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

Form 10-Q

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

For the quarterly period ended January 31, 2012

Commission File No. 001-31552

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

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

The registrant had 64,883,616 shares of common stock, par value $0.001, outstanding as of March 1, 2012.

SMITH & WESSON HOLDING CORPORATION
Quarterly Report on Form 10-Q
For the Nine Months Ended January 31, 2012

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Statement Regarding Forward-Looking Information

The statements contained in this report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include statements regarding our "expectations," "anticipations," "intentions," "beliefs," or "strategies" regarding the future. Forward-looking statements also include statements regarding net sales, margins, expenses, earnings, and capital expenditures for the remainder of fiscal 2012 and thereafter; estimated warranty costs related to the Thompson/Center Arms Venture™ rifle recall; future products or product development; our product development strategies; beliefs regarding the features and performance of our products; the success of particular product or marketing programs; and liquidity and anticipated cash needs and availability. All forward-looking statements included in this report are based on information available to us as of the filing date of this report, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from the forward-looking statements. Among the factors that could cause actual results to differ materially are the factors discussed under Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended April 30, 2011, filed with the SEC on June 30, 2011.

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PART I — FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	January 31, 2012 (Unaudited)	April 30, 2011
	(In thousands, except par value and share data)	
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of $3,331 on January 31, 2012 and $5,821 on April 30, 2011	$ 25,745	$ 58,292
Accounts receivable, net of allowance for doubtful accounts of $1,767 on January 31, 2012 and $2,147 on April 30, 2011	47,247	64,753
Inventories	60,159	51,720
Other current assets	8,269	10,212
Assets held for sale	2,517	—
Deferred income taxes	14,334	14,073
Income tax receivable	3,274	4,513
Total current assets	161,545	203,563
Property, plant and equipment, net	62,251	62,390
Intangibles, net	8,045	8,692
Other assets	5,952	6,804
	$ 237,793	$ 281,449
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 26,397	$ 40,119
Accrued expenses	20,093	25,356
Accrued payroll	8,094	5,309
Accrued taxes other than income	3,421	11,421
Accrued profit sharing	3,622	4,081
Accrued product/municipal liability	2,435	2,584
Accrued warranty	5,112	3,424
Current portion of notes payable	—	30,000
Total current liabilities	69,174	122,294
Deferred income taxes	5,319	5,309
Notes payable, net of current portion	50,000	50,000
Other non-current liabilities	12,331	8,763
Total liabilities	136,824	186,366
Commitments and contingencies (Note 17)		
Stockholders’ equity:		
Preferred stock, $.001 par value, 20,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $.001 par value, 100,000,000 shares authorized, 66,080,283 shares issued and 64,880,283 shares outstanding on January 31, 2012 and 65,710,531 shares issued and 64,510,531 shares outstanding on April 30, 2011	66	66
Additional paid-in capital	188,050	185,802
Accumulated deficit	(80,824)	(84,462)
Accumulated other comprehensive income	73	73
Treasury stock, at cost (1,200,000 common shares)	(6,396)	(6,396)
Total stockholders’ equity	100,969	95,083
	$ 237,793	$ 281,449

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

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)
(Unaudited)

