivered or made available to the Buyer copies or summaries of, all material pension, retirement, profit-sharing, deferred compensation, stock option, employee stock ownership, severance pay, vacation, bonus, or other incentive plans, all other material written employee programs, and arrangements, and all other material employee benefit plans or fringe benefit plans, currently adopted, maintained by, sponsored in whole or in part by, or contributed to by the Company Group for the benefit of employees, retirees, dependents, spouses, directors, independent contractors or other beneficiaries (collectively, "BENEFIT PLANS").

(c) Except as disclosed on the Company Disclosure Schedule, all Benefit Plans are in compliance in all material respects with applicable Laws and neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated by this Agreement will:

(i) result in any payment (including, but not limited to, severance, unemployment compensation, golden parachute, or otherwise) becoming due to any director or any employee under any Benefit Plan,

(ii) increase any benefits otherwise payable under any Benefit Plan, or

(iii) result in any acceleration of the time of payment or vesting of any such benefit.

## Section 3.12 Personnel Matters.

(a) The Company Disclosure Schedule sets forth a correct and complete list of:

(i) all directors and executive officers of the Company and the Subsidiaries of the Company;

(ii) all other employees of, or consultants to, the Company and the Subsidiaries of the Company who earn more than \$75,000; and

(iii) the current job title or relationship to the Company and the Subsidiaries of the Company of each such Person described in clauses (i) and (ii) above;

(iv) the amount of compensation (including bonuses and commissions) paid to each such Person during the year ending December 31, 2000 and which each of them is expected to receive in the year ending December 31, 2001; and

(v) any employee benefits or perquisites available to any such Person that are not generally available to employees of the Company and the Subsidiaries of the Company.

(b) Except as otherwise disclosed on the Company Disclosure Schedule, none of the Company or any Subsidiary of the Company is party to any written employment, consulting, non-compete or similar agreement with any Person.

(c) Except as otherwise disclosed on the Company Disclosure Schedule:

(i) no employees of the Company or any Subsidiary of the Company are represented by any labor union or similar organization;

(ii) none of the Company or any Subsidiary of the Company is a party to any collective bargaining or similar agreement covering any of its employees; and

(iii) no labor union or similar organization or group of employees has made a demand for recognition, filed a petition seeking a representation proceeding, or given any of the Company or any Subsidiary of the Company notice of any intention to hold an election of a collective bargaining representative at any time during the past three years.

Section 3.13 Other Material Agreements. All written agreements and contracts to which any of the Company or any Subsidiary of the Company is a party or by which any of the Company or any Subsidiary of the Company or any of their assets are bound are listed on the Company Disclosure Schedule other than:

(a) agreements involving the payment by or to the Company or any Subsidiary of the Company, or creating any liability of the Company or any Subsidiary of the Company (whether direct or indirect, fixed or contingent), of less than \$50,000 over the term thereof; and

(b) agreements which are able to be cancelled by the Company or any Subsidiary of the Company on 30 days' notice or less without any material liability to the Company or any Subsidiary of the Company. The agreements and contracts to which any of the Company or any Subsidiary of the Company is a party listed on the Company Disclosure Schedule are referred to herein as the "COMPANY AGREEMENTS".

Section 3.14 Status of Company Agreements.

(a) Except as set forth on the Company Disclosure Schedule, each Company Agreement is in full force and effect and is enforceable against the

Company in accordance with its terms, except as such enforceability may be limited by:

(i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally; and

(ii) applicable equitable principles, whether considered in a proceeding at law or in equity.

(b) Except for agreements relating to sales and distribution of Company Products, the Company is in compliance with each Company Agreement to which it is a party, except, in each case, for such non-compliance as does not (x) constitute a breach or default (or an event which, with the giving of notice or the passage of time, or both, would constitute a default) thereunder, (y) give to others any rights of termination, acceleration, suspension, revocation, cancellation or amendment thereof, or (z) cause, either individually or in the aggregate, a Company Material Adverse Effect.

Section 3.15 Bank Accounts. The Company Disclosure Schedule sets forth a correct and complete list of the names and locations of all banks, trust companies, savings and loan associations and other financial institutions at which the Company and the Subsidiaries of the Company maintain accounts of any nature, the type and number of all such accounts and the names of all Persons authorized to draw thereon or make withdrawals therefrom.

Section 3.16 Powers of Attorney. Except as set forth in the Company Disclosure Schedule, there are no outstanding powers of attorney executed on behalf of the Company.

Section 3.17 Government Orders.

(a) Set forth in the Company Disclosure Schedule is a list provided by the Company of the currently pending lawsuits served upon the Company which relate to product liability claims brought by Governmental Entities,

the NAACP and certain other actions for which class certification has been sought (the "MUNICIPAL LAWSUITS").

(b) Except as set forth in the Company Disclosure Schedule, to the best knowledge of the Seller, there are no material settlement agreements, consent decrees or judgments relating to the Municipal Lawsuits to which the Company is a party.

(c) Except as set forth in the Company Disclosure Schedule, to the best knowledge of the Seller, there are no material environmental orders, writs, judgments, injunctions or decrees issued by any Governmental Entity which name any of the Company Group, are directed to or apply to any of the Company Group or any of their respective assets.

Permits. Except as set forth in the Company Disclosure Schedule, the Seller has not been notified in writing by any Governmental Entity that the Company is currently in violation of any permit, license, franchise, certificate, authorization, consent or approval of a Governmental Entity necessary to conduct its business (the "PERMITS") or that the Company fails to hold any required Permit.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Buyer hereby represents and warrants to the Seller as follows:

Section 4.1 Organization. The Buyer is a corporation validly existing and in good standing under the laws of the jurisdiction of its organization.

Section 4.2 Authority. The Buyer has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by all requisite corporate action on the part of the Buyer.

Section 4.3 Validity of Agreement. This Agreement has been duly and validly executed and delivered by the Buyer and (assuming this Agreement has been duly authorized, executed and delivered by the Seller) constitutes a valid and binding agreement of the Buyer, enforceable against the Buyer in accordance with its terms, except that:

(a) such enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally; and

(b) enforcement of this Agreement, including by, among other things, the remedy of specific performance or injunctive or other forms of equitable relief, may be subject to equitable defenses and would be subject to the discretion of the court before which any such proceeding may be brought.

Section 4.4 Consents and Approvals; No Violations. Neither the execution and delivery of this Agreement by the Buyer nor the consummation by the Buyer of the transactions contemplated hereby will:

(a) conflict with or result in any breach of any provision of the certificate of incorporation or by-laws of the Buyer,

(b) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under, or require any consent under, any indenture, license, contract, agreement or other instrument or obligation to which the Buyer or any of its Subsidiaries is a party or by which any of them or any of their respective properties or assets may be bound,

(c) violate any order, writ, injunction, decree or Laws applicable to the Buyer, any of its Subsidiaries or any of their respective properties or assets; or

(d) require any filing with, or the obtaining of any permit, authorization, consent or approval of, any Governmental Entity,

except in the case of clauses (b), (c) and (d) of this Section 4.4 for any such violations, breaches, defaults, rights of termination, cancellation or acceleration or requirements that, individually or in the aggregate, would not have a Buyer Material Adverse Effect.

Section 4.5 Acquisition of Shares for Investment; Ability to Evaluate & Bear Risk. (a) The Buyer is acquiring the Shares for investment and not with a view toward, or for sale in connection with, any distribution thereof, nor with any present intention of distributing or selling such Shares. The Buyer agrees that the Shares may not be sold, transferred, offered for sale, pledged, hypothecated or otherwise disposed of without registration under the Securities Act of 1933, as amended, (the "ACT") and any applicable state securities Laws, except pursuant to an exemption from such registration under the Act and such Laws.

(b) The Buyer

(i) is able to bear the economic risk of holding the Shares for an indefinite period;

(ii) can afford to suffer the complete loss of its investment in the Shares; and

(iii) has knowledge and experience in financial and business matters such that it is capable of evaluating the risks of the investment in the Shares.

(c) The Buyer is not acquiring the Shares with a view to liquidating the Company or otherwise putting the Company into an insolvent position.

Section 4.6 Litigation. There is no claim, action, suit, proceeding or, to the knowledge of the Buyer, governmental investigation pending or, to the knowledge of the Buyer, threatened against the Buyer or any of its Affiliates by or before any court or Governmental Entity that, individually or in the aggregate, would have, or would reasonably be expected to have, a Buyer Material Adverse Effect.



Section 4.7 Brokers; Finders and Fees. Except for Corey Lambrecht and Bryan Saxwold, whose fees will be paid by the Buyer, neither the Buyer nor any of its Affiliates has employed any investment banker, broker or finder or incurred any liability for any investment banking, financial advisory or brokerage fees, commissions or finders' fees in connection with this Agreement or the transactions contemplated hereby.

Section 4.8 Review of Information. The Buyer has fully reviewed all information concerning the Company and its Subsidiaries, including, but not limited to:

(a) insurance policies and related documents and information of the Seller, the Company, and their respective Subsidiaries, and formed its own view of such insurance policies, including, but not limited to, whether or not such insurance policies provide adequate coverage to the Company Group; and

(b) all documents relating to Company Liabilities, including, but not limited to, the Settlement Agreement and the Boston Agreement.

(c) the Company Liabilities (including, without limitation, the Municipal Lawsuits and other possible litigation against the Company) and has taken into account the risks associated with the Company Liabilities.

## ARTICLE V

### COVENANTS AND ACKNOWLEDGMENTS OF THE PARTIES

Section 5.1 Reasonable Best Efforts. Each of the Seller and the Buyer shall cooperate and use its reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws and regulations to consummate and make effective the transactions contemplated by this Agreement.

Section 5.2 Public Announcements. The Seller and the Buyer will consult with each other with respect to the issuance of a report, statement or press release with respect to the execution of this Agreement and the transactions contemplated hereby and neither party will issue any such report, statement or press release without the prior written approval of the other party; provided, however, that the foregoing shall not prohibit either party from making any report, statement or press release required by any applicable law if either party has given the other party a good faith opportunity to review the wording of any such report, statement or press release prior to such disclosure.

Section 5.3 Indemnification of Officers and Directors. The Buyer shall not, and shall cause the Company and its Subsidiaries not to, make any changes to the certificate of incorporation or by-laws or comparable organizational documents of the Buyer, the Company, or any Subsidiary of either, that could adversely affect the rights of persons who are currently, or were, officers and directors of the Company or any of its Subsidiaries to claim indemnification from such entity under the terms of such certificate of incorporation or by-laws as in effect on the date of this Agreement, for acts taken prior to the Closing. To the extent not paid by the Company or any of its Subsidiaries, the Buyer shall make any payments required under such indemnification provisions relating to facts or circumstances occurring prior to the Closing.

Section 5.4 Maintenance of Books and Records. All records, including Tax records relating to the Company, in the possession of or solely under the control of each party prior to the Closing Date (collectively, "BUSINESS RECORDS"), shall be preserved until at least seven years after the Closing Date.

Section 5.5 Access to Information.

(a) Upon any reasonable request from the Seller, the Buyer shall, and shall cause the Company and its Subsidiaries to:

(i) provide to the Seller and its representatives reasonable access to the Business Records and any business records relating to the Company that are created after the Closing Date during normal business hours; and

(ii) permit the Seller and its representatives to make copies of such Business Records and any business records relating to the Company that are created after the Closing Date, in each case at no cost to the Seller or its representatives (other than for reasonable out-of-pocket expenses). Such Business Records and any business records relating to the Company that are created after the Closing Date may be sought under this Section 5.5 for any reasonable purpose up until the seventh anniversary of the Closing Date, including, without limitation, in connection with the audit, accounting, Tax, federal securities disclosure or other similar needs of the Seller; provided, that the Seller shall not be limited to seeking such Business Records and any business records relating to the Company that are created after the Closing Date, in relation to litigation and insurance matters, to the period up until the seventh anniversary of the Closing Date and may seek such access or copies of such documents until the Seller notifies the Buyer that it no longer requires such access or copies.

(b) Until the seventh anniversary of the Closing Date, upon any reasonable request from the Buyer or its representatives, the Seller shall:

(i) provide to the Buyer and its representatives reasonable access to Tax records, including Tax Returns, which relate solely to the Company or its Subsidiaries during normal business hours; provided, that neither the Buyer nor its representatives shall have the right to be provided with any Tax records, including Tax Returns, of the Seller, any of the Seller's Affiliates or any of the Seller's Affiliates' respective predecessors, other than Tax records or Tax Returns relating solely to the Company and/or its Subsidiaries; and

(ii) permit the Buyer or its representatives to make copies of such Tax records, in each case at no cost to the Buyer and its representatives (other than for reasonable out-of-pocket expenses). The Tax records relating solely to the Company and its Subsidiaries may be sought under this Section 5.5 for the Tax needs of the Buyer.

Section 5.6 Insurance. The Buyer hereby acknowledges and agrees that:

(i) the insurance policies of the Seller and the Company provide coverage for other named insureds and not just for the Seller and the Company;

(ii) the other named insureds on such policies may make claims which, either singly or in the aggregate, could reduce or exhaust all coverage provided, if any, by such insurance policies;

(iii) from the Closing Date, the Company Group will be removed as an insured from all insurance policies of the Tomkins' Group, including, but not limited to the policies listed in the Insurance Side Letter, which has been previously delivered to the Buyer, and the Company Group will be solely responsible, without any recourse to the Tomkins' Group, for any and all insurance coverage for the Company Group, including coverage gaps arising out of the settlement, adjustment or compromise of any claims or litigation; and

(iv) the Seller will not be responsible for the purchase of any extension of current insurance policies, including, but not limited to, "discovery period" extension.

Section 5.7 As Is Basis. The Buyer acknowledges that it is acquiring the Shares and the Company on an "as is," "where is" basis with all faults, without, except for the representations and warranties set forth in Article III above, any representations or warranties, expressed or implied, in fact or by law, with respect to the Shares, the Company or the Subsidiaries of the Company, and without any recourse against the Seller. The Buyer waives any claim of liability against the Seller based on any statement, representation, warranty, covenant, undertaking or agreement which may have been made by the Seller in connection with the Shares, the Company, the Subsidiaries of the Company or the transactions contemplated by this Agreement, except as expressly stated in this Agreement.

Section 5.8 Operation of the Company. Until the later of repayment in full of all amounts due under the Note or May 11, 2006, the Buyer agrees that:

(a) it shall, and shall cause the Company and the Subsidiaries of the Company to, operate the Company and the Subsidiaries of the Company only in the ordinary course of business;

(b) the Buyer shall not cause the Company or any Subsidiary of the Company to, nor permit the Company or any Subsidiary of the Company to, loan or otherwise transfer any cash out of the Company or any Subsidiary of the Company to the Buyer or to any Affiliate of the Buyer; provided, that dividends payable by the Company to the Buyer in an amount not in excess of \$600,000 in the first twelve (12) month period following the Closing and not in excess of \$1,800,000 per annum thereafter, may be paid subject to applicable law, and this Section 5.8(b) shall not prohibit any other transactions which are expressly permitted under other provisions of this Agreement; and

(c) the Buyer shall not cause the Company or any Subsidiary of the Company to, nor permit the Company or any Subsidiary of the Company to, pay any employee, officer or director of the Company or any Subsidiary of the Company a salary, bonus or other compensation that is not a reasonable salary, bonus or other compensation.

Section 5.9 Restricted Payments. Until the later of repayment in full of all amounts due under the Note or May 11, 2006, the Buyer agrees that the Buyer shall not cause the Company or any Subsidiary of the Company to, nor permit the Company or any Subsidiary of the Company to, directly or indirectly, declare, order, pay any sum for, or make, any Restricted Payment.

Indebtedness. The Buyer agrees that, until payment of the Balance Purchase Price:

(a) the Buyer shall not cause the Company or any Subsidiary of the Company to, nor permit the Company or any Subsidiary of the Company to, directly or indirectly, create, incur, assume or guaranty, or otherwise become or remain directly or indirectly liable with respect to any Indebtedness, except for the Note and any Indebtedness incurred in the ordinary course of business of the Company and the Subsidiaries of the Company and Permitted Indebtedness;

(b) the Buyer shall not cause the Company or any Subsidiary of the Company to, nor permit the Company or any Subsidiary of the Company to, make any payment or prepayment of principal of, pay any premium, if any, or interest on, or pay any redemption, purchase, retirement, defeasance (including in-substance or legal defeasance), sinking fund or similar payment with respect to, any subordinated Indebtedness other than Indebtedness permitted by Section 5.10(a).