	For the Three Months Ended:		For the Nine Months Ended:	
	(In thousands, except per share data)			
	January 31, 2012	January 31, 2011	January 31, 2012	January 31, 2011
Net sales	$ 98,125	$ 79,238	$ 282,154	$ 240,566
Cost of sales	68,121	59,847	201,028	167,118
Gross profit	30,004	19,391	81,126	73,448
Operating expenses:				
Research and development	992	1,207	3,571	3,099
Selling and marketing	8,062	8,921	24,823	26,206
General and administrative	10,666	11,203	33,483	34,344
Total operating expenses	19,720	21,331	61,877	63,649
Operating income/(loss) from continuing operations	10,284	(1,940)	19,249	9,799
Other income/(expense):				
Other income/(expense), net	8	(463)	62	692
Interest income	394	289	1,196	849
Interest expense	(1,629)	(1,453)	(6,044)	(3,659)
Total other income/(expense), net	(1,227)	(1,627)	(4,786)	(2,118)
Income/(loss) from continuing operations before income taxes	9,057	(3,567)	14,463	7,681
Income tax expense/(benefit)	3,664	(852)	5,845	3,994
Income/(loss) from continuing operations	5,393	(2,715)	8,618	3,687
Discontinued operations (Note 3):				
Loss from operations of discontinued security solutions division	(1,600)	(53,908)	(8,306)	(93,143)
Income tax benefit	(645)	(3,787)	(3,326)	(5,547)
Loss on discontinued operations	(955)	(50,121)	(4,980)	(87,596)
Net income/(loss)/comprehensive income/(loss)	$ 4,438	$ (52,836)	$ 3,638	$ (83,909)
Net income/(loss) per share (Note 15):				
Basic — continuing operations	$ 0.08	$ (0.05)	$ 0.13	$ 0.06
Basic — net income/(loss)/comprehensive income/(loss)	$ 0.07	$ (0.88)	$ 0.06	$ (1.40)
Diluted — continuing operations	$ 0.08	$ (0.05)	$ 0.13	$ 0.06
Diluted — net income/(loss)/comprehensive income/(loss)	$ 0.07	$ (0.88)	$ 0.06	$ (1.33)
Weighted average number of common shares outstanding (Note 15):				
Basic	64,874	60,248	64,700	60,086
Diluted	66,582	60,248	65,154	63,201

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

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Nine Months Ended January 31, 2012
(Unaudited)

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
Balance at April 30, 2011	65,711	$ 66	$185,802	$ (84,462)	$ 73	1,200	$(6,396)	$ 95,083
Exercise of employee stock options	127	—	216	—	—	—	—	216
Stock-based compensation	—	—	1,797	—	—	—	—	1,797
Book deduction of stock-based compensation in excess of tax deductions	—	—	(266)	—	—	—	—	(266)
Shares issued under employee stock purchase plan	234	—	501	—	—	—	—	501
Issuance of common stock under restricted stock unit awards, net of shares surrendered	8	—	—	—	—	—	—	—
Net income	—	—	—	3,638	—	—	—	3,638
Balance at January 31, 2012	66,080	$ 66	$188,050	$ (80,824)	$ 73	1,200	$(6,396)	$ 100,969

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

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

	For the Nine Months Ended January 31, 2012	For the Nine Months Ended January 31, 2011
	(In thousands)	
Cash flows from operating activities:		
Net income/(loss)	$ 3,638	$ (83,909)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Amortization and depreciation	12,238	10,781
Loss on sale of business	241	—
Loss on sale of assets	282	64
(Recoveries of)/provision for losses on accounts receivable	(297)	287
Impairment of long-lived assets	—	90,503
Deferred income taxes	—	(1,504)
Stock-based compensation expense	1,797	976
Change in contingent consideration	—	(3,060)
Excess book deduction of stock-based compensation	(266)	(245)
Changes in operating assets and liabilities:		
Accounts receivable	17,803	11,290
Inventories	(9,006)	(5,466)
Other current assets	2,017	(2,150)
Income tax receivable/payable	1,239	(1,004)
Accounts payable	(13,722)	(8,135)
Accrued payroll	2,785	(4,071)
Accrued taxes other than income	(8,000)	453
Accrued profit sharing	(459)	(4,919)
Accrued other expenses	(5,942)	990
Accrued product/municipal liability	(149)	(93)
Accrued warranty	1,688	(485)
Other assets	1,772	(974)
Other non-current liabilities	599	849
Net cash provided by operating activities	8,258	178
Cash flows from investing activities:		
Proceeds from sale of business	500	—
Payments to acquire patents and software	(193)	(472)
Proceeds from sale of property and equipment	185	3
Payments to acquire property and equipment	(10,648)	(6,822)
Net cash used in investing activities	(10,156)	(7,291)
Cash flows from financing activities:		
Proceeds from loans and notes payable	1,532	24,520
Cash paid for debt issue costs	(1,859)	(1,052)
Cash paid for redemption of convertible notes	(30,000)	—
Proceeds from energy efficiency incentive programs	225	—
Proceeds from exercise of options to acquire common stock including employee stock purchase plan	717	679
Taxes paid related to restricted stock issuance	—	(50)
Payments on loans and notes payable	(1,264)	(24,245)
Net cash used in financing activities	(30,649)	(148)
Net decrease in cash and cash equivalents	(32,547)	(7,261)
Cash and cash equivalents, beginning of period	58,292	39,855
Cash and cash equivalents, end of period	$ 25,745	$ 32,594
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	$ 5,745	$ 3,481
Income taxes	1,524	1,884