Section 5.10 Fundamental Changes; Disposition of Assets; Acquisitions. The Buyer agrees that the Buyer shall not cause the Company or any Subsidiary of the Company, nor permit the Company or any Subsidiary of the Company to:

(a) enter into any transaction of merger or consolidation, convey, sell, lease or sub-lease (as lessor or sublessor), transfer or otherwise dispose of, or grant a Lien over, in one transaction or a series of transactions, all or any part of its business, assets or property of any kind whatsoever, whether real, personal or mixed and whether tangible, intangible or contingent, whether now owned or hereafter acquired until payment of the Balance Purchase Price;

(b) liquidate, wind-up or dissolve itself, or suffer any liquidation or dissolution of, in one transaction or a series of transactions, all or any part of its business, assets or property of any kind whatsoever, whether real, personal

or mixed and whether tangible, intangible or contingent, whether now owned or hereafter acquired, until the later of repayment in full of all amounts due under the Note or May 11, 2006; and

(c) acquire by purchase, or otherwise, the property or fixed assets of, the business of, or stock or other evidence of beneficial ownership of, any Person or any division or line of business or other business unit of any Person until payment of the Balance Purchase Price.

Section 5.11 Transactions with Shareholders and Affiliates. Until the later of repayment in full of all amounts due under the Note or May 11, 2006, the Buyer agrees that the Buyer shall not cause the Company or any Subsidiary of the Company to, nor permit the Company or any Subsidiary of the Company to, directly or indirectly, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any holder of 5% or more of any class of capital stock of the Company or any of its Subsidiaries or with any Affiliate of the Buyer, or of any such holder, unless such transaction is on terms which are generally no less favorable to the Company (or any Subsidiary) as would be applicable in an "arms - - length" transaction.

Section 5.12 Change of Control. If there is a Change of Control of the Buyer or the Company then, pursuant to the terms of the Note, as amended by the Note Amendment, the term of the Note shall immediately be accelerated and become due and payable in full and the Buyer shall cause the Company to immediately repay the Note in full to the Seller.

Section 5.13 Guaranty. The Buyer hereby agrees to execute a guaranty of the obligations of the Company under the Note, in the form of the Guaranty set out in Exhibit C attached to this Agreement.

Section 5.14 Settlement Agreement & Boston Agreement. The Buyer acknowledges that the Company is a party to the Settlement Agreement and to the Boston Agreement.

Section 5.15 Taxes.

(a) Within 60 days following the Closing Date, the Buyer shall cause the Company to prepare and provide to the Seller a package of Tax information materials, including, but not limited to, schedules, work papers and a LIFO calculation (the "TAX PACKAGE") required by the Seller to enable the Seller to prepare and file its consolidated federal income Tax Return (and any state or local consolidated, combined, unitary or similar income tax return). The Tax Package shall be prepared in good faith and, to the extent permitted by applicable law, in a manner consistent with past practice of the Company.

(b) None of the Buyer or any Affiliate of the Buyer shall (or shall cause or permit the Company or any Subsidiary of the Company to) take any action on or after the Closing Date which could increase the amount of income for Tax purposes of the Company or any Subsidiary of the Company, or reduce the amount of loss for Tax purposes or any Tax attribute of or attributable to the Company or any Subsidiary of the Company, in each case, for any taxable period ending on or before the Closing Date.

(c) (i) Unless otherwise required by applicable Law, none of the Buyer or any Affiliate of the Buyer shall (or shall cause or permit the Company or any Subsidiary of the Company to) amend, refile or otherwise modify any Tax Return of or that includes the Company or any Subsidiary of the Company filed on or prior to the date of this Agreement or any other Tax Return for which the Seller is the common parent of a consolidated, combined, unitary or similar group that includes the Company or any of its Subsidiaries, without the prior written consent of the Seller, which consent may be withheld in the sole discretion of the Seller.

(ii) Notwithstanding anything to the contrary contained in Section 5.16(c)(i), upon prior written notice by the Buyer to the Seller, Buyer shall be entitled (and shall be entitled to cause or permit the Company or any Subsidiary of the Company) to amend, refile or otherwise modify (x) any state income Tax Return of the Company that is not a consolidated, combined, unitary or similar state income Tax Return (a "NON-COMBINED TAX RETURN"), (y) any Non-Combined Tax Return of any Subsidiary of the Company or (z) any state consolidated, combined, unitary or similar income Tax Return of a group that includes only the Company and one or more of its Subsidiaries; provided, however, that if any such Tax Return is amended, refiled or otherwise modified pursuant to this section 5.16(c)(ii), then, notwithstanding anything to the contrary contained in this Agreement or otherwise, neither Seller nor any of its Affiliates shall be required to indemnify Buyer, its Affiliates, the Company or any Subsidiary of the Company pursuant to this



Agreement or otherwise with respect or attributable to (A) any Tax Return that has been amended, refiled or otherwise modified, (B) any Taxes related or attributable to such Tax Return or (C) any other Tax Return or any Taxes, in each case, that are affected as a result of such amendment, refiling or other modification.

(d) (i) Any Tax refund (including any interest in respect thereof) received by the Seller or any Affiliate of the Seller that relates to (x) any Non-Combined Tax Return of the Company, (y) any Non-Combined Tax Return of any Subsidiary of the Company or (z) any state combined, unitary or similar income Tax Return of a group that includes only the Company and one or more of its Subsidiaries, in each case, shall be for the account of the Buyer, and the Seller shall pay over to the Buyer any such refund within five (5) days after receipt. The Seller shall pay the Buyer interest at the rate prescribed under Section 6621(a)(1) of the Code, compounded daily, on any amount not paid when due under this Section 5.16(d)(i).

(ii) Any Tax refund (including any interest in respect thereof), and any amounts credited against Tax, that relates to (x) any Tax Return of the Company or any Subsidiary of the Company that is not described in Section 5.16(d)(i) or (y) any Tax Return of the Seller or any of its Affiliates (other than any Tax Return described in Section 5.16(d)(i)), including any Tax Return for which the Seller is the common parent of a consolidated, combined, unitary or similar group that includes the Company or any of its Subsidiaries, in each case, shall be for the account of the Seller, and the Buyer shall pay over to the Seller any such refund or the amount of any such credit within five (5) days after receipt or entitlement thereto, whichever is applicable. The Buyer shall pay the Seller interest at the rate prescribed under Section 6621(a)(1) of the Code, compounded daily, on any amount not paid when due under this Section 5.16(d)(ii). The Buyer shall reasonably cooperate, and cause the Company and each Subsidiary of the Company to reasonably cooperate, in obtaining any refund described in this Section 5.16(d)(ii) that the Seller reasonably believes should be available, including without limitation, through filing appropriate forms with the applicable taxing authorities; provided, however, that in no event shall such cooperation require any of the Buyer, the Company or any Subsidiary of the Company to expend any funds or undertake any financial obligation without reimbursement by the Seller.

(e) With respect to the sale of the Shares under this Agreement, the Seller and the Buyer hereby agree that an election under Section 338 of the Code (or similar provision of the law of any state or other taxing authority) will not be made with respect to the Company or any Subsidiary of the Company.

(f) All excise, sales, use, transfer (including real property transfer or gains), stamp, documentary, filing, recordation and other similar taxes, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties, resulting directly from the transactions contemplated by this Agreement (the "TRANSFER TAXES"), shall be borne by the Buyer. Any Tax Returns that must be filed in connection with Transfer Taxes shall be prepared and filed when due by the party primarily or customarily responsible under the applicable local law for filing such Tax Returns, and such party will use its reasonable efforts to provide such Tax Returns to the other party at least 10 days prior to the due date for such Tax Returns. If the Seller is responsible for filing such Tax Returns relating to Transfer Taxes pursuant to the preceding sentences, the Buyer shall pay to the Seller the amount of such Transfer Taxes required to be paid no later than five days prior to the due date for filing such returns.

(g) (i) The Buyer shall notify the chief tax officer of the Seller in writing within 15 days of receipt by the Buyer, the Company or any Subsidiary of the Company (or any of their respective Affiliates) of written notice of any pending or threatened audits, notice of deficiency, proposed adjustment, assessment, examination or other administrative or court proceeding, suit, dispute or other claim (a "TAX CLAIM") which could affect the liability for Taxes for which the Seller may be required to indemnify the Buyer pursuant to this Agreement. If the Buyer fails to give such prompt notice to the Seller it shall not be entitled to indemnification for any Taxes arising in connection with such Tax Claim if and to the extent that such failure to give notice adversely affects the Seller's right to participate in the Tax Claim.

(ii) The Seller shall have the sole right to represent the Company and each Subsidiary of the Company in any Tax Claim for which the Buyer or any Buyer Indemnitee is entitled to indemnification pursuant to this Agreement and to employ counsel of its choice at its expense. None of the Buyer, any of its Affiliates, or the Company or any Subsidiary of the Company may settle or otherwise dispose of any Tax Claim for which the Seller may have a liability under this Agreement, or which may result in an increase in Seller's liability under this Agreement, without the prior written consent of the Seller.

(iii) Notwithstanding anything to the contrary in this Agreement, this Section 5.16(g) shall govern and control all claims relating to Taxes.

(h) The parties hereby agree for Tax purposes that the fair market value of the Note, after consummating the actions in Section 2.8(b), is equal to \$50,000,000. Each of the Buyer and the Seller (and each of their respective Affiliates) shall prepare and file, and cause its respective Affiliates to prepare and file, its Tax Returns on a basis consistent with such fair market value (including, but not limited to, for purposes of Treasury Regulation Section 1.1502-13(g)) and shall take no position, and cause its Affiliates to take no position, inconsistent with such fair market value on any applicable Tax Return, in any audit or proceeding before any taxing authority or otherwise.

(i) (i) The Seller hereby agrees to pay the Buyer \$464,500 on January 15, 2002 by wire transfer of immediately available funds to an account or accounts designated in writing by the Buyer.

(ii) Notwithstanding anything to the contrary contained in this Agreement, (x) Seller or any of its Affiliates shall not be required to pay Buyer, the Company or any Subsidiary of the Company any amount for any utilization by Seller of any loss for Tax purposes or any Tax attribute of or attributable to the Company or any of its Subsidiaries, (y) any and all Tax sharing agreements or arrangements, written or unwritten (the "TAX SHARING AGREEMENT"), between the Seller and/or any of its Affiliates (other than the Company and/or any of its Subsidiaries) and the Company and/or its Subsidiaries, shall be terminated as of the Closing and no Person shall have any rights or obligations under any such Tax Sharing Agreement after such termination and (z) none of the Buyer, its Affiliates, the Company or any Subsidiary of the Company shall be entitled to any indemnification from the Seller or any of its Affiliates pursuant to this Agreement or otherwise that relates or is attributable to the Company or any Subsidiary of the Company not having losses for Tax purposes or any Tax attribute.

#### Section 5.16 Covenant Certification.

(a) Until the later of repayment in full of all amounts due under the Note or May 11, 2006, the Buyer shall provide certification to the Seller, on October 11 and May 11 each year, commencing November 11, 2001, in the form of the certificate attached to this Agreement as Exhibit D, that it is in full compliance with all of its covenants under this Agreement (the "COVENANT CERTIFICATION"). If the date for certification does not fall on a Business Day, then the certificate shall be provided on the next Business Day.

(b) Failure by the Buyer to provide any Covenant Certification within five (5) Business Days of the due date of such Certification shall cause the term of the Note to immediately be accelerated and become due and payable in full.

## ARTICLE VI

### SURVIVAL AND INDEMNIFICATION

Section 6.1 Survival Periods. Each of the representations and warranties made by the parties in this Agreement shall terminate eighteen (18) months after the Closing; provided however, that the representations and warranties made in Section 3.7 shall continue in full force and effect until the expiration of the applicable statute of limitations (taking into account all extensions timely filed). The covenants of the parties contained in Article V survive indefinitely except as otherwise provided in this Agreement.

Section 6.2 Seller's Agreement to Indemnify. Subject to the terms and conditions set forth in this Agreement, from and after the Closing, the Seller shall indemnify and hold harmless the Buyer and its directors, officers, employees, Affiliates, controlling persons and representatives (collectively, the "BUYER INDEMNITEES") from and against all liability, demands, payments, claims, actions or causes of action, assessments, losses, damages, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) (collectively, the "BUYER DAMAGES") asserted against or incurred by any Buyer Indemnitee as a result of or arising out of or in connection with:

(i) a breach of any representation or warranty of the Seller contained in Article III of this Agreement that survives the Closing subject to the terms of Section ?;

(ii) any liability for Taxes imposed on the Company or any Subsidiary of the Company as members of the "affiliated group" (within the meaning of Section 1504(a) of the Code) of which Seller is the common parent that arises under

Treasury Regulation Section 1.1502-6(a) or comparable provisions of foreign, state or local law; and

The Buyer's rights to indemnification as provided for in this Section 6.2 shall be the sole and exclusive remedies of the Buyer against the Seller for a breach of the Seller's representations and warranties contained in this Agreement and for any Tax liability and the Seller shall have no other liability to the Buyer.

Section 6.3 Buyer's Agreement to Indemnify. Subject to the terms and conditions set forth herein, from and after the Closing, the Buyer shall indemnify and hold harmless the Seller and its directors, officers, employees, Affiliates, controlling Persons and representatives and their successors and assigns (collectively, the "SELLER INDEMNITEES") from and against all liability, demands, claims, actions or causes of action, assessments, losses, damages, payments, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) (collectively, "SELLER DAMAGES") asserted against or incurred by any Seller Indemnitee as a result of or arising out of or in connection with:

(i) a breach of any representation or warranty of the Buyer contained in Article IV of this Agreement that survives Closing, subject to the terms of Section 6.1;

(ii) a breach of any covenant or agreement on the part of the Buyer under this Agreement; and

(iii) any Company Liabilities; provided, that (A) any liabilities of the Company or a Subsidiary of the Company the existence of which constitutes a breach of a representation and warranty of the Seller which survive Closing, and (B) any Taxes imposed on the Company or any Subsidiary of the Company as members of the "affiliated group" (within the meaning of Section 1504(a) of the Code) of which the Seller is the common parent that arise under Treasury Regulation Section 1.1502-6(a) or comparable provisions of foreign, state or local law, in each case, shall be excluded from the definition of Company Liabilities only for purposes of this Section 6.3 (iii).

The Seller's rights to indemnification as provided for in this Section 6.3 shall be the sole and exclusive remedies of the Seller against the Buyer for a breach of the Buyer's representations and warranties contained in this Agreement, a breach of any covenant or agreement on the part of the Buyer under this Agreement and for any Company Liabilities and the Buyer shall have no other liability to the Seller.

Section 6.4 Third-Party Claims Against Seller. The obligations of the Buyer to indemnify the Seller Indemnitees under Section 6.3 with respect to Seller Damages, resulting from the assertion of liability by third parties (each, as the case may be, a "THIRD PARTY CLAIM"), will be subject to the following terms and conditions:

(a) The Seller will give the Buyer written notice of any such Third Party Claim promptly after learning of such Third Party Claim, and the Buyer may participate in the defense thereof; provided, that the Seller shall have the sole and absolute discretion to control the conduct of negotiations or litigation in relation to such Third Party Claim including, but not limited to, the right to settle, compromise or discharge, any such Third Party Claim or consent to the entry of any judgment with respect thereto; provided, further, that any such settlement, compromise or discharge includes as an unconditional term thereof, the delivery by the claimant or plaintiff to the Seller and the Buyer of a written release of the Seller, the Buyer, the Company and each Subsidiary of the Company, as applicable, from all liability in respect of such Third Party Claim. Failure to give prompt notice of a Third Party Claim shall not affect the Buyer's obligations under this Article VI; and

(b) The Seller and the Buyer shall cooperate together fully in all aspects of any investigation, defense, pre-trial activities, trial, compromise, settlement or discharge of any claim in respect of which indemnity is sought pursuant to this Article VI, including, but not limited to, providing the Seller with reasonable access to employees and officers of the Company or the Buyer and using best efforts to cause such employees and officers to agree to appear as witnesses.

Section 6.5 Subrogation.

(a) The Seller shall be subrogated to the rights of the Buyer in respect of any insurance relating to Seller Damages, to the extent of any indemnification payments made pursuant to this Agreement.

(b) The Buyer shall be subrogated to the rights of the Seller in respect of any insurance relating to Buyer Damages to the extent of any indemnification payments made pursuant to this Agreement.

## ARTICLE VII

### MISCELLANEOUS PROVISIONS

#### Section 7.1 Entire Agreement and Waiver.

(a) This Agreement (including the Company Disclosure Schedule and the Buyer Disclosure Schedule) constitutes the entire agreement of the parties relating to the subject matter hereof and supersedes any other prior agreements and understandings between the parties, both oral and written, regarding such subject matter.

(b) The Buyer waives any claim of liability it may have against the Seller based on any statement, representation, warranty, covenant, undertaking or agreement which may have been made by the Seller in connection with the Shares, the Company, the Subsidiaries of the Company and the Company Group, or the transactions contemplated by this Agreement, except as expressly stated in this Agreement.

Section 7.2 Severability. Any provision of this Agreement that is held by a court of competent jurisdiction to violate applicable law shall be limited or nullified only to the extent necessary to bring the Agreement within the requirements of such law.