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

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended January 31, 2012 and 2011

(1) Organization:

We are one of the world's leading U.S.-based manufacturers of firearms. We manufacture a wide array of handguns, modern sporting rifles, hunting rifles, black powder firearms, handcuffs, and firearm-related products and accessories for sale to a wide variety of customers, including firearm enthusiasts, collectors, hunters, sportsmen, competitive shooters, individuals desiring home and personal protection, law enforcement and security agencies and officers, and military agencies in the United States and throughout the world. We are one of the largest manufacturers of handguns, modern sporting rifles, and handcuffs in the United States, the largest U.S. exporter of handguns, and an active participant in the hunting rifle market. We manufacture our firearm products at our facilities in Springfield, Massachusetts and Houlton, Maine. In addition, we pursue opportunities to license our name and trademarks to third parties for use in association with their products and services.

(2) Basis of Presentation:

The consolidated balance sheet as of January 31, 2012, the consolidated statements of operations and comprehensive income/(loss) for the nine months ended January 31, 2012 and 2011, the consolidated statement of changes in stockholders' equity for the nine months ended January 31, 2012, and the consolidated statements of cash flows for the nine months ended January 31, 2012 and 2011 have been prepared by us, without audit.

Smith & Wesson Security Solutions, Inc. ("SWSS"), our security solutions division, is being presented as discontinued operations in the consolidated statements of operations and comprehensive income/(loss) for all periods presented. See Note 3 for additional information regarding these discontinued operations. Unless stated otherwise, any reference to the consolidated statements of operations and comprehensive income/(loss) items in the notes to the consolidated financial statements refers to results from continuing operations.

The quarter end for each of our wholly owned subsidiaries, Smith & Wesson Corp. ("SWC"), Thompson Center Holding Corporation (formerly Bear Lake Acquisition Corp.) and its subsidiaries (collectively, "Thompson/Center Arms"), including Thompson/Center Arms Company, Inc. ("TCA"), and SWSS, was January 29, 2012, a two-day variance to our reported fiscal quarter end of January 31, 2012. This variance did not create any material difference in the consolidated financial statements as presented. In our opinion, all adjustments, which include only normal recurring adjustments necessary to fairly present the financial position, results of operations, changes in stockholders' equity, and cash flows at January 31, 2012 and for the periods presented, have been included. All significant intercompany transactions have been eliminated. The consolidated balance sheet as of April 30, 2011 has been derived from our audited financial statements.

In connection with our plant consolidation described in Note 14, on January 2, 2012, we completed the sale of K.W. Thompson Tool Company, Inc. ("K.W. Thompson"), a subsidiary of Thompson/Center Arms. The land and building located in Rochester, New Hampshire have been classified as assets held for sale as of January 31, 2012. See Note 14 for additional information regarding our plant consolidation.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended April 30, 2011, filed with the SEC on June 30, 2011. The results of operations for the nine months ended January 31, 2012 may not be indicative of the results that may be expected for the year ending April 30, 2012 or any other period.

Reclassification

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

(3) Discontinued Operations:

Based on a combination of factors occurring since our July 2009 acquisition of SWSS, including federal and corporate budgetary constraints, increased price competition, and a fundamental change in strategic direction, on October 5, 2011, we committed to a plan to divest the assets, liabilities, and ongoing operations of our security solutions division. The operating results of SWSS are classified as discontinued operations and are presented in a separate line in the consolidated statements of operations and comprehensive income/(loss) for all periods presented. At this time, we are not able to provide a good faith estimate of any of the major types of costs associated with the divestiture nor are we able to provide an estimate of the total range of costs, expenses, or future cash expenditures associated with the divestiture. At this time, we are not able to estimate a time frame when the divestiture will occur. Prior to the decision to divest of the business, we had reported this business as a separate division under the heading of security solutions.