Section 7.3 Notices. Any notice required or permitted by this Agreement must be in writing and must be sent by facsimile, by nationally recognized commercial overnight courier, or mailed by United States registered or certified mail, addressed to the other party at the address below or to such other address for notice (or facsimile number, in the case of a notice by facsimile) as a

party gives the other party written notice of in accordance with this Section 7.3. Any such notice will be effective as of the date of receipt:

(a) if to the Seller, to

Tomkins Corporation  
4801 Springfield Street  
Dayton, Ohio 45401  
Telephone: (937) 476-0241  
Telecopy: (937) 253-6436  
Attention: George Pappayliou, Esq.

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP  
4 Times Square  
New York, New York 10036  
Telephone: (212) 735-3000  
Telecopy: (212) 735-2000  
Attention: David Fox, Esq.

except for notices given pursuant to Section 5.16(g)(i) which shall also go to:

Gates Corporation  
900 South Broadway  
Denver, Colorado 80209-4071  
Telephone: (303) 744-4030  
Telecopy: (303) 744-4761  
Attention: Ms Kathleen Sullivan

(b) if to the Buyer, to

SAF-T-HAMMER Corporation  
14500 N. Northsight Blvd. Suite 221  
Scottsdale, Arizona 85260  
Telephone: (480) 949-9700  
Telecopy: (480) 949-9747  
Attention: Mr Bob Scott



with a copy to:

Gammage & Burnham PLC  
2 N. Central Avenue, 18th Floor  
Phoenix, Arizona 85004  
Telecopy: (602) 256-4475  
Attention: Stephen Boatwright, Esq.

Section 7.4 Governing Law. This Agreement shall be governed by, enforced under and construed in accordance with the laws of the State of Delaware, without giving effect to any choice or conflict of law provision or rule thereof.

Section 7.5 Venue. Each of the parties:

(a) consents to submit to the exclusive jurisdiction of any court of the United States located in the State of Delaware for any litigation arising out of or relating to this Agreement and the transactions contemplated hereby;

(b) agrees not to commence any litigation relating thereto except in such courts;

(c) agrees that service of any process, summons, notice or document by U.S. registered mail to its respective address set forth in Section 7.3 (or to such other address for notice that such party has given the other party written notice of in accordance with Section 7.3) shall be effective service of process for any litigation brought against it in any such court;

(d) waives any objection to the laying of venue of any litigation arising out of this Agreement or the transactions contemplated hereby in the courts of the United States located in the State of Delaware; and

(e) agrees not to plead or claim in any such court that any litigation brought in any such court has been brought in an inconvenient forum.

Section 7.6 Counterparts. This Agreement may be signed in counterparts which together shall constitute one original of this Agreement. This

Agreement shall become effective when each party hereto has received counterparts thereof signed by the other party hereto.

Section 7.7 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any party hereto (whether by operation of law or otherwise) without the prior written consent of the other party. Subject to the preceding clause, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 7.8 Fees and Expenses. Each of the parties hereto shall bear its own costs and expenses (including legal and financial advisory fees and expenses) incurred in connection with, or in anticipation of, this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses.

Section 7.9 No Third-Party Beneficiaries. Except as expressly provided in Section 5.3, this Agreement shall not benefit or create any right or cause of action in or on behalf of any Person other than the parties hereto; provided, however, that this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and permitted assigns.

Section 7.10 No Waivers; Modification. Any waiver of any right or default hereunder shall be effective only in the instance given and will not operate as or imply a waiver of any other or similar right or default on any subsequent occasion. No waiver, modification or amendment of this Agreement or of any provision hereof will be effective unless in writing and signed by the party against whom such waiver, modification or amendment is sought to be enforced.

Section 7.11 Specific Performance. The parties to this Agreement agree that:

(a) if any provision of this Agreement was not performed in accordance with its specific terms, or was otherwise breached, irreparable damage would occur, no adequate remedy at law would exist and damages would be difficult to determine; and

(b) the parties shall be entitled to specific performance of the terms of this Agreement and immediate injunctive relief in addition to any other remedy at law or in equity, without the necessity of proving the inadequacy of money damages as a remedy and without having to post any bond.

IN WITNESS WHEREOF, each of the undersigned has caused this Agreement to be duly signed as of the date first above written.

TOMKINS CORPORATION

By:

-----

Name:

Title:

SAF-T-HAMMER CORPORATION

By:

-----

Name:

Title:

## NOTE

\$10,000,000 May 11, 2001

New York, New York

FOR VALUE RECEIVED, Saf-T-Hammer Corporation, a company organized under the laws of the State of Nevada (the "BORROWER"), promises to pay Tomkins Corporation, a company organized under the laws of the State of Delaware (the "LENDER") or its assigns, on or before May 11, 2002 (the "MATURITY DATE"), TEN MILLION DOLLARS (\$10,000,000).

Borrower also promises to pay interest on the unpaid principal amount hereof, from the date hereof until paid in full at a rate equal to 9%, per annum (the "INTEREST RATE"). All computations of interest hereunder shall be made on the basis of a year of 360 days for the actual number of days occurring in the period for which any such interest is payable. Interest shall be payable on the last business day of each month. If any principal of or interest hereunder or any other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, then, in any such case, the Interest Rate shall increase by 2%, per annum, and shall continue to accrue thereafter at that rate until all principal of and interest hereunder and all other amounts payable by the Borrower hereunder are paid in full. Notwithstanding anything contained herein to the contrary, in no event shall the interest rate hereunder exceed the Maximum Rate (as defined below). Each determination by Lender of any applicable rate of interest, and of any change therein, in the absence of manifest error shall be conclusive and binding on the parties hereto.

Anything herein to the contrary notwithstanding, if during any period for which interest is computed hereunder, the applicable interest rate, together with all fees, charges and other payments which are treated as interest under applicable law, as provided herein, would exceed the maximum rate of interest which may be charged, contracted for, reserved, received or collected by Lender in connection with this Note under applicable law (the "MAXIMUM RATE"), Borrower shall not be obligated to pay, and Lender shall not be entitled to charge, collect, receive, reserve or take, interest in excess of the Maximum Rate, and during any such period the interest payable hereunder shall be limited to the Maximum Rate.

Borrower may make any payment of principal hereon, at any time, without penalty or premium.

Each payment hereunder shall be made on the day when due to Lender in Dollars and in immediately available funds, to such bank and/or account of Lender as it from time to time shall designate in a written notice to Borrower. Borrower shall make each payment hereunder unconditionally in full and free and clear of, and without reduction for or on account of, any present and future taxes or withholdings, and all liabilities with respect thereto. Each such payment shall be made without set-off, counterclaim or, to the extent permitted by applicable law, other defense, all of which are hereby expressly waived by Borrower. Lender hereby agrees, by its acceptance hereof, it will make a notation hereon of all principal payments previously made hereunder and of the date to which interest hereon has been paid; provided, the failure to make a notation of any payment made on this Note shall not limit or otherwise affect the obligations of Borrower hereunder with respect to payments of principal or interest on this Note.

Borrower shall have no right to offset any obligation owed by Lender to Borrower against any obligation of Borrower to Lender under this Note.

Each of the following events shall constitute an "EVENT OF Default" hereunder:

(a) Borrower shall fail to pay when due any amount of principal or interest on this Note or other amount payable hereunder;

(b) (i) Borrower shall be dissolved, liquidated, wound up or cease its corporate existence; or (ii) Borrower (A) shall make a general assignment for the benefit of creditors, or shall generally fail to pay, or admit in writing its inability to pay, its debts as they become due, subject to applicable grace periods, if any, whether at stated maturity or otherwise; (B) shall voluntarily cease to conduct its business in the ordinary course; (C) shall commence any (i) any case, action or proceeding before any court or other applicable governmental authority relating to bankruptcy, reorganization, insolvency, liquidation, receivership, dissolution, winding-up or relief of debtors, or (ii) any general assignment for the benefit of creditors, composition, marshaling of assets for creditors, or other, similar arrangement in respect of its creditors generally or any substantial portion of its creditors, in each case undertaken under U.S. federal, state or foreign law, including Title 11 of the United States Code entitled "Bankruptcy" (any such proceeding referred to in this clause (b), an "INSOLVENCY PROCEEDING" )with respect to itself; or (D) shall take any action to effectuate or authorize any of the foregoing;

(c) (i) any involuntary Insolvency Proceeding is commenced or filed against Borrower, or any writ, judgment, warrant of attachment, execution or similar process, is issued or levied against a substantial part of Borrower's properties, and any such proceeding or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded within 60 days after commencement, filing or levy; (ii) Borrower admits the material allegations of a petition against it in any Insolvency Proceeding, or an order for relief (or similar order under non-U.S. law) is ordered in any Insolvency Proceeding; or (iii) Borrower acquiesces in the appointment of a receiver, trustee, custodian, conservator, liquidator, mortgagee in possession (or agent therefor), for itself or a substantial portion of its property or business; or

(d) Any failure by Borrower to perform any covenants under this Note.

(e) There is a Change of Control (as defined in the Stock Purchase Agreement, dated the date of this Note, between Borrower and Lender) of Borrower.

Upon the occurrence and during the continuance of any Event of Default, Lender may declare the entire unpaid principal amount of this Note, all interest accrued and unpaid thereon and all other obligations of Borrower hereunder to be forthwith due and payable, whereupon this Note, all such accrued interest and all such other obligations shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Borrower; provided, that if an event described in either of the foregoing clauses (b) and (c) shall occur, the result which would otherwise occur only upon giving of notice by Lender to Borrower as specified in this paragraph shall occur automatically, without the giving of any such notice. Additionally, Lender may proceed to enforce all other rights and remedies available to it hereunder and under applicable law or at equity.

No provision of this Note shall alter or impair the obligations of Borrower hereunder, which are absolute and unconditional, to pay the principal of and interest on this Note at the place, at the respective times, and in the currency herein prescribed.

Borrower promises to pay all reasonable costs and expenses, including reasonable attorneys' fees incurred in the collection and enforcement of this Note. Borrower and any endorsers of this Note hereby consent to renewals and extensions of time at or after the maturity hereof, without notice, and hereby waive diligence, presentment, protest, demand notice of every kind and, to the full extent permitted by

law, the right to plead any statute of limitations as a defense to any demand hereunder.

All covenants, agreements, representations and warranties made herein shall survive the execution and delivery of this Note, and shall continue in full force and effect so long as any obligation hereunder remains unpaid or any obligation to perform any other act hereunder remains unsatisfied. No amendment to any provision of this Note shall be effective unless it is in writing and has been signed by Lender and Borrower, and no waiver of any provision of this Note, or consent to any departure by Borrower therefrom, shall be effective unless it is in writing and has been signed by Lender.

No failure on the part of Lender to exercise, and no delay in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, remedy, power or privilege preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights and remedies hereunder are cumulative and not exclusive of any rights, remedies, powers and privileges that may otherwise be available to Lender.

Whenever possible, each provision of this Note shall be interpreted in such manner as to be effective and valid under all applicable laws and regulations. If, however, any provision hereof shall be prohibited by or invalid under any such law or regulation in any jurisdiction, it shall, as to such jurisdiction, be deemed modified to conform to the minimum requirements of such law or regulation, or, if for any reason it is not deemed so modified, it shall be ineffective and invalid only to the extent of such prohibition or invalidity without affecting the remaining provisions of this Note, or the validity or effectiveness of such provision in any other jurisdiction.

This Note shall be binding upon Borrower and shall inure to the benefit of Lender and its successors and assigns. Borrower may not assign, transfer, hypothecate or otherwise convey its rights, benefits, obligations or duties hereunder without the prior express written consent of Lender. Any such purported assignment, transfer, hypothecation or other conveyance by Borrower without the prior express written consent of Lender shall be void.

THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF DELAWARE.

IN WITNESS WHEREOF, Borrower has caused this Note to be duly executed and delivered by its duly authorized officer as of the date and at the place first written above.

SAF-T-HAMMER CORPORATION

By: \_\_\_\_\_  
Title:



## GUARANTY

This GUARANTY, dated as of May 11, 2001 (this "GUARANTY"), between Saf-T-Hammer Corporation, a company organized under the laws of the State of Nevada (the "GUARANTOR") and Tomkins Corporation, a company organized under the laws of the State of Delaware ("TOMKINS").

## RECITALS

WHEREAS, the Guarantor and Tomkins are party to the Stock Purchase Agreement, dated as of the date of this Guaranty, relating to the sale of the Company by Tomkins to the Guarantor;

WHEREAS, Tomkins holds a promissory note, issued and payable by the Company, in the amount of \$73,830,000, due 30 April 2004 (the "NOTE");

WHEREAS, the Guarantor is obligated under the Stock Purchase Agreement to provide a guaranty to Tomkins of the obligations of Smith & Wesson Corporation, a company organized under the laws of the State of Delaware ("COMPANY") under the Note;

NOW THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements contained herein, and intending to be legally bound hereby, the parties hereto agree as follows:

1.1 Guaranty. The Guarantor hereby irrevocably and unconditionally guaranties to Tomkins the due and punctual payment in full of all obligations of the Company under the Note when the same shall become due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. Section 362(a)) (collectively, the "GUARANTEED OBLIGATIONS").

1.2 Payment on Demand. The Guarantor hereby agrees, in furtherance of the foregoing and not in limitation of any other right which Tomkins may have at law or in equity against the Guarantor by virtue hereof, that upon the failure of the Company to pay any of the Guaranteed Obligations when and as the same shall become due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including amounts that would become due

but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. Section 362(a)), the Guarantor will upon demand pay, or CAUSE to be paid, in immediately available funds to Tomkins, an amount equal to the sum of the unpaid amount of the Guaranteed Obligations then due as aforesaid, accrued and unpaid interest on such portion of the Guaranteed Obligations (including interest which, but for the Company becoming the subject of a case under the Bankruptcy Code, would have accrued on such portion of the Guaranteed Obligations, whether or not a claim is allowed against the Company for such interest in the relevant bankruptcy case) and all other Guaranteed Obligations then due and owing to Tomkins as aforesaid.

1.3 Nature of Obligations. The Guarantor hereby agrees that its obligations hereunder as guarantor are irrevocable, independent and unconditional and shall not be affected by any circumstance which constitutes a legal or equitable discharge of a guarantor or surety other than payment in full of the Guaranteed Obligations.

1.4 Waiver. The Guarantor hereby waives, for the benefit of Tomkins:

(a) any right to require Tomkins, as a condition of payment or performance by the Guarantor of the Guaranteed Obligations, to proceed against the Company or any other Person, proceed against or exhaust any security held from the Company or any other Person, or pursue any other remedy in the power of Tomkins whatsoever;

(b) any defense arising by reason of the incapacity, lack of authority or any disability or other defense of the Company, including any defense based on or arising out of the lack of validity or the unenforceability of the Guaranteed Obligations or any agreement or instrument relating thereto or by reason of the cessation of the liability of the Company from any cause other than payment in full of the Guaranteed Obligations;

(c) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal;

(d) any defense based upon any errors or omissions in the administration of the Guaranteed Obligations, except behavior which amounts to bad faith or willful misconduct;

(e) any principles or provisions of law, statutory or otherwise, which are or might be in conflict with the terms hereof and any legal or equitable discharge of the Guarantor's obligations hereunder (other than the payment in full of the Guaranteed Obligations), the benefit of any statute of limitations affecting the Guarantor's liability hereunder or the enforcement hereof, and any rights to set-offs, recouplements and counterclaims;

(f) promptness, diligence and any requirement that Tomkins protect, secure, perfect or insure any security interest or Lien on any property subject thereto;

(g) notices, demands, presentments, protests, notices of protest, notices of dishonor and notices of default hereunder, notices of any renewal, extension or modification of the Guaranteed Obligations or any agreement related thereto; and

(h) any defenses or benefits that may be derived from or afforded by law which limit the liability of or exonerate guarantors or sureties, or which conflict with the terms hereof.

1.5 Waiver of Rights against the Company. Until the Guaranteed Obligations shall have been indefeasibly paid in full, the Guarantor hereby waives:

(a) any claim, right or remedy, direct or indirect, that the Guarantor now has or may have hereafter against the Company or any of the Company's assets in connection with this Guaranty or the performance by the Guarantor of its obligations hereunder, in each case whether such claim, right or remedy arises in equity, under contract, by statute, under common law or otherwise and including, but not limited to, any right of subrogation, reimbursement or indemnification that the Guarantor now has or may hereafter have against the Company with respect to the Guaranteed Obligations; and

(b) any right to enforce, or to participate in, any claim, right or remedy that the Guarantor now has or may hereafter have against the Company, and any benefit of, and any right to participate in, any collateral or security now or hereafter held by the Guarantor.

1.6 Subordination. The Guarantor further agrees that, to the extent the waiver or agreement to withhold the exercise of its rights of subrogation, reimbursement and indemnification set out above is found by a court of competent jurisdiction to be void, voidable, or otherwise unenforceable, for any reason, any

rights of subrogation, reimbursement or indemnification the Guarantor may have against the Company or against any collateral or security shall be junior and subordinate to any rights Tomkins may have against the Company and to all right, title and interest of Tomkins in any such collateral or security.