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended January 31, 2012 and 2011

The following is a summary of the operating results of the discontinued operations (in thousands):

	For the Three Months Ended:		For the Nine Months Ended:	
	January 31, 2012	January 31, 2011	January 31, 2012	January 31, 2011
Net sales from discontinued operations	$ 8,432	$ 10,099	$ 21,879	$ 39,976
Loss before income taxes	$ (1,600)	$ (53,908)	$ (8,306)	$ (93,143)
Net loss from discontinued operations	$ (955)	$ (50,121)(a)	$ (4,980)	$ (87,596)(a)

(a) Included in the results of operations for the three and nine months ended January 31, 2011 are non-cash charges related to the impairment of goodwill and other intangible assets totaling $51.0 million and $90.5 million, respectively. In addition, for the nine months ended January 31, 2011, we recorded income of $3.1 million related to the reduction in the acquisition liability related to contingent consideration versus the value recorded as of April 30, 2010.

The following is a summary of the major assets and liabilities of the discontinued operations (in thousands):

	January 31, 2012 (Unaudited)	April 30, 2011
ASSETS		
Current assets:		
Accounts receivable, net of allowance for doubtful accounts	$ 9,538	$ 11,816
Inventories	4,110	5,092
Total current assets	13,648	16,908
Property, plant, and equipment, net	1,378	1,601
Intangibles, net	3,393	3,674
	$ 18,419	$ 22,183
LIABILITIES		
Current liabilities:		
Accounts payable	$ 2,582	$ 2,785
Accrued expenses	3,712	2,298
Total current liabilities	6,294	5,083
Other non-current liabilities	728	672
Total liabilities	$ 7,022	$ 5,755

In accordance with ASC 360-10, *Property, Plant, and Equipment*, the net assets of SWSS do not qualify as held for sale because of the uncertainty of the time frame as to when the divestiture will occur.

(4) Significant Accounting Policies:

Revenue Recognition — For our firearm products, we recognize revenue when the following four basic criteria have been met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been provided; (3) the fee is fixed or determinable; and (4) collection is reasonably assured. For our security solutions products and services, we recognize revenue from fixed-price contracts using the percentage-of-completion method, measured by the percentage of costs incurred to date to our total expected costs for each contract. As noted above, revenue from our security solutions division are being classified as discontinued operations.

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

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We determine percentage-of-completion by comparing the cost incurred to date to the estimated total cost required to complete the project. We consider costs incurred to date to be the most reliable, available measure of progress on these projects. We make adjustments to estimates to complete in the periods in which facts resulting in a change become known. When the estimate indicates that a loss will be incurred, we record the loss in the period in which it is identified. When reliable estimates cannot be made, we recognize revenue upon completion. Significant judgment is involved in the estimation process for each contract. Different assumptions could yield materially different results. Delays in the installation process could negatively affect operations in a given period by increasing volatility in revenue recognition. Recognition of revenue in conformity with accounting principles generally accepted in the United States requires us to make judgments that affect the timing and amount of reported revenue.

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

Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial statement dates and the reported amounts of revenue and expenses during the reporting periods. Our significant estimates include gross margin and percentage of completion on in-process security solutions projects, accruals for warranty costs, product liability expense, workers' compensation expense, environmental liability, excess and obsolete inventory, allowance for doubtful accounts, income tax expense, forfeiture rates on stock-based awards, asset impairments, and medical claims payable. Actual results could differ from those estimates.

Accounting for Acquisitions — Our accounting for acquisitions involves significant judgments and estimates, including the fair value of certain forms of consideration; the fair value of acquired intangible assets, which involve projections of future revenue and cash flows; the fair value of other acquired assets and assumed liabilities, including potential contingencies; and the useful lives and, as applicable, the reporting unit of the assets. Our financial position or results of operations may be materially impacted by changes in our initial assumptions and estimates relating to prior or future acquisitions. Additionally, we determine the fair value of the reporting unit, for purposes of the first step in our annual goodwill impairment test, based on an income approach. If prior or future acquisitions are not accretive to our results of operations as expected or our market value declines dramatically, we may be required to complete the second step, which requires significant judgments and estimates and which may result in material impairment charges in the period in which they are determined (see *Valuation of Long-lived Tangible and Intangible Assets and Goodwill* below).

Segment Information — We have historically reported certain financial information under two segments: firearms and security solutions. As a result of our plan to divest SWSS, the results of the operations comprising the security solutions segment are now being reported as discontinued operations for all periods presented. See Note 3 — *Discontinued Operations* for additional information.

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

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

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

In accordance with ASC 350, *Intangibles — Goodwill and Other*, we test intangible assets with indefinite lives for impairment on an annual basis on February 1 and between annual tests if indicators of potential impairment exist. The impairment test compares the fair value of the reporting unit to its carrying amount, including goodwill and intangible assets with indefinite lives, to assess whether impairment is present. We have reviewed the provisions of ASC 280-10 with respect to the criteria necessary to evaluate the number of reporting units that exist. Based on our review of the *Segment Reporting Topic*, ASC 280-10-50, we have determined that we operate our continuing operations in one reporting unit for our Springfield, Massachusetts and Houlton, Maine facilities. As of January 31, 2012, we had no goodwill recorded on our books for continuing operations.

We periodically review long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of those assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded carrying value for the asset. If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis. No impairment charges were taken during the three and nine months ended January 31, 2012 based on the review of long-lived assets. We recorded impairment charges related to our discontinued security solutions division during the three and nine months ended January 31, 2011. See Note 3 — *Discontinued Operations* for additional information. See also Note 8 — *Intangible Assets*.

Significant judgments and estimates are involved in determining the useful lives of our long-lived assets, determining what reporting units exist, and assessing when events or circumstances would require an interim impairment analysis of goodwill or other long-lived assets to be performed. Changes in our organization or our management reporting structure, as well as other events and circumstances, including technological advances, increased competition, and changing economic or market conditions, could result in (a) shorter estimated useful lives, (b) additional reporting units, which may require alternative methods of estimating fair values or greater disaggregation or aggregation in our analysis by reporting unit, and (c) other changes in previous assumptions or estimates. A change in the weighted average cost of capital, for example, could materially change the valuation and, if increased, could cause an impairment. In turn, this could have an additional impact on our consolidated financial statements through accelerated amortization and impairment charges.

(5) Notes Payable:

Credit Facilities — Pursuant to an amendment of our amended and restated credit agreement dated October 28, 2011, we decreased our revolving line of credit to $60.0 million. As a result of the reduction of our credit facility, we wrote off $563,000 of debt issuance costs to interest expense during the nine months ended January 31, 2012.

The credit facility provides for availability until December 7, 2014 for working capital needs. The revolving line of credit bears interest at a variable rate equal to LIBOR or prime plus an applicable margin based on our leverage ratio, at our election. As of January 31, 2012, there were no borrowings outstanding. Had there been borrowings, they would have borne an interest rate of 5.0% per annum.

As security for the credit facility, TD Bank, N.A. has a first priority lien on all of our personal property and real estate assets.

We may prepay, in whole or in part, any of the loans that have interest rates determined by reference to the prime rate, with interest accrued to the date of the prepayment on the amount prepaid, without any penalty or premium. Loans with a fixed rate of interest determined by reference to the LIBOR interest rate may be prepaid provided that we reimburse TD Bank for any costs associated with (i) our making payments on dates other than those specified in the credit agreement, or (ii) our borrowing or converting a LIBOR loan on a date other than the borrowing or conversion dates specified in the credit agreement. We received a waiver of the 2.0% prepayment penalty associated with our repayment of the acquisition line of credit, as described above.

Convertible Notes — On December 15, 2006, we issued an aggregate of $80.0 million of 4% senior convertible notes (the "Convertible Notes") maturing on December 15, 2026 to qualified institutional buyers pursuant to the terms and conditions of a securities purchase agreement and indenture. In fiscal 2011, we exchanged a total of $50.0 million of Convertible Notes for $50.0 million of Senior Notes (as defined below). On December 15, 2011, holders of Convertible Notes required us to repurchase $29.7 million of Convertible Notes and on January 21, 2012, we redeemed the remaining $334,000 of Convertible Notes utilizing cash on hand. As of January 31, 2012, there were no outstanding Convertible Notes.