1.7 Amounts to be Credited. If any amount is paid to and received by the Guarantor on account of any such subrogation, reimbursement or indemnification rights at any time when all Guaranteed Obligations have not been finally and indefeasibly paid in full, such amount shall be held in trust by the Guarantor for Tomkins and immediately paid to Tomkins, to be credited and applied against the Guaranteed Obligations, whether mature or unmatured, in accordance with the terms hereof.

1.8 Continuing Guaranty. This Guaranty by the Guarantor is a continuing guaranty and shall remain in effect until all of the Guaranteed Obligations have been paid in full.

1.9 No Action. So long as any Guaranteed Obligations remain outstanding, the Guarantor shall not, and shall not cause or permit the Company to, without the prior written consent of Tomkins, commence, or join with any other Person in commencing, any bankruptcy, reorganization or insolvency case or proceeding of or against the Company. The obligations of the Guarantor hereunder shall not be reduced, limited, impaired, discharged, deferred, suspended or terminated by any case or proceeding, voluntary or involuntary, involving the bankruptcy, insolvency, receivership, reorganization, liquidation or arrangement of the Company or by any defense which the Company may have by reason of the order, decree or decision of any Governmental Entity.

1.10 Recovery of Payments Made. In the event that all or any portion of the Guaranteed Obligations are paid by the Company, the obligations of the Guarantor hereunder shall remain in full force and effect or be reinstated, as the case may be, in the event that all or any part of such payment(s) are rescinded or recovered directly or indirectly from Tomkins as a preference, fraudulent transfer or otherwise, and any such payments which are so rescinded or recovered shall constitute Guaranteed Obligations for all purposes hereunder.

1.11 Entire Agreement. This Guaranty constitutes the entire agreement of the parties relating to the subject matter hereof and supersedes any other prior agreements and understandings between the parties, both oral and written, regarding such subject matter.

1.12 Severability. Any provision of this Guaranty that is held by a court of competent jurisdiction to violate any applicable law shall be limited or nullified only to the extent necessary to bring the Guaranty within the requirements of such law.

1.13 Notices. Any notice required or permitted by this Guaranty must be in writing and must be sent by facsimile, by nationally recognized commercial overnight courier, or mailed by United States registered or certified mail, addressed to the other party at the address below or to such other address for notice (or facsimile number, in the case of a notice by facsimile) as a party gives the other party written notice of in accordance with this Section 1.13. Any such notice will be effective as of the date of receipt:

(a) if to Tomkins, to

Tomkins Corporation  
4801 Springfield Street  
Dayton, Ohio 45401  
Telephone: (937) 476-0241  
Telecopy: (937) 253-6436  
Attention: George Pappayliou, Esq.

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP  
4 Times Square  
New York, New York 10036  
Telephone: (212) 735-3000  
Telecopy: (212) 735-2000  
Attention: David Fox, Esq.

(b) if to the Guarantor, to

SAF-T-HAMMER Corporation  
14500 N. Northsight Blvd. Suite 221  
Scottsdale, Arizona 85260  
Telephone: (480) 949-9700  
Telecopy: (480) 949-9747  
Attention: Mr Bob Scott

with a copy to:

Gammage & Burnham, PLC  
2 N. Central Avenue, 18th Floor  
Phoenix, Arizona 85004  
Telecopy: (602) 256-4475  
Attention: Stephen Boatwright, Esq.

1.14 Governing Law. This Guaranty shall be governed by, enforced under and construed in accordance with the laws of the State of Delaware, without giving effect to any choice or conflict of law provision or rule thereof.

1.15 Venue. Each of the parties:

(a) consents to submit to the exclusive jurisdiction of any court of the United States located in the State of Delaware for any litigation arising out of or relating to this Guaranty and the transactions contemplated hereby;

(b) agrees not to commence any litigation relating thereto except in such courts;

(c) agrees that service of any process, summons, notice or document by U.S. registered mail to its respective address set forth in Section 1.13 (or to such other address for notice that such party has given the other party written notice of in accordance with Section 1.13) shall be effective service of process for any litigation brought against it in any such court;

(d) waives any objection to the laying of venue of any litigation arising out of this Guaranty or the transactions contemplated hereby in the courts of the State of Delaware; and

(e) agrees not to plead or claim in any such court that any litigation brought in any such court has been brought in an inconvenient forum.

1.16 Counterparts. This Guaranty may be signed in counterparts which together shall constitute one original of this Guaranty. This Guaranty shall become effective when each party hereto has received counterparts thereof signed by the other party hereto.

1.17 Assignment. Tomkins shall not have the right to assign this Guaranty without the consent of the Guarantor.

1.18 Fees and Expenses. Each of the parties hereto shall bear its own costs and expenses (including legal and financial advisory fees and expenses) incurred in connection with, or in anticipation of, this Guaranty and the transactions contemplated hereby.

1.19 No Third-Party. Except as expressly provided in this Guaranty, this Guaranty shall not benefit or create any right or cause of action in or on behalf of any person other than the parties hereto; provided, however, that this Guaranty will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and permitted assigns.

IN WITNESS WHEREOF, each of the undersigned has caused this Guaranty to be duly signed as of the date first above written.

TOMKINS CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

SAF-T-HAMMER CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

## PROMISSORY NOTE

\$73,830,000

Dayton, Ohio  
April 30, 1997

FOR VALUE RECEIVED, the undersigned, Smith & Wesson ("Borrower"), a corporation organized and existing under the laws of the State of Delaware, promises to pay to the order of Tomkins Corporation ("Payee") the sum of SEVENTY THREE MILLION EIGHT HUNDRED THIRTY THOUSAND DOLLARS together with interest from the date hereof at the rate of nine percent (9.0%) per annum, payable monthly on the last day of Borrower's accounting period for said month. Interest at the aforesaid rate on the outstanding principal balance shall be calculated on the basis of a 360-day year but charged for the actual number of days in any year or part thereof.

All payments received by the holder hereunder shall be applied first to the payment of accrued interest and then to the reduction of principal. If not sooner paid, the entire principal balance, together with accrued interest thereon, shall be due and payable on April 30, 2004.

No prepayments or partial payments may be made on account of principal without the express written consent of the holder of this Note.

The undersigned shall be in default hereunder upon the happening of any of the following:

- (a) the failure to perform or pay, when due, any obligation evidenced by this Note or any other note, instrument, document or other agreement given to the holder hereof, now or in the future;
- (b) if any warranty, representation or statement made or furnished to any holder hereof by or on behalf of the undersigned or any endorser or guarantor hereof was false in any material respect when made or furnished;
- (c) if there occurs the dissolution, termination of existence or business failure of any of the undersigned or any endorser or guarantor hereof, or if there is commenced any proceeding



under any bankruptcy or insolvency laws by or against any of the undersigned or any endorser or guarantor hereof, or if any such entity shall make an assignment for the benefit of creditors; or

- (d) if any event occurs which results in the acceleration of the maturity of indebtedness of any of the undersigned to the holder hereof or others under any other undertaking.

After default, this Note shall bear interest at the lower of the highest rate permitted by law or fifteen percent (15%) per annum.

Upon default or at any time thereafter, the holder may, with notice, declare any and all obligations owed to it, whether hereunder or otherwise by the undersigned immediately due and payable.

In the event this Note is placed in the hands of an attorney for enforcement, the undersigned shall pay all reasonable attorneys' fees and costs incurred by the holder hereof in connection therewith.

The undersigned shall not be released or discharged from liability to the holder by reason of an extension of the time for payment of any installment or installments owing or due upon the obligation owing hereon, or by reason of any waiver of any term or condition of this Note.

The undersigned waives presentment for payment, demand for payment, protest and notice of protest, nonpayment, dishonor, and notice of the holder's election to accelerate the unpaid principal balance as provided above.

This Note shall be construed (both as to validity and performance) and enforced in accordance with and governed by the laws of the State of Delaware.

Attest: SMITH & WESSON

George S. Pappayliou  
Asst. Secretary

Daniel J. Disser  
Vice President & C.F.O.

## FIRST AMENDMENT TO PROMISSORY NOTE

This first amendment (AMENDMENT) to the promissory note, issued on April 30, 1997 (NOTE), by Smith & Wesson Corp., a corporation organized and existing under the laws of the State of Delaware (S&W) to Tomkins Corporation, a corporation organized and existing under the laws of the State of Delaware (TOMKINS), is hereby made on May 11, 2001, between S&W and Tomkins.

WHEREAS, for good and valuable consideration the parties hereto hereby agree as follows:

1. The Note is hereby amended by deleting from paragraph 2 of the Note the clause "If not sooner paid, the entire principal balance, together with accrued interest thereon, shall be due and payable on April 30, 2004." and inserting therein the following clause "The term of the Note shall be ten (10) years commencing on May 11, 2001. Principal shall be paid on this Note in eighty-four (84) equal monthly instalments commencing on May 11, 2004, such equal monthly payments to be in accordance with the amortization schedule attached as Schedule A."
2. The Note is hereby amended by deleting paragraph 3 in its entirety, which states "[n]o prepayments or partial payments may be made on account of principal without the express written consent of the holder of the Note."
3. The Note is hereby amended by inserting the following covenants:
  - a. Until repayment in full of all amounts due under the Note, S&W agrees that:
    - i. it shall operate S&W, and shall cause the Subsidiaries (as defined below) of S&W to operate, only in the ordinary course of business;
    - ii. S&W shall not, and shall not cause any Subsidiary of S&W to, nor permit any Subsidiary of S&W to, loan or otherwise transfer any cash out of S&W or any Subsidiary of S&W to any Affiliate (as defined below) of S&W or any Subsidiary of S&W;

provided, that any dividends payable by S&W to Saf-T-Hammer Corporation, a company organized under the laws of the State of Nevada and the parent of S&W (STH), in an amount not in excess of \$600,000 in the first twelve (12) month period following the date of this Amendment and not in excess of \$1,800,000 per annum thereafter, may be paid subject to applicable law; and

- iii. S&W shall not, and shall not cause or permit any Subsidiary of S&W, to pay any employee, officer or director of S&W or any Subsidiary of S&W a salary, bonus or other compensation that is not a reasonable salary, bonus or other compensation.
- b. S&W agrees that until payment of the \$10,000,000 owing by STH to Tomkins under the Stock Purchase Agreement:
- i. S&W shall not, and shall not cause any Subsidiary of S&W nor permit any Subsidiary of S&W to, directly or indirectly, create, incur, assume or guaranty, or otherwise become or remain directly or indirectly liable with respect to any Indebtedness (as defined below), except for the Note and any Indebtedness incurred in the ordinary course of business of S&W and the Subsidiaries of S&W and Permitted Indebtedness (as defined below);
  - ii. S&W shall not, and shall not cause any Subsidiary of S&W nor permit any Subsidiary of S&W to, make any payment or prepayment of principal of, pay any premium, if any, or interest on, or pay any redemption, purchase, retirement, defeasance (including in-substance or legal defeasance), sinking fund or similar payment with respect to, any subordinated Indebtedness other than Indebtedness permitted by Section 3(b)(i).
- c. Until repayment in full of all amounts due under the Note, S&W shall not, nor shall it cause or permit any Subsidiary of S&W to, directly or indirectly, declare, order, pay or make any sum for any Restricted Payment (as defined below).
- d. S&W agrees that it shall not, and shall not cause or permit any Subsidiary of S&W to:

- i. enter into any transaction of merger or consolidation, or convey, sell, lease or sub-lease (as lessor or sublessor), transfer or otherwise dispose of, or grant a Lien over, in one transaction or a series of transactions, all or any part of its business, assets or property of any kind whatsoever, whether real, personal or mixed and whether tangible, intangible or contingent, whether now owned or hereafter acquired, until payment of the \$10,000,000 owing by STH to Tomkins under the Stock Purchase Agreement;
  - ii. liquidate, wind-up or dissolve (or suffer any liquidation or dissolution of) all or any part of its business, assets or property of any kind whatsoever, whether real, personal or mixed and whether tangible, intangible or contingent, whether now owned or hereafter acquired, until the repayment in full of all amounts due under the note; nor to
  - iii. acquire by purchase, or otherwise, the property or fixed assets of, the business of, or stock or other evidence of beneficial ownership of, any person (as defined below) or any division or line of business or other business unit of any person, until payment of the \$10,000,000 owing by STH to Tomkins under the Stock Purchase Agreement.
- d. until repayment in full of all amounts due under the note, S&W agrees that it shall not, and shall not cause any of its subsidiaries to, nor permit any of its subsidiaries to, directly or indirectly, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any holder of 5% or more of any class of capital stock of S&W or any of its subsidiaries or with any affiliate of S&W, or of any such holder unless such transaction is on terms which are generally no less favorable to S&W (or any subsidiary of S&W) as would be applicable in an "arms-length" transaction.

- f. If there is a change of control of STH or S&W, then the term of the note shall immediately be accelerated and become due and payable in full and S&W shall immediately repay the note in full to Tomkins.
- g. It shall be an event of default under the note if STH fails to pay the \$10,000,000 it owes to Tomkins under the Stock Purchase Agreement in accordance with Section 2.1(a)(ii) of the Stock Purchase Agreement.

4. The note is hereby amended by adding the following definitions:

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such Person. For purposes of this definition, the term "control" (including the correlative terms "controlling", "controlled by" and "under common control with") means the possession, directly or indirectly, of the power (whether or not exercised) to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities or interests of such Person, by contract or otherwise.

"Change of Control" means, with respect to S&W:

- a. Whenever the control shareholders do not control S&W; and
- b. Whenever the control shareholders sell or dispose of any of their shares in STH, where such sale or disposal results in the control shareholders holding, in the aggregate, less than thirteen percent (13%) of the voting securities of STH; and

- c. The sale of all or substantially all of the assets of S&W or any of the capital stock of S&W.

For purposes of this definition, "control" shall mean the possession, directly or indirectly, of the power (whether or not exercised) to direct, or cause the direction of, the management and policies of S&W, whether through the ownership of voting securities or interests of STH, by contract or otherwise;

"Company Group" means S&W and all of its Subsidiaries, both present and past.

"Control Shareholders" means Mitchell Saltz, Sherry Noreen, Theodore Saltz and Robert Scott;

"Indebtedness" includes, but is not limited to:

- d. All indebtedness for borrowed money;
- e. That portion of obligations with respect to capital leases that is properly classified as a liability on a balance sheet in conformity with generally accepted accounting principles; and
- f. Any direct or indirect guaranty by S&W, or the subsidiaries of S&W, of any obligation of any other person, whether for borrowed money or otherwise.

"Permitted Indebtedness" means Indebtedness incurred in the ordinary course of business (which ordinary course may include the leasing of equipment for the business conducted in the ordinary course by members of the Company Group) of the Company in connection with the purchase, acquisition or lease of equipment for use in the business of the Company or any Subsidiary of the Company, the purchase or acquisition of inventory or the manufacture of products or delivery of services.

"Person" means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof (or any equivalent in any jurisdiction).

"Restricted Payment" means:

- g. Any dividend or other distribution, direct or indirect, on account of any shares of any class of stock of S&W, or any subsidiary of S&W, now or hereafter outstanding other than the following:
  - i. Common Stock Dividends Payable on Common Stock;
  - ii. Dividends payable from a wholly-owned subsidiary of S&W to S&W; and
  - iii. Dividends payable by S&W to its parent STH, in an amount not in excess of \$600,000 in the first twelve (12) month period following the date of this amendment and not in excess of \$1,800,000 per annum thereafter, subject to applicable law.
- h. Any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect by any member of the company group, of any shares of any class of stock of S&W, or any subsidiary of s&w, now or hereafter outstanding;
- i. Any payment made by any member of the company group to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any

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class of stock of S&W, or any subsidiary of S&W, now or hereafter  
outstanding; and

"Stock Purchase Agreement" means the Stock Purchase Agreement, dated  
May 11, 2001, between Tomkins and STH, relating to the sale of S&W.

"Subsidiary" of any person means another person, an amount of the  
voting securities, other voting ownership or voting partnership or membership  
interests of which is sufficient to elect at least a majority of its board of  
directors or other governing body (or, if there are no such voting interests,  
50% or more of the equity interests of which) is owned or controlled directly or  
indirectly by such person.

5. This amendment shall be construed (both as to validity and performance) and  
enforced in accordance with and governed by the laws of the state of  
Delaware.



IN WITNESS WHEREOF, each of the undersigned has cause this Amendment to be duly signed as of the date first above written.

SMITH & WESSON CORP.

By: \_\_\_\_\_  
Name:  
Title:

TOMKINS CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

THESE SECURITIES (INCLUDING ANY UNDERLYING SECURITIES) HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

PROMISSORY NOTE & LOAN AGREEMENT

(MELBY)

\$5,000,000

May 6, 2001

Scottsdale, Arizona

1. LOAN; ADVANCEMENT OF FUNDS. Subject to receipt of the funds to be advanced to it hereunder, SAF-T-HAMMER CORPORATION, a Nevada corporation (the "Company"), hereby promises to pay to the order of COLTON MELBY, at his offices located at the address listed below ("Registered Holder"), or at such other place as he shall designate to the Company in writing, in lawful money of the United States of America, the principal amount of Five Million Dollars (\$5,000,000) and to pay interest (computed on the basis of a 365-day year and the actual number of days elapsed) on the unpaid principal amount hereof at the Interest Rate (as defined below). The Company promises to pay the said principal sum and interest in accordance with the terms of this Note (the "Note"). The Registered Holder agrees to advance to the Company Five Million Dollars (\$5,000,000) (the "Funds") on May 7, 2001, which advance shall be made via wire transfer to Skadden, Arps, Slate, Meagher & Flom LLP accompanied solely by that certain instruction attached hereto as Exhibit "D." The date of receipt by the Company or pursuant to its direction of the Funds shall be the "Advancement Date."

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

3. PAYMENT. Interest shall accrue and be computed at the rate of twelve percent (12%) per annum (the "Interest Rate") on the outstanding principal balance

of this Note for the period from the Advancement Date until the date of such principal is fully repaid (the "Repayment Date"). Unless earlier repaid, on May 15, 2002 (the "Termination Date"), the Company shall pay the Registered Holder all unpaid principal and interest on this Note. The Company may prepay this Note, in whole or in part, at any time. On the later of five business days after the consummation of the SW Transaction (as defined below) or May 15, 2001, the Company shall prepay to the Registered Holder \$600,000 (the "Interest Prepayment"), which shall be deemed to be a prepayment of interest for the first year. In the event that all or any portion of the principal balance of the Note is prepaid prior to the first anniversary of the Advancement Date, any overage between the Interest Prepayment and the Actual Interest Amount (as defined below) shall be credited as a repayment of principal on the Repayment Date. "Actual Interest Amount" shall mean the amount of interest computed at the Interest Rate on the outstanding balance of the Note, from time to time, for the period from the Advancement Date through the Repayment Date. The "Repayment Date" shall mean the date the outstanding balance of this Note is fully repaid. The Interest Rate shall automatically increase to fifteen percent (15%) per annum without notice or act by any party upon an Event of Default (as defined below).

4. SW TRANSACTION. The Company agrees to use the Funds solely for the consummation of its acquisition of Smith & Wesson Corp. (the "SW Transaction"). In the event the SW Transaction has not been consummated within five (5) business days of the Advancement Date, then the Registered Holder may terminate and rescind the transactions contemplated hereby by written notice to the Company ("Rescission Request"). Upon receipt of a Rescission Request, the Company shall repay the Funds to the Registered Holder together with accrued interest. Notwithstanding any other provision of this Note to the contrary, in the event the Registered Holder exercises his right to make the Rescission Request, then the Company's sole obligation to the Registered Holder shall be to repay the Funds along with the accrued interest as set forth in this paragraph 4 and the remainder of the transactions contemplated hereby shall be void and of no further force or effect.

5. SECURITY; WARRANT; REGISTRATION RIGHTS AGREEMENT. Concurrently with the closing of the SW Transaction, this Note will be secured pursuant to the terms of the Stock Pledge Agreement between the Registered Holder and the Company, substantially in the form attached hereto as Exhibit "B" (the "Stock Pledge Agreement"). The Company shall execute and deliver to the Registered Holder the Stock Pledge Agreement concurrently with the closing of the SW Transaction. The collateral pursuant to the Stock Pledge Agreement shall be referred to as the "Collateral". Concurrently with the advancement of the Funds, the Company will issue to the Registered Holder a Common Stock Purchase Warrant

(the "Warrant") to purchase Seven Million Ninety-four Thousand Five Hundred (7,094,500) shares of common stock of the Company, par value \$0.001 ("Shares"), which shall be substantially in the form attached hereto as Exhibit "A." Concurrently with the advancement of the Funds, the Company and the Registered Holder shall enter into a Registration Rights Agreement substantially in the form attached hereto as Exhibit "C" (the "Registration Rights Agreement"). In the event the Registered Holder makes the Rescission Request, each of the Warrant and Registration Rights Agreement shall immediately terminate and, without action by any party, be of no further force or effect. As a condition precedent to the Rescission Request, the Registered Holder shall deliver the Warrant and Registration Rights Agreement to the Company for cancellation.

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

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

(b) As of the date of this Note, the authorized capital stock of the Company consists of 100,000,000 shares of Company Common Stock, of which 17,006,163 shares are issued and outstanding on the date of this Note, and no shares of preferred stock. Such issued and outstanding shares of Company Common Stock are validly issued, fully paid and nonassessable. As of the date of this Note, 11,550,000 shares of Common Stock have been reserved for issuance pursuant to outstanding warrants or other rights to purchase shares of Common Stock issued by the Company.

(c) The Company shall not make any material change in the business of the Company or Smith & Wesson Corp. (the "Subsidiary") nor any change in the principal place of business of the Company or the Subsidiary.

(d) Except for any security interests held by the Registered Holder, the Company has or will have as of the consummation of the SW Transaction, fee simple title to the Collateral free from any lien, security interest, encumbrance or claim ("Lien").

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

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

(g) Without the prior written consent of Colton Melby, until the repayment in full of all amounts due under this Note, the Company agrees that:

(i) it shall, and shall cause the Subsidiary and its subsidiaries (the "SW Group") to operate only in the ordinary course of business and consistent with past practice;

(ii) the Company shall not cause it or any member of the SW Group to, nor permit the Company or any member of the SW Group to, loan or otherwise transfer any cash or other assets out of the SW Group to the Company or to any Affiliate (as defined in the Stock Purchase Agreement between the Company and Tomkins Corporation to be executed in connection with the SW Transaction (the "SW SPA")) of the Company; provided, that dividends payable by the Subsidiary to the Company in an amount not in excess of \$600,000 in the first twelve (12) month period following the closing of the SW Transaction and not in excess of \$1,800,000 per annum thereafter, may be paid subject to applicable law, and this Section 7(g) shall not prohibit any other transactions which are expressly permitted under other provisions of this Note; and

(iii) the Company shall not cause any member of the SW Group to, nor permit any member of the SW Group to pay any employee, officer or director of the Company or any member of the SW Group a salary, bonus or other compensation that is not a reasonable salary, bonus, stock options or other stock rights or other compensation.

(h) Without the prior written consent of Colton Melby, until the repayment in full of all amounts due under this Note, the Company agrees that the Company shall not cause any member of the SW Group to, nor permit any member of the SW Group to, directly or indirectly, declare, order, pay any sum for, or make, any Restricted Payment (as defined in the SW SPA).

(i) Without the prior written consent of Colton Melby, the Company agrees that, until repayment of this Note:

(i) the Company shall not cause itself or any member the SW Group to, nor permit itself or any member of the SW Group to, directly or indirectly, create, incur, assume or guaranty, or otherwise become or remain directly or indirectly liable with respect, to any Indebtedness (as defined in the SW SPA), except for this Note, obligations related to the consummation of the SW Transaction, obligations of the Company and the SW Group existing as of the closing of the SW Transaction and Permitted Indebtedness ("Permitted Indebtedness" means Indebtedness incurred in the ordinary course of business (which ordinary course may include the leasing of equipment for the business conducted in the ordinary course by the Company and the SW Group) of the Company and the SW Group in connection with the purchase, acquisition or lease of equipment for use in the business of the Company and the SW Group, the purchase or acquisition of inventory or the manufacture of products or delivery of services.); and

(ii) the Company shall not cause the Company or any member of the SW Group to, nor permit the Company or any member of the SW Group to make any payment or prepayment of principal of, pay any premium, if any, or interest on, or pay any redemption, purchase, retirement, defeasance (including in-substance or legal defeasance), sinking fund or similar payment with respect to, any Indebtedness other than Indebtedness permitted by Section 6(i)(i).

(j) Without the prior written consent of Colton Melby, the Company agrees that the Company shall not cause itself or the SW Group, nor permit itself or any member of the SW Group to:

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

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

(iii) acquire by purchase, or otherwise, the property or fixed assets of, the business of, or stock or other evidence of beneficial ownership of, any Person (as defined in the SW SPA) or any division or line of business or other business unit of any Person until the Note has been repaid.

(k) Without the prior written consent of Colton Melby, until the repayment in full of all amounts due under the Note, the Company agrees that it shall not cause the Company or any member of the SW Group to, nor permit the Company or any member of the SW Group to, directly or indirectly, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any holder of 5% or more of any class of capital stock of the Company or the SW Group or with any Affiliate of the Company, or of any such holder (each, a "Restricted Party") except for Permitted Affiliate Transactions. "Permitted Affiliate Transactions" shall mean (i) "arms-length" transactions between the Company and the Subsidiary which in the aggregate do not exceed \$500,000 and (ii) other "arms-length" transactions between the Company or any member of the SW Group, on the one hand, and each Restricted Party, on the other, where the aggregate amount of all transactions between any two such parties does not exceed \$50,000.

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

(m) The Company shall deliver to the Registered Holder with respect to the Company and the Subsidiary:

(i) as soon as practicable, but in any event within ninety (90) days after the end of each fiscal year of the Company and the Subsidiary, an income statement for such fiscal year, a balance sheet and statement of shareholder's equity as of the end of such year, and a statement of cash flows for such year, such year-end financial reports to be in reasonable detail, prepared in accordance with generally accepted accounting principles ("GAAP"), and audited and certified by Stonefield Josephson or independent public accountants of nationally recognized standing;

(ii) as soon as practicable, but in any event within forty-five (45) days after the end of each of the first three (3) quarters of each fiscal year of the Company and the Subsidiary, an unaudited income statement, statement of cash flows for such fiscal quarter and an unaudited balance sheet as of the end of such fiscal quarter.

(iii) within thirty (30) days of the end of each month, an unaudited income statement and statement of cash flows and balance sheet for the Company and the Subsidiary for and as of the end of such month, in reasonable detail;

(iv) with respect to the financial statements called for in subsections (ii) and (iii) of this Section, an instrument executed by the Chief Financial Officer or President of the Company or the Subsidiary certifying that such financials were prepared in accordance with GAAP consistently applied with prior practice for earlier periods (with the exception of footnotes that may be required by GAAP) and fairly present the financial condition of the Company and the Subsidiary and their results of operation for the period specified, subject to year-end audit adjustment; and

(v) such other information relating to the financial condition, business, prospects or corporate affairs of the Company and the Subsidiary as the Registered Holder may from time to time reasonably request.

7. NEGATIVE COVENANTS OF THE COMPANY. The Company shall not, nor shall it cause the Subsidiary or any member of the SW Group, without the prior written consent of Colton Melby to:

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

8. PREEMPTIVE RIGHTS. Subject to the terms and conditions specified in this Section 8, the Company hereby grants to the Registered Holder a preemptive right with respect to future sales by the Company of its New Shares (as hereinafter defined). For purposes of exercising the rights to acquire New Shares granted under this Section 8 only, the Registered Holder includes any affiliates of the Registered Holder. The Registered Holder shall be entitled to apportion the right of first offer hereby granted it among itself and its affiliates in such proportions as it deems appropriate. Each time the Company proposes to offer any shares of, or



securities convertible into or exchangeable or exercisable for any shares of, any class of its capital stock ("New Shares"), the Company shall first make an offering of such New Shares to the Registered Holder in accordance with the following provisions:

(a) The Company shall deliver a notice ("NOTICE") to the Registered Holder stating (A) its bona fide intention to offer such New Shares, (B) the number of such New Shares to be offered, and (C) the price and terms upon which it proposes to offer such New Shares.

(b) By written notification received by the Company, within twenty (20) calendar days after receipt of the Notice, the Registered Holder may elect to purchase or obtain, at the price and on the terms specified in the Notice, up to that portion of such New Shares that equals the proportion that the number of shares of Common Stock issued and held, or issuable upon exercise of any rights to purchase Common Stock of the Company then held, by the Registered Holder bears to the total number of shares of Common Stock of the Company.

(c) If all New Shares that the Registered Holder is entitled to obtain pursuant to Section 8(b) are not elected to be obtained as provided in Section 8(b) hereof, the Company may, during the one hundred twenty day (120) period following the expiration of the period provided in Section 8(c) hereof, offer the remaining unsubscribed portion of such New Shares to any person or persons at a price not less than, and upon terms no more favorable to the offeree than those specified in the Notice. If the Company does not enter into an agreement for the sale of the New Shares within such period, or if such agreement is not consummated within one hundred twenty (120) days of the execution thereof, the right provided hereunder shall be deemed to be revived and such New Shares shall not be offered unless first reoffered to the Registered Holder in accordance herewith.

The right of first offer in this Section 8 shall not be applicable to the issuance or sale of shares of Common Stock (or options therefor) to employees, directors and consultants for the primary purpose of soliciting or retaining their services pursuant to Board-approved stock purchase or stock option plans, including options granted prior to the date of this Note. This Section 8 shall survive the repayment of the Note for a period of six (6) years.

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

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

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

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

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

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

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

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

(h) a Change of Control as defined in the SW SPA.

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

10. TRANSFERABILITY. This Note is not transferable, in whole or in part without the prior written consent of the Company (in its reasonable discretion), except that the Registered Holder may, upon thirty (30) days prior written notice to the Company but without the prior written consent of the Company, assign all but not less than all of this Note to (a) an entity as to which the Registered Holder is the beneficial owner of a least a majority of the equity therein and the Registered Holder has voting control thereover, (b) a member of the Registered Holder's family or a trust for the benefit of the Registered Holder or (c) a successor by inheritance or intestate succession (each, a "Permitted Transferee").

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

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

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

14. ATTORNEY'S FEES. If this Note shall not be paid when due and shall be placed by the Registered Holder hereof in the hands of an attorney for collection, through legal proceedings or otherwise, or in the event the Registered Holder fails to

perform as required hereby and an action is brought by the non-breaching party with respect thereto, the breaching party shall pay attorney's fees to the non-breaching party hereof, together with reasonable costs and expenses of collection or enforcement incurred in connection with any such action.

15. ENFORCEMENT; SPECIFIC PERFORMANCE.

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

(b) The parties hereto expressly agree that they may not have adequate remedies at law if the parties do not perform their obligations under this Note. Upon a breach of the terms or covenants of this Note by either party, the other party shall, each in addition to all other remedies, be entitled to obtain injunctive relief, and an order for specific performance of the obligations hereunder.

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

17. REIMBURSEMENT OF FEES. The Company shall pay or reimburse the legal fees and expenses of Perkins Coie LLP and the accounting fees and expenses of Moss Adams which are incurred by the Registered Holder in connection

with the negotiation and delivery of this Note and the documents to be executed and delivered in accordance herewith and with the consummation of the SW Transaction.

18. OBSERVER RIGHTS. As long as Colton Melby or any Permitted Transferee holds rights to acquire (pursuant to the Warrant) or owns more than five percent (5%) of the outstanding Company Common Stock (on a fully diluted basis), the Company shall invite Colton Melby or his representative to attend all meetings of the Boards of Directors of the Company and the Subsidiary in a nonvoting observer capacity, and shall provide such observer copies of all notices, minutes, consents and all other materials that it provides to its directors, provided (a) that such observer shall first execute a commercially reasonable Confidentiality Agreement with respect thereto and (b) that the foregoing observer rights shall not apply with respect to the Company if Colton Melby or his representative is a member of its Board of Directors and shall not apply to the Subsidiary if Colton Melby is a member of its Board of Directors.

19. WRITTEN CONSENT OF COLTON MELBY NOT NECESSARY UNDER CERTAIN CIRCUMSTANCES. Notwithstanding anything else contained herein to the contrary, the prior written consent of Colton Melby shall not be required with respect to the matters described in Sections 6 and 7 of this Note if, after the Company gives Colton Melby written notice of the proposed matter (which notice shall summarize the proposed transaction), ten (10) business days elapse without the Company receiving a written notice from Colton Melby stating that he is withholding such consent.

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

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

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

23. HOLIDAYS. If this Note or any installment hereof becomes due and payable on a Saturday, Sunday or public holiday under the laws of the State of Arizona, the due date hereof shall be extended to the next succeeding business day

and interest shall be payable at the Interest Rate during such extension. All payments received by the Registered Holder shall be applied first to the payment of all accrued interest payable hereunder.

24. NOTICES. Except as otherwise expressly provided for herein, all notices, requests and other communications to any party hereunder shall be in writing (including facsimile or similar writing) and shall be given to such party at its address or facsimile number set forth below, or such other address or facsimile number as such party may hereinafter specify for the purpose (in the case of the Company, by notice in accordance herewith to the Registered Holder or, in the case of the Registered Holder, by notice in accordance herewith to the Company). Each such notice, request or other communication shall be effective (i) if given by facsimile, when such facsimile is transmitted to the facsimile number specified in this SECTION 24 or, (ii) if given by mail, 48 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid or, (iii) if given by any other means, when delivered at the address specified in this SECTION 24. Notices shall be addressed as follows:

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

With a copy to:  
Stephen R. Boatwright, Esq.  
Gammage & Burnham, PLC  
2 N. Central Ave., 18th floor  
Phoenix, AZ 85004-2322  
Facsimile No.: (602) 256-4475

If to the Registered Holder:  
Colton Melby  
20400 92nd Ave. S  
Kent, WA 98031

With a copy to:  
Gail Runnfeltdt, Esq.  
Perkins Coie LLP  
1201 Third Ave, Suite 4800

Seattle, WA 98101  
Facsimile No.: (206) 583-8500

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

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

Oral agreements or oral commitments to loan money, extend credit, or to forbear from enforcing repayment of debt are not enforceable under Washington law.

SAF-T-HAMMER CORPORATION, a  
Nevada  
corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Agreed to and accepted by:

By: \_\_\_\_\_  
Colton Melby

## FIRST AMENDMENT TO PROMISSORY NOTE &amp; LOAN AGREEMENT

This FIRST AMENDMENT TO PROMISSORY NOTE & LOAN AGREEMENT (the "Amendment") is dated May 10, 2001, by Saf-T-Hammer Corporation, a corporation organized and existing under the laws of the State of Nevada ("STH") and Colton Melby ("CM").

WHEREAS, STH and CM have entered into that certain Promissory Note & Loan Agreement dated as of May 6, 2001 (the "Original Agreement"); and

WHEREAS, the parties hereto desire to amend the Original Agreement as set forth herein; and

NOW THEREFORE, for good and valuable consideration the parties hereto hereby agree as follows:

A. The Original Agreement is hereby amended by adding the following new Section 25:

25. Upon the closing of the SW Transaction, the Company shall issue Common Stock Purchase Warrants to the individuals and in the amounts set forth below, which shall be substantially in the form attached hereto as Exhibit A:

Clifford L. Melby -- 300,000 shares of Common Stock of the Company  
Christopher A. Melby -- 300,000 shares of Common Stock of the Company  
Jack Saxwold -- 300,000 shares of Common Stock of the Company

B. Paragraph 8 of the Original Agreement is hereby amended to provide that Colton Melby hereby waives any and all preemptive rights granted pursuant to Paragraph 8 with respect to those certain Common Stock Purchase Warrants issued to Clifford Melby, Christopher Melby and Jack Saxwold to purchase 300,000, 300,000 and 300,000 shares, respectively, of the common stock of Saf-T-Hammer Corporation in connection with the SW Transaction.

C. All other terms and conditions of the Original Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, each of the undersigned has cause this Amendment to be duly signed as of the date first above written.



Saf-T-Hammer Corporation

By: \_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_ Colton Melby

STOCK PLEDGE AGREEMENT  
(STOCK IN SMITH & WESSON CORP.)

THIS STOCK PLEDGE AGREEMENT (this "Pledge Agreement"), which is to be effective on the 11th day of May, 2001, is by and between SAF-T-HAMMER CORPORATION, a Nevada corporation (hereafter the "Pledgor"), and Colton Melby (hereafter, the "Pledgee").

RECITALS

Pursuant to a Promissory Note & Loan Agreement dated as of May 6, 2001 (the "Note"), Pledgor has borrowed the principal sum of \$5 million from Pledgee (the "Loan"), the proceeds of which shall be used to pay a portion of the purchase price for Pledgor's acquisition (the "SW Transaction") of the shares of capital stock of Smith & Wesson Corp. ("SW"). Immediately upon closing such acquisition, Pledgor shall own all of the issued and outstanding capital stock (the "Securities") of SW. To secure Pledgor's obligations to Pledgee under the Note, Pledgor is willing to pledge the Securities to Pledgee.

Pledgee is only willing to make the Loan to Pledgor if Pledgor pledges the Securities to Pledgee in accordance with the terms and conditions of this Pledge Agreement.

1. DEFINITIONS. The following terms shall have the following meanings in this Pledge Agreement:

Collateral: The Securities and all dividends, distributions and amounts or additional securities to which Pledgor (with or without additional consideration) is or becomes entitled by virtue of its ownership of any of the Securities or as the result of any corporate reorganization, merger, consolidation, stock split, stock dividend, conversion, preemptive right or otherwise.

Obligations: (a) Payment in cash of all principal, interest, and any other fees, late charges, and attorneys' fees related to the Note, and all addenda, modifications, and amendments thereto, if any; and (b) payment, performance and observance by Pledgor of each covenant, condition, provision, and agreement contained herein and of all monies expended or advanced by Pledgee pursuant to the terms hereof, or to preserve any right of

Pledgee thereunder, or to protect or preserve the Collateral or any part thereof; and (c) any and all other obligations of Pledgor to Pledgee arising in any manner in connection with the issuance and performance by Pledgor under the Note.

2. COLLATERAL; AGENT. To secure payment and performance of the Obligations, Pledgor hereby pledges the Securities and hereby grants to Pledgee a valid and perfected first lien on and security interest in the Securities and all other items of the Collateral. Simultaneously with the execution of this Pledge Agreement, Pledgor has delivered or shall deliver to Gammage & Burnham, PLC as escrow agent (the "Agent"), certificates for the Securities, together with the assignment separate from certificate duly executed by Pledgor in blank (the "Assignment"). Pledgee may direct the Agent to receive and hold the Securities subject and pursuant to all the terms, conditions and provisions hereof until the Obligations have been discharged in full. Upon the request of Pledgee, Pledgor and Pledgee shall appoint a mutually agreeable substitute third party to replace Agent and upon the written instruction by Pledgee and Pledgor Agent shall promptly deliver the Securities and the Assignment to such substitute Agent. After the designation by Pledgee and Pledgor of a substitute Agent hereunder such original Agent shall have no further duties, obligations or liabilities with respect to or resulting from this Agreement and the substitute shall be deemed to be the Agent hereunder.

3. REPRESENTATIONS, COVENANTS, AND WARRANTIES. Pledgor hereby represents and warrants to Pledgee that (i) Pledgor is, and at all times prior to the payment and performance of the Obligations will be, the legal and beneficial owner of such Collateral; (ii) the pledge of such Collateral pursuant to the terms of this Pledge Agreement, together with delivery thereof, creates a valid and perfected first lien on and security interest in such Collateral in favor of Pledgee; (iii) the Assignment has been duly executed in blank and delivered by Pledgor to Agent; (iv) none of such Collateral is subject to any claim, lien, charge, security interest or other encumbrance of any kind whatsoever, except for the perfected first security interest therein granted to Pledgee hereby and, so long as this Pledge Agreement remains in effect, Pledgor will not create or permit to exist any claim, lien, charge, security interest or encumbrance upon or with respect to such Collateral, except for the first security interest therein granted to Pledgee by this Pledge Agreement and except as otherwise permitted pursuant to the terms of this Pledge Agreement; (v) so long as this Pledge Agreement remains in effect, Pledgor will not sell, transfer, convey, assign, or otherwise divest his interests in such Collateral, or any part thereof, to any other person; (vi) no authorization, approval or other action by, or notice to or filing with, any governmental body is required for the pledge by Pledgor of such Collateral

pursuant to the terms of this Pledge Agreement; and (vii) all of the Collateral has been duly authorized, validly issued and is fully paid and non-assessable and is registered in the name of Pledgor.

4. STOCK SPLITS, STOCK DIVIDENDS, ETC.

4.1 Pledgor agrees that in the event Pledgor, by virtue of his ownership of the Collateral, now is, or hereafter becomes, entitled (with or without additional consideration) to other or additional securities as the result of any corporate reorganization, merger, consolidation, stock split, stock dividend, conversion or preemptive right or otherwise, Pledgor shall:

4.1.1 Cause the issuer of such additional securities to deliver to Agent the certificates evidencing Pledgor's ownership thereof and hereby authorizes and empowers Pledgee to demand the same from such issuer, and agrees if such certificates are delivered to Pledgor, to take possession thereof in trust for Pledgee;

4.1.2 Deliver to Agent an assignment separate from certificate and irrevocable proxy with respect to such securities, executed in blank by Pledgor;

4.1.3 Deliver to Agent a certificate, executed by Pledgor and dated the date of such pledge, as to the truth and correctness on such date of the warranties set forth in SECTION 3 hereof; and

4.1.4 Deliver to Agent such other certificates, forms and other instruments as Pledgee may request in connection with such pledge.

4.2 Pledgor agrees that such additional securities shall constitute a portion of the Collateral and be subject to this Pledge Agreement in the same manner and to the same extent as the securities pledged hereby to Pledgee on the date hereof.

5. VOTING POWER; DIVIDENDS. Unless and until an Event of Default pursuant to the terms of the Note shall have occurred, Pledgor shall be entitled to exercise all voting powers in all corporate matters pertaining to the Collateral for any purpose not inconsistent with, or in violation of, the provisions of the Note, this Agreement and that certain Stock Purchase Agreement between Tomkins Corporation and Pledgor of even date herewith (the "SW SPA"). Any cash dividends and cash distributions of any kind made with respect to the Collateral shall be made in compliance with the Note, this Agreement or the SW SPA and shall be

applied to reduce the Obligations. Pledgor shall have no right to vote the Collateral in favor of an increase in the capitalization of SW without the prior written consent of Pledgee and shall not have the right to vote the Collateral in favor of any transaction not permitted by the Note or the SW SPA. Following an Event of Default (as defined below), Pledgee shall have all voting and dividend rights in the Collateral, and for this purpose this Agreement shall constitute an irrevocable and no-expiring proxy coupled with an interest in the Securities.

6. DEFAULT AND REMEDIES.

6.1 The occurrence of any of the following events shall constitute an "Event of Default":

6.1.1 The occurrence of a Note Default (under the Note).

6.1.2 Any levy or execution upon, or judicial seizure of, any portion of the Collateral that is not cured within thirty (30) days.

6.1.3 Any attachment or garnishment of, or the existence or filing of any lien or encumbrance against, any portion of the Collateral which is not released within thirty (30) days.

6.1.4 The institution of any legal action or proceedings to enforce any lien or encumbrance upon any portion of the Collateral that is not dismissed within thirty (30) days after its institution.

6.1.5 Any failure or neglect to perform or observe any of the terms, provisions, or covenants of this Pledge Agreement which is not cured within fifteen (15) days after notice is received by Pledgor.

6.2 If an Event of Default shall have occurred and be continuing, Pledgee, at its option, may:

6.2.1 Declare all or any part of the Obligations to be immediately due and payable, and the same, with all costs and charges, shall be collectible thereupon by action at law;

6.2.2 Cause the Collateral to be registered in its name or in the name of its nominee;

6.2.3 Exercise all voting powers pertaining to the Collateral and otherwise act with respect thereto as though Pledgee were the owners thereof;

6.2.4 Receive all dividends and all other distributions of any kind whatsoever on all or any part of such Collateral;

6.2.5 Realize on the Collateral by public or private sale; and

6.2.6 Pursue any legal or equitable remedy available to collect the Obligations, to enforce Pledgee's title in and right to possession of the Collateral and to enforce any and all other rights or remedies available to it.

With respect to the actions described in this SECTION 6.2, Pledgor hereby irrevocably constitutes and appoints Pledgee his proxies and attorneys-in-fact with full power of substitution and acknowledges that the constitution and appointment of such proxies and attorneys-in-fact are coupled with an interest and are irrevocable.

6.3 Pledgee shall give not less than ten (10) Business Days prior written notice to Pledgor of any sale pursuant to this SECTION 6. "Business Day" means each day other than a Saturday, a Sunday or any other day on which commercial banks in New York City are authorized or required by law or executive order to close. Pledgor hereby agrees that such notice is commercially reasonable.

6.4 Pledgee shall apply the proceeds of any sale of the whole or any part of the Collateral (the "Proceeds") and any other monies at the time held by Pledgee under the provisions of this Pledge Agreement in the manner provided pursuant to the terms of the Note. Pledgor shall be fully responsible for any deficiency remaining after the sale of the Collateral.

6.5 Any sale of all or any portion of the Collateral pursuant to SECTION 6.2 above shall operate to divest all right, title and interest of Pledgor to the Collateral that is the subject of any such sale.

7. PLEDGEE'S OBLIGATIONS, CUSTODIAL AGREEMENT, PERFORMANCE RIGHTS. Pledgee shall not have any duty to protect, preserve or enforce rights against the Collateral other than a duty of reasonable custodial care of any such Collateral in its possession, it being understood that Pledgee shall have no responsibility for (i) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relating to the Collateral, whether or not Pledgee

have or are deemed to have knowledge of such matters, or (ii) taking any necessary steps to preserve rights against any parties with respect to the Collateral.

8. TERMINATION OF PLEDGE AGREEMENT. Upon the Termination Date, the pledge of the Securities hereunder shall immediately terminate without further act by any party, Agent shall deliver to Pledgor the Collateral in its possession, and this Pledge Agreement shall automatically terminate. The "Termination Date" shall mean the date upon which the payment and performance in full of all of the Obligations shall have been made. Pledgor and Pledgee shall after the Termination Date promptly notify Pledgor and Pledgee of the termination of this Pledge Agreement. Agent shall be entitled to rely on a written notice from Pledgor and Pledgee that the Termination Date shall have occurred.

9. MISCELLANEOUS.

9.1 This Pledge Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against Pledgor for liquidation or reorganization, should Pledgor become insolvent or make an assignment for the benefit of creditors or should a receiver or trustee be appointed for all or any significant part of Pledgor's assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Obligations or any part thereof is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the obligations, whether as a "voidable preference," "fraudulent conveyance," or otherwise, all as though such payment, or performance had not been made. In the event that any payment, or any part hereof, is rescinded, reduced, restored or returned, the obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

9.2 Each and every right, remedy and power granted to Pledgee hereunder shall be cumulative and in addition to any other right, remedy or power specifically granted herein or now or hereafter existing in equity, at law, by virtue of statute or otherwise and may be exercised by Pledgee, from time to time, concurrently or independently and as often and in such order as Pledgee may deem expedient. Any failure or delay on the part of Pledgee in exercising any such right, remedy or power, or abandonment or discontinuance of steps to enforce the same, shall not operate as a waiver thereof or affect Pledgee's right thereafter to exercise the same, and any single or partial exercise of any such right, remedy or power shall not preclude any other right, remedy or power, and no such failure, delay, abandonment or single or partial exercise of Pledgee's rights hereunder shall

be deemed to establish a custom or course of dealing or performance among the parties hereto.

9.3 Any modification or waiver of any provision of this Pledge Agreement, or any consent to any departure by Pledgor there from, shall not be effective in any event unless the same is in writing and signed by both Pledgee, and then such modification, waiver or consent shall be effective only in the specific instance and for the specific purpose given. Any notice to or demand on Pledgor in any event not specifically required of Pledgee hereunder shall not entitle Pledgor to any other or further notice or demand in the same, similar or other circumstances unless specifically required hereunder.

9.4 Pledgor agrees that at any time, and from time to time, after the execution and delivery of this Pledge Agreement, Pledgor, upon the request of either Pledgee and at the expense of Pledgor, promptly will execute and deliver such further documents and do such further acts and things as Pledgee may reasonably request in order to effect fully the purposes of this Pledge Agreement and to subject to the security interest created hereby any property or rights intended by the provisions hereof to be covered hereby.

9.5 Pledgor agrees that he will warrant, preserve, maintain and defend, at his sole expense, the right, title and interest of Pledgee in and to the Collateral and all right, title and interest represented thereby against all claims, charges and demands of all persons whomsoever.

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

If to Pledgor:

Saf-T-Hammer Corporation  
14500 N. Northsight Boulevard, Suite 221  
Scottsdale, AZ 85260  
Facsimile No.: (480) 949-9747



With a copy to:

Stephen R. Boatwright, Esq.  
Gammage & Burnham, PLC  
2 N. Central Ave., 18th floor  
Phoenix, AZ 85004-2322  
Facsimile No.: (602) 256-4475

If to Pledgee:

Colton Melby  
20400 92nd Ave. S.  
Kent, WA 98031

With a copy to:

Gail Runnfeltdt, Esquire  
Perkins Coie LLP  
1201 Third Avenue, Suite 4800  
Seattle, WA, 98101  
Fax: (206) 583-8500

provided, however, that any party may change its respective address for purposes of receipt of any such communication by giving ten (10) days prior written notice of such change to the other parties hereto in the manner provided above. All notices sent pursuant to the terms of this SECTION 9.6 shall be deemed received (i) if sent by overnight, express carrier, on the next Business Day immediately following the day sent or (ii) if sent by registered or certified mail, on the third Business Day following the day sent.

9.7 THIS PLEDGE AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF WASHINGTON (WITHOUT REFERENCE TO THE CONFLICTS OF LAWS PRINCIPLES OF SUCH STATE). FOR PURPOSES OF THIS SECTION 9.7, THIS PLEDGE AGREEMENT SHALL BE DEEMED TO BE PERFORMED AND MADE IN THE STATE OF WASHINGTON.

9.8 In the event that any provision of this Pledge Agreement is deemed to be invalid by reason of the operation of any law, or by reason of the interpretation placed thereon by any court or other governmental body, this Pledge Agreement shall be construed as not

containing such provision and the invalidity of such provision shall not affect the validity of any other provision hereof, and any and all other provisions hereof which otherwise are lawful and valid shall remain in full force and effect.

9.9 This Pledge Agreement shall inure to the benefit of the successors and assigns of Pledgee and shall be binding upon the successors and assigns of Pledgor.

9.10 This Pledge Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which taken together shall be one and the same instrument.

9.11 PLEDGOR AND PLEDGEE HEREBY AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING DIRECTLY OR INDIRECTLY OUT OF THIS PLEDGE AGREEMENT SHALL BE LITIGATED IN KING COUNTY SUPERIOR COURT, OR THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON. PLEDGOR HEREBY EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR PROCEEDING COMMENCED BY PLEDGEE IN ANY OF SUCH COURTS AND HEREBY WAIVES PERSONAL SERVICE OF THE SUMMONS AND COMPLAINT, OR OTHER PROCESS OR PAPERS ISSUED THEREIN, AND AGREES THAT SERVICE OF SUCH SUMMONS AND COMPLAINT OR OTHER PROCESS OR PAPERS MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO PLEDGOR AT THE ADDRESS TO WHICH NOTICES ARE TO BE SENT PURSUANT TO SECTION 9.6. PLEDGOR WAIVES ANY CLAIM THAT SEATTLE, WASHINGTON OR THE WESTERN DISTRICT OF WASHINGTON IS AN INCONVENIENT FORUM OR AN IMPROPER FORUM BASED ON LACK OF VENUE. SHOULD PLEDGOR, AFTER BEING SO SERVED, FAIL TO APPEAR OR ANSWER TO ANY SUMMONS, COMPLAINT, PROCESS OR PAPERS SO SERVED WITHIN THE NUMBER OF DAYS PRESCRIBED BY LAW AFTER THE MAILING THEREOF, PLEDGOR SHALL BE DEEMED IN DEFAULT AND AN ORDER AND/OR JUDGMENT MAY BE ENTERED BY PLEDGEE AGAINST PLEDGOR AS DEMANDED OR PRAYED FOR IN SUCH SUMMONS, COMPLAINT, PROCESS OR PAPERS. THE EXCLUSIVE CHOICE OF FORUM FOR PLEDGOR SET FORTH IN THIS SECTION 9.11 SHALL NOT BE DEEMED TO PRECLUDE THE ENFORCEMENT, BY PLEDGEE, OF ANY JUDGMENT OBTAINED IN ANY OTHER FORUM OR THE TAKING, BY PLEDGEE, OF ANY ACTION TO ENFORCE THE SAME IN ANY OTHER APPROPRIATE JURISDICTION, AND PLEDGOR HEREBY WAIVES THE RIGHT TO COLLATERALLY ATTACK ANY SUCH JUDGMENT OR ACTION.

9.12 If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement the prevailing party shall be entitled

to reasonable attorneys fees, reasonable costs and necessary disbursements in addition to any other relief such party may be entitled.

10. INDEMNIFICATION OF AGENT. Each of Pledgor and Pledgee severally agrees to indemnify, defend, protect and hold harmless Agent, and its affiliates and their respective successors, assigns and shareholders and the directors, officers, employees, agents and attorneys of the foregoing (collectively, "Indemnified Parties") for, from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including the reasonable fees and disbursements of counsel for such Indemnified Parties in connection with any investigative, administrative or judicial proceeding commenced or threatened, whether or not such Indemnified Parties are designated parties thereto) that may be imposed on, incurred by, or asserted against the Indemnified Parties, in any manner relating to or arising out of its respective instructions, acts and omissions in connection with this Pledge Agreement.

[signatures on following page]

IN WITNESS WHEREOF, Pledgor and Pledgee have caused this Pledge Agreement to be executed as of the date first written above.

PLEDGOR:

SAF-T-HAMMER CORPORATION, a Nevada corporation

By: \_\_\_\_\_  
Its: \_\_\_\_\_

PLEDGEE:

\_\_\_\_\_  
Colton Melby

## EXHIBIT A TO PROMISSORY NOTE &amp; LOAN AGREEMENT

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.

[SAF-T-HAMMER LOGO]

SAF-T-HAMMER CORPORATION  
COMMON STOCK PURCHASE WARRANT

NO. CM-1

This certifies that, for value received, Colton Melby ("Holder"), is entitled to subscribe for and purchase from Saf-T-Hammer Corporation, a Nevada corporation ("Company"), 7,094,500 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 \$0.40 per share for shares, 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 six (6) 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 as Exhibit A ("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 NET ISSUANCE RIGHT. NOTWITHSTANDING THE PAYMENT PROVISIONS SET FORTH ABOVE, THE HOLDER MAY ELECT TO CONVERT THIS WARRANT INTO SHARES OF WARRANT SHARES BY SURRENDERING THIS WARRANT AT THE OFFICE OF THE COMPANY AND DELIVERING TO THE COMPANY THE NOTICE OF NET ISSUANCE EXERCISE ANNEXED AS EXHIBIT B DULY COMPLETED AND EXECUTED BY THE HOLDER, IN WHICH CASE THE COMPANY SHALL ISSUE TO THE HOLDER THE NUMBER OF SHARES OF WARRANT SHARES OF THE COMPANY EQUAL TO THE RESULT OBTAINED BY (A) SUBTRACTING B FROM A, (B) MULTIPLYING THE DIFFERENCE BY C, AND (C) DIVIDING THE PRODUCT BY A AS SET FORTH IN THE FOLLOWING EQUATION:

$$X = \frac{(A - B) \times C}{A} \text{ where:}$$

- X = the number of shares of Warrant Shares issuable upon net issuance exercise pursuant to the provisions of this SECTION 1.02.
- A = the Fair Market Value (as defined below) of one share of the Warrant Shares on the date of net issuance exercise.
- B = the Exercise Price for one share of the Warrant Shares under this Warrant.
- C = the number of shares of Warrant Shares as to which this Warrant is exercisable pursuant to the provisions of SECTION 1.01.

If the foregoing calculation results in a negative number, then no shares of Warrant Shares shall be issued upon net issuance exercise pursuant to this SECTION 1.02. "Fair Market Value" of one share of the Warrant Shares shall mean:

(i) if the net issuance exercise is in connection with a transaction specified in Section 2.01, the value of the consideration (determined, in the case of noncash consideration, in good faith by the Company's Board of Directors) to be received pursuant to such transaction by the holder of one share of the Warrant Shares;

(ii) if the Company's Common Stock is traded on an exchange or is quoted on the Nasdaq National Market, the average of the closing or last sale price reported for the five business days immediately preceding the date of net issuance exercise;

(iii) if the Company's Common Stock is not traded on an exchange or on the Nasdaq National Market, but is traded in the over-the-counter market, the mean of the closing bid and asked prices reported for the five market days immediately preceding the date of net issuance exercise; and

(iv) In all other cases, the fair value as determined in good faith by the Company's Board of Directors.

Upon net issuance exercise in accordance with this SECTION 1.02, the Holder shall be entitled to receive from the Company a stock certificate in proper form representing the number of shares of Warrant Shares determined in accordance with the foregoing.

Section 1.03 Certificates. Certificates for the shares purchased pursuant to SECTION 1.01 OR 1.02 shall be delivered to the Holder within ten (10) days 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 Holder shall for all purposes be deemed to have become the holder of record of the Warrant Shares on the date this Warrant was exercised (the date the Holder has fully complied with the requirements of SECTION 1.01 OR 1.02), irrespective of the date of delivery of the certificate or certificates representing the Warrant Shares; provided that, if the date such exercise is made is a date when the stock transfer books of the Company are closed, such

person shall be deemed to have become the holder of record of the Warrant Shares at the close of business on the next succeeding date on which the stock transfer books are open. 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 1.04 Company Covenants. 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 Adjustment to Exercise Price for Dilutive Issues.

(a) In case the Company shall at any time or from to time prior to the expiration date issue any shares of Warrant Shares (other than shares issued in connection with a capital event or as a subdivision or stock split pursuant to Section 2.02 or 2.03) for a consideration per share that is less than the exercise price (the "Effective Price"), then on the date of such issue the exercise price shall be reduced to a price (calculated to the nearest cent) equal to the effective price. The effective price of additional shares of Common Stock shall mean the quotient determined by dividing the total number of additional shares of Common Stock issued or sold (or under Section 2.07(b) deemed to have been issued or sold) into the aggregate consideration received (or under Section 2.07(b) deemed to have been received) by the corporation for such additional shares of Common Stock..

(b) In the case of the issuance of options to purchase or rights to subscribe for Common Stock, securities by their terms convertible into or exchangeable for Common Stock, or options to purchase or rights to subscribe for such convertible or exchangeable securities, the following provisions shall apply:

(i) the aggregate maximum number of shares of Common Stock deliverable upon exercise of such options to purchase or rights to subscribe for Common Stock shall be deemed to have been issued at the time such options or rights were issued for a consideration equal to the consideration received by the Company upon the issuance of such options or rights plus the minimum purchase price provided in such options or rights for the Common Stock covered thereby, but no further adjustment to the Exercise Price shall be made for the actual issuance of Common Stock upon the exercise of such options or rights in accordance with their terms;

(ii) the aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and subsequent conversion or exchange thereof shall be deemed to have been issued at the time such securities were issued or such options or rights were issued for a consideration equal to the consideration received by this corporation for any such securities and related options or rights, plus the additional consideration, if any, to be received by this corporation upon the conversion or exchange of such securities or the exercise of any related options or rights, but no further adjustment to the Exercise Price shall be made for the actual issuance of Common Stock upon the conversion or exchange of such securities in accordance with their terms;

(iii) if such options, rights or convertible or exchangeable securities by their terms provide, with the passage of time or otherwise, for any increase in the consideration payable to this corporation, or decrease in the number of shares of Common Stock issuable, upon the exercise, conversion or exchange thereof, the Exercise Price computed upon the original issue thereof, and any subsequent adjustments based thereon, shall, upon such increase or decrease becoming effective, be recomputed to reflect such increase or decrease with respect to such options, rights and securities not already exercised, converted or exchanged prior to such increase or decrease becoming effective, but no further adjustment to the Exercise Price shall be made for the actual issuance of Common Stock upon the exercise of any such options or rights or the conversion or exchange of such securities in accordance with their terms;

(iv) upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Exercise Price shall promptly be readjusted to such Exercise Price as would have been obtained had the adjustment which was made upon the issuance of such options, rights or securities or options or rights related to such securities been made upon the basis of the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options or rights, upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities.

Section 2.08 Calculation of Consideration. In the case of an issue of additional shares of Common Stock for cash, the consideration received by the Company shall be deemed to be the net cash proceeds received for such shares. In the case of an issue of additional shares of Common Stock for noncash consideration, the Company's Board of Directors shall determine the value of such consideration and such determination, unless shown by the Holder to have been made other than in good faith, shall be conclusive.

Section 2.09 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 2.10 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 2.11 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 2.12 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 2.13 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.

### 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 transferee or assignee that (a)(i) is an entity as to which the Holder is the beneficial owner of at least a majority of the equity therein and the Holder has voting control thereover, (ii) is a member of the Holder's family or a trust for the benefit of an individual Holder or (iii) a successor by inheritance or in testate succession to any interest in this Warrant or any portion thereof and (b) accepts by written instrument reasonably acceptable to the Company each of the terms and conditions that govern 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 Washington.

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.

Section 4.08 Promissory Note & Loan Agreement. This Warrant has been issued pursuant to that certain Promissory Note & Loan Agreement between the Company and the Holder dated as of May 6, 2001 (the "Note"). Upon a

Rescission Request (as defined in the Note), this Warrant including all rights granted hereunder shall, without further act or notice by any party, be cancelled and be deemed to be of no further force or effect.

[Signature on next page]



IN WITNESS WHEREOF, the Company has caused this Warrant to be issued effective as of the \_\_\_\_ day of May, 2001.

SAF-T-HAMMER CORPORATION, a Nevada corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

Exhibit A  
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)

## EXHIBIT B

## NOTICE OF NET ISSUANCE EXERCISE

To: Saf-T-Hammer Corporation

The undersigned hereby irrevocably elects to convert the attached Warrant into such number of shares of Common Stock of Saf-T-Hammer Corporation (the "COMPANY") as is determined pursuant to Section 1.02 of the attached Warrant. The undersigned requests that certificates for such net issuance shares be issued in the name of and delivered to the address of the undersigned, at the address stated below. The undersigned agrees with and represents to the Company that said shares of Common Stock of the Company are acquired for the account of the undersigned for investment and not with a view to, or for sale in connection with, any distribution or public offering within the meaning of the Securities Act of 1933, as amended.

Dated: \_\_\_\_\_

Name of Holder of Warrant: \_\_\_\_\_  
(please print)

Address: \_\_\_\_\_

Signature: \_\_\_\_\_

## EXHIBIT C TO PROMISSORY NOTE &amp; LOAN AGREEMENT

[SAF-T-HAMMER (TM) LOGO]

## REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement"), is made as of May 6, 2001, by and between Saf-T-Hammer Corporation, a Nevada corporation (the "Company"), with headquarters located at 14500 N. Northsight, Suite 221, Scottsdale, Arizona 85260, and Colton Melby, 20400 92nd Ave. S., Kent, WA 98031 (the "Rights Holder").

## RECITALS

A. The Company and Rights Holder have entered into a Promissory Note & Loan Agreement dated as of May 6, 2001 (the "Note"), pursuant to which the Rights Holder has loaned the Company \$5 million (the "Loan") and pursuant to which the Company has issued the Rights Holder a Common Stock Purchase Warrant dated of even date herewith (the "Warrant"). The Warrant authorizes the Rights Holder to acquire shares of the Common Stock of the Company (the "Common Stock").

B. To induce the Rights Holder to make the Loan, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "Securities Act"), and applicable state securities laws.

C. The parties desire to set forth in this Agreement all of the terms and conditions relating to the registration rights applicable to the Registrable Shares (as defined below).

NOW, THEREFORE, the parties agree as follows:

1. Definitions. As used in this Agreement, the following terms have the following meanings:

**Business Day:** Each day other than a Saturday, a Sunday or any other day on which commercial banks in New York City are authorized or required by law or executive order to close.

**Closing:** The consummation of the SW Transaction (as defined in the Note).

**Commission:** The Securities and Exchange Commission and any successor federal agency having similar powers.

**Exchange Act:** The Securities Exchange Act of 1934, as amended or any similar replacement federal statute, as at the time in effect, and any reference to a particular section of such Act shall include a reference to the comparable section, if any, of any such similar replacement federal statute.

**NASD:** National Association of Securities Dealers, Inc.

**NASDAQ:** The NASDAQ Stock Market, Inc.

**Person:** An individual, partnership, joint venture, corporation, trust, unincorporated organization or government or any department or agency thereof.

**Prospectus:** The prospectus included in any Registration Statement, including all amendments (including, but not limited to, post-effective amendments) and supplements to such prospectus and all material incorporated by reference in such prospectus.

**Registrable Shares:** Those certain shares of Common Stock held by the Rights Holder that are to be issued upon conversion of any proportion of the Warrant. Any particular Registrable Shares shall cease to be Registrable Shares when (x) a Registration Statement with respect to the sale of such Registrable Shares shall have become effective under the Securities Act and such Registrable Shares shall have been disposed of in accordance with such Registration Statement, (y) such Registrable Shares shall have been distributed to the public pursuant to Rule 144 (or any successor provision) under the Securities Act or (z) such Registrable Shares shall have ceased to be outstanding.

**Registration Expenses:** All expenses incurred by the Company in complying with ARTICLE 2 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company, reasonable fees and disbursements of special counsel for the Rights Holder, blue sky fees and expenses and the expense of any special audits incident to or required by any such

registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company).

**Registration Statement:** A registration statement of the Company covering Registrable Shares pursuant to this Agreement, including the Prospectus, all amendments (including, but not limited to, post-effective amendments) and supplements to such registration statement, all exhibits to such registration statement and all material incorporated by reference in such registration statement.

**Securities Act:** The Securities Act of 1933, as amended or any similar replacement federal statute, as at the time in effect, and any reference to a particular section of such Act shall include a reference to the comparable section, if any, of any such similar replacement federal statute.

**Selling Expenses:** All underwriting discounts and selling commissions applicable to the sale of the Company's capital stock.

## 2. Mandatory Registration.

2.1 **Mandatory Registration.** The Company shall prepare, and, on or prior to forty-five (45) days after the date of the Closing (the "Filing Date"), file with the SEC a Registration Statement on Form SB-2 (or, if Form SB-2 is not then available, on such form of Registration Statement as is then available to effect a registration of all of the Registrable Securities, subject to the consent of the Rights Holder) covering the resale of all of the Registrable Securities.

2.2 **Furnishing Information.** It shall be a condition precedent to the obligations of the Company to take any action pursuant to SECTION 2.1 that the Rights Holder shall furnish to the Company such information regarding himself, the Registrable Shares held by him and the intended method of disposition of such securities as shall be required to effect the registration of the Registrable Shares.

2.3 **Assignment of Registration Rights.** The registration rights of the Rights Holder under this Agreement may be assigned (but only with all related obligations) by Rights Holder to a transferee or assignee of such securities that (i) is an entity as to which the Rights Holder is the beneficial owner of at least a majority of the equity therein and the Rights Holder has voting control thereover, (ii) is a member of the Rights Holder's family or a trust for the benefit of an individual Rights Holder. Upon any such permissible assignment, the assigning Rights Holder shall provide the Company with written notice of such transfer stating the name and address of the transferee and identifying the securities with respect to which the rights under this Agreement have been assigned. Except as expressly set forth above, the rights of the Rights Holder under this Agreement may not be assigned,

transferred or otherwise conveyed without the prior written consent of the Company in its sole discretion.

3. Resale Limitations. Notwithstanding anything else to the contrary contained herein, the Rights Holder may not sell any Registrable Securities within the first six (6) months following the date on which the Registration Statement required by SECTION 2.1 becomes effective (the "Effective Date") without the prior written consent of the Company.

4. Registration Procedures. With respect to the Registration Statement required to be filed under SECTION 2.1, the Company shall:

4.1 Prepare and file with the Commission a Registration Statement with respect to such Registrable Shares and use all reasonable efforts to cause such Registration Statement to become effective, and, upon the request of the Rights Holder, keep such Registration Statement effective for the earliest of ten (10) year from the Effective Date, until the Rights Holder has completed the distribution related thereto, or until the Registrable Shares may otherwise be sold to the public pursuant to Rule 144 (or any successor provision).

4.2 Prepare and file with the Commission such amendments and supplements to such Registration Statement and the Prospectus used in connection with such Registration Statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such Registration Statement for the period set forth in SECTION 4.1.

4.3 Furnish to the Rights Holder such number of copies of the Prospectus, in conformity with the requirements of the Securities Act, and such other documents as may reasonably be requested in order to facilitate the disposition of Registrable Shares owned.

4.4 Use its reasonable efforts to register and qualify the securities covered by such Registration Statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Rights Holder; provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

4.5 Notify the Rights Holder when the Prospectus is required to be delivered under the Securities Act of the happening of any event as a result of which the Prospectus included in such Registration Statement, as then in effect, includes an

untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing. The Company will use reasonable efforts to amend or supplement such Prospectus in order to cause such Prospectus not to include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

5. Assignment. Neither this Agreement nor any other rights, interests or obligations hereunder may be assigned by any of the parties hereto, except in the case of the Company, by operation of law. Each permitted assignee pursuant to this SECTION 5 shall be deemed to have agreed to be bound by the terms of this Agreement.

#### 6. Indemnification.

6.1. Indemnification by the Company. In the event of any registration of any Registrable Shares under the Securities Act pursuant to SECTION 2, the Company shall indemnify and hold harmless Rights Holder against all losses, claims, damages, liabilities (or proceedings in respect thereof) and expenses (under the Securities Act or common law or otherwise), joint or several, arising out of or based upon any untrue statement or alleged untrue statement of a fact contained in any Registration Statement or Prospectus (and as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) or any preliminary Prospectus or caused by any omission or alleged omission to state therein a fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities (or proceedings in respect thereof) or expenses are caused by any untrue statement or alleged untrue statement contained in or by any omission or alleged omission from information furnished in writing to the Company by Rights Holder expressly for use therein.

6.2. Indemnification by Rights Holder. In connection with any Registration Statement in which Rights Holder are participating, Rights Holder agree to indemnify and hold harmless the Company, its officers and directors and each Person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, against any losses, claims, damages, liabilities, (or proceedings in respect thereof) and expenses (under the Securities Act or common law or otherwise), joint or several, arising out of or based upon any untrue statement or alleged untrue statement of a fact contained in any Registration Statement or Prospectus (and as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) or any preliminary Prospectus or caused by any omission or alleged omission to state therein a fact required to be stated therein



or necessary to make the statements therein not misleading, but only to the extent that such untrue statement is contained in or such omission is from information so furnished in writing by Rights Holder expressly for use therein.

6.3. Notice of Claims, etc. Any Person entitled to indemnification under the provisions of this SECTION 6 shall (a) give prompt notice to the indemnifying party of any claim with respect to which it seeks indemnification and (b) unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist in respect of such claim, permit such indemnifying party to assume the defense of such claim, with counsel reasonably satisfactory to the indemnified party; and if such defense is so assumed, such indemnifying party shall not enter into any settlement without the consent of the indemnified party if such settlement attributes liability to the indemnified party and such indemnifying party shall not be subject to any liability for any settlement made without its consent (which shall not be unreasonably withheld); and any underwriting agreement entered into with respect to any Registration Statement provided for under this Agreement shall so provide. In the event an indemnifying party shall not be entitled, or elects not, to assume the defense of a claim, such indemnifying party shall not be obligated to pay the fees and expenses of more than one counsel or firm of counsel for all parties indemnified by such indemnifying party in respect of such claim, unless in the reasonable judgment of any such indemnified party a conflict of interest may exist between such indemnified party and any other of such indemnified parties in respect of such claim. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of Rights Holder and shall survive the transfer of such shares by Rights Holder.

6.4. Other Indemnification. Indemnification similar to that specified in the preceding subdivisions of this SECTION 6 (with appropriate modifications) shall be given by the Company to Rights Holder, on the one hand, and by Rights Holder to the Company, on the other hand, with respect to any required registration or other qualification of such Registrable Shares under any federal or state law or regulation of any governmental authority other than the Securities Act.

6.5. Payment. The indemnification required by this SECTION 6 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or expense, loss, damage or liability is incurred. Any indemnified party receiving indemnification payments will repay the same to the Company in the event it is ultimately determined that such indemnification payments were not permitted by applicable law.

6.6. Other Remedies. If for any reason the foregoing indemnity is unavailable, or is insufficient to hold harmless an indemnified party, other than by

reason of the exceptions provided therein, then the indemnifying party shall contribute to the amount paid or payable by the indemnified party as a result of such losses, claims, damages, liabilities or expenses (a) in such proportion as is appropriate to reflect the relative benefits received by the indemnifying party on the one hand and the indemnified party on the other from the offering of Registrable Shares (taking into account the portion of the proceeds of the offering realized by each such party) and as adjusted to appropriately reflect not only the relative benefits received by the indemnifying party on the one hand and the indemnified party on the other but also the relative fault of the indemnifying party and the indemnified party as well as any other relevant equitable considerations.

7. Expenses. Except as specifically provided herein, all Registration Expenses incurred in connection with any registration pursuant to ARTICLE 2 herein shall be borne by the Company. All Selling Expenses incurred in connection with any registrations hereunder shall be borne by the Rights Holder.

8. Rules 144 and 144A. The Company will file the reports required to be filed by it under the Securities Act and the rules and regulations adopted by the Commission thereunder (or, if the Company is not required to file such reports, will, upon the request of Rights Holder, make publicly available other information), all to the extent required from time to time to enable Rights Holder to sell Registrable Shares without registration under the Securities Act within the limitation of the exemptions provided by (a) Rule 144 under the Securities Act, as such Rule may be amended from time to time, (b) Rule 144A under the Securities Act, as such Rule may be amended from time to time, or (c) any similar rule or regulation hereafter adopted by the Commission. Upon the request of Rights Holder, the Company will deliver to Rights Holder a written statement as to whether it has complied with such requirements.

9. Amendments. This Agreement may be amended only by the written consent of the parties hereto.

10. Notices. All notices and other communications given pursuant to this Agreement shall be in writing and shall be deemed to have been duly given (a) on receipt, if delivered personally, (b) three Business Days after it has been mailed by first-class, registered or certified mail, return receipt requested, postage prepaid, (c) the next Business Day after it has been sent by nationally recognized overnight courier (appropriately marked for overnight delivery); or (d) upon transmission, if it is sent by telecopy (with request for immediate confirmation of receipt in a manner customary for communications of such type):

(i) if to the Company, to:

Saf-T-Hammer Corporation  
14500 N. Northsight Boulevard, Suite 221  
Scottsdale, AZ 85260  
Attn: Robert Scott, President  
Facsimile No.: (480) 949-9747

With a copy to:

Stephen R. Boatwright, Esq.  
Gammage & Burnham, PLC  
2 N. Central Ave., 18th floor  
Phoenix, AZ 85004  
Facsimile No.: (602) 256-4475

(ii) if to the Rights Holder:

Colton Melby  
20400 92nd Ave. S.  
Kent, WA 98031

With a copy to:

Gail Runnfeltdt, Esquire  
Perkins Coie LLP  
1201 Third Avenue, Suite 4800  
Seattle, WA, 98101  
Fax: (206) 583-8500

or, in each case, at such other address as may be specified in writing  
(in accordance with the terms of this SECTION 10).

11. Remedies. The Rights Holder in addition to being entitled to exercise all rights provided herein and granted by law, including recovery of damages, will be entitled to specific performance of his rights under this Agreement.

12. Arbitration.

(a) All disputes and controversies related to this Agreement shall be fully and finally resolved by binding and non-appealable arbitration, before a single arbitrator selected by the procedure set forth below, held in Seattle, Washington.

(b) The single arbitrator (the "Arbitrator") shall be selected from among the Seattle, Washington members of the American Arbitration Association (the

"AAA") by mutual agreement of the disputing parties, or if the disputing parties are unable to agree, by the following means:

(i) The disputing parties shall simultaneously exchange lists each containing the names of five members of their choice of the Panel who have indicated a willingness to serve.

(ii) If a single name appears on all lists, that individual shall be appointed.

(iii) If more than one name appears on all lists, the Arbitrator shall be selected from the common names by mutual agreement of the disputing parties or by lot.

(iv) If the lists contain no names in common, four names shall be stricken from each disputing party's list by the other disputing parties and the Arbitrator shall be selected from the remaining names by mutual agreement of the disputing parties or by lot.

(v) If the AAA ceases to exist or it is otherwise impossible to select the Arbitrator from the Panel as contemplated by this Agreement, the Arbitrator shall be selected by the President of the AAA in the manner that the President deems closest to satisfying the purposes of this section, or, if such person is unable to do so, by the President of the Association of the Bar of King County, Washington.

(c) The Arbitrator, after appropriate consultation with the disputing parties, shall (i) determine, in his or her sole discretion, the rules governing the arbitration proceeding, including whether and to what extent the parties shall have any right to pre-hearing discovery or other forms of disclosure, the manner of presentation of arguments and/or evidence before or at any hearing, whether and to what extent formal rules of evidence shall govern the proceeding and the parties' rights following the proceeding, and (ii) be governed in exercising such discretion by the goal of reaching a fair and reasonable decision in an expeditious and efficient manner while endeavoring to streamline the process and avoid undue litigation costs.

(d) The Arbitrator shall assess the costs of the proceeding (including the prevailing disputing party's reasonable attorney's fees) on any unsuccessful disputing party to the extent the Arbitrator concludes that such disputing party is unsuccessful, unless he or she concludes that matters of equity or important considerations of fairness dictate otherwise.

(e) The Arbitrator shall be required to state his or her decision in writing and may, but shall not be required to, elaborate on the reasons for such decision.

(f) All proceedings in connection with any arbitration, including its existence, the content of the proceedings and any decision, shall be kept confidential to the maximum extent possible consistent with the law.

13. Promissory Note & Loan Agreement. This Registration Rights Agreement has been executed pursuant to that certain Promissory Note & Loan Agreement between the Company and the Rights Holder dated as of May 6, 2001 (the "Note"). Upon a Rescission Request (as defined in the Note), this Registration Rights Agreement including all rights granted hereunder shall, without further act or notice by any party, be cancelled and be deemed to be of no further force or effect.

14. Miscellaneous. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective of the Company and Rights Holder. This Agreement embodies the entire agreement and understanding between the Company and Rights Holder and supersedes all prior agreements and understandings relating to the subject matter hereof. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF WASHINGTON. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered effective as of the date first above written.

SAF-T-HAMMER CORPORATION, a Nevada corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

\_\_\_\_\_  
Colton Melby

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.

[SAF-T-HAMMER (TM) LOGO]

SAF-T-HAMMER CORPORATION  
COMMON STOCK PURCHASE WARRANT

NO. CL-1

This certifies that, for value received, Corey Lambrecht ("Holder"), is entitled to subscribe for and purchase from Saf-T-Hammer Corporation, a Nevada corporation ("Company"), 354,725 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 \$1.00 per share which price is subject to adjustment as set forth in ARTICLE II below (collectively the "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 as Exhibit A ("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 Net Issuance Right. Notwithstanding the payment provisions set forth above, the holder may elect to convert this Warrant into shares of Warrant Shares by surrendering this Warrant at the office of the Company and delivering to the Company the notice of net issuance exercise annexed as Exhibit B duly completed and executed by the holder, in which case the Company shall issue to the holder the number of shares of Warrant Shares of the Company equal to the result obtained by (a) subtracting B from A, (b) multiplying the difference by C, and (c) dividing the product by A as set forth in the following equation:

$$X = \frac{(A - B) \times C}{A} \text{ where:}$$

- X = the number of shares of Warrant Shares issuable upon net issuance exercise pursuant to the provisions of this SECTION 1.02.
- A = the Fair Market Value (as defined below) of one share of the Warrant Shares on the date of net issuance exercise.
- B = the Exercise Price for one share of the Warrant Shares under this Warrant.
- C = the number of shares of Warrant Shares as to which this Warrant is exercisable pursuant to the provisions of SECTION 1.01.

If the foregoing calculation results in a negative number, then no shares of Warrant Shares shall be issued upon net issuance exercise pursuant to this SECTION 1.02. "Fair Market Value" of one share of the Warrant Shares shall mean:

(i) if the net issuance exercise is in connection with a transaction specified in Section 2.01, the value of the consideration (determined, in the case of noncash consideration, in good faith by the Company's Board of Directors) to be received pursuant to such transaction by the holder of one share of the Warrant Shares;

(ii) if the Company's Common Stock is traded on an exchange or is quoted on the Nasdaq National Market, the average of the closing or last sale price reported for the five business days immediately preceding the date of net issuance exercise;

(iii) if the Company's Common Stock is not traded on an exchange or on the Nasdaq National Market, but is traded in the over-the-counter market, the mean of the closing bid and asked prices reported for the five market days immediately preceding the date of net issuance exercise; and

(iv) In all other cases, the fair value as determined in good faith by the Company's Board of Directors.

Upon net issuance exercise in accordance with this SECTION 1.02, the Holder shall be entitled to receive from the Company a stock certificate in proper form representing the number of shares of Warrant Shares determined in accordance with the foregoing.

Section 1.03 Certificates. Certificates for the shares purchased pursuant to SECTION 1.01 OR 1.02 shall be delivered to the Holder within ten (10) days 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 Holder shall for all purposes be deemed to have become the holder of record of the Warrant Shares on the date this Warrant was exercised (the date the Holder has fully complied with the requirements of SECTION 1.01 OR 1.02), irrespective of the date of delivery of the certificate or certificates representing the Warrant Shares; provided that, if the date such exercise is made is a date when the stock transfer books of the Company are closed, such person shall be deemed to have become the holder of record of the Warrant Shares at the close of business on the next succeeding date on which the stock transfer books are open. 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 1.04 Company Covenants. 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 [Intentionally Omitted]

Section 2.08 Calculation of Consideration. In the case of an issue of additional shares of Common Stock for cash, the consideration received by the Company shall be deemed to be the net cash proceeds received for such shares. In the case of an issue of additional shares of Common Stock for noncash consideration, the Company's Board of Directors shall determine the value of such consideration and such determination, unless shown by the Holder to have been made other than in good faith, shall be conclusive.

Section 2.09 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 2.10 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 2.11 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 2.12 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 2.13 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.

### 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 transferee or assignee that (a)(i) is an entity as to which the Holder is the beneficial owner of at least a majority of the equity therein and the Holder has voting control thereover, (ii) is a member of the Holder's family or a trust for the benefit of an individual Holder or (iii) a successor by inheritance or in testate succession to any interest in this Warrant or any portion thereof and (b) accepts by written instrument reasonably acceptable to the Company each of the terms and conditions that govern 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 11th day of May, 2001.

SAF-T-HAMMER CORPORATION, a Nevada corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

Exhibit A  
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:

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Dated:

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-----  
(Signature of Registered Owner)

-----  
(Street Address)

-----  
(City) (State) (Zip Code)



EXHIBIT B

NOTICE OF NET ISSUANCE EXERCISE

To: Saf-T-Hammer Corporation

The undersigned hereby irrevocably elects to convert the attached Warrant into such number of shares of Common Stock of Saf-T-Hammer Corporation (the "COMPANY") as is determined pursuant to Section 1.02 of the attached Warrant. The undersigned requests that certificates for such net issuance shares be issued in the name of and delivered to the address of the undersigned, at the address stated below. The undersigned agrees with and represents to the Company that said shares of Common Stock of the Company are acquired for the account of the undersigned for investment and not with a view to, or for sale in connection with, any distribution or public offering within the meaning of the Securities Act of 1933, as amended.

Dated: -----

Name of Holder of Warrant: -----

(please print)

Address: -----

Signature: -----