SMITH & WESSON HOLDING CORPORATION AND SUBSIDIARIES
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Senior Notes — On January 14, 2011, we issued an aggregate of $23.1 million of 9.5% senior notes due 2016 ("Senior Notes") to two investors in exchange for $23.1 million of Convertible Notes pursuant to the terms and conditions of an exchange agreement and indenture (the "Senior Notes Indenture"). On February 10, 2011 and March 3, 2011, we issued an aggregate of $16.8 million and $10.1 million, respectively, of Senior Notes to additional investors in exchange for $16.8 million and $10.1 million, respectively, of Convertible Notes pursuant to the terms and conditions of additional exchange agreements and the Senior Notes Indenture. As a result, we exchanged a total of $50.0 million of Convertible Notes for $50.0 million of Senior Notes.

The Senior Notes bear interest at a rate of 9.5% per annum payable on June 15 and December 15 of each year.

At any time prior to January 14, 2014, we may, at our option, (a) redeem all or a portion of the Senior Notes at a redemption price of 100% of the principal amount of the Senior Notes, plus an applicable premium, plus accrued and unpaid interest as of the redemption date, or (b) redeem up to 35% of the aggregate principal amount of the Senior Notes with the net cash proceeds of one or more equity offerings at a redemption price of 104.75% of the principal amount of the Senior Notes, plus accrued and unpaid interest as of the redemption date; provided that in the case of clause (b) above, at least 65% of the aggregate original principal amount of the Senior Notes remains outstanding and the redemption occurs within 60 days after the closing of the equity offering. On and after January 14, 2014, we may, at our option, redeem all or a portion of the Senior Notes at a redemption price of (1) 104.75% of the principal amount of the Senior Notes to be redeemed, if redeemed during the 12-month period beginning on January 14, 2014; or (2) 100% of the principal amount of the Senior Notes to be redeemed, if redeemed during the 12-month period beginning on January 14, 2015, plus, in either case, accrued and unpaid interest on the Senior Notes as of the applicable redemption date. Subject to certain restrictions and conditions, we may be required to make an offer to repurchase the Senior Notes from the holders of the Senior Notes in connection with a change of control or disposition of assets. If not redeemed by us or repaid pursuant to the holders' right to require repurchase, the Senior Notes mature on January 14, 2016.

The Senior Notes are general unsecured obligations of our company. The Senior Notes Indenture contains certain affirmative and negative covenants, including limitations on restricted payments, limitations on indebtedness, limitations on the sale of assets, and limitations on liens.

The limitation on indebtedness in the Senior Notes Indenture is only applicable at such time that the consolidated coverage ratio (as set forth in the Senior Notes Indenture) for us and our restricted subsidiaries is less than 2.00 to 1.00. In general, as set forth in the Senior Notes Indenture, the consolidated coverage ratio is determined by comparing our prior four quarters' consolidated EBITDA (earnings before interest, taxes, depreciation, and amortization) to our consolidated interest expense.

The credit agreement with TD Bank contains financial covenants relating to maintaining maximum leverage and minimum debt service coverage. The Senior Notes Indenture contains a financial covenant relating to times interest earned. We were in compliance with all debt covenants as of January 31, 2012.

(6) Capital Lease:

On October 28, 2011, we entered into a sale-leaseback agreement that included the sale of certain machinery and equipment. We then leased a total of $3.5 million of machinery and equipment to increase production capacity. The lease has an effective interest rate of 5.76% and is payable in 60 monthly installments through fiscal 2017. Leases are accounted for under the provisions of ASC 840-10, *Leases*, which requires that leases be evaluated and classified as operating or capital leases for financial reporting purposes. Based on our evaluation under ASC 840-10, we determined that the lease qualifies as a capital lease because the net present value of future lease payments exceed 90% of the fair market value of the leased machinery and equipment. We have pledged the assets financed to secure the amounts outstanding. We included $412,000 of short-term capital lease obligation in accrued expenses and $3.0 million in other non-current liabilities.

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The following sets forth the future minimum lease payments as of January 31, 2012 (in thousands):

	Capital Lease Obligation (Unaudited)
2012	$ 148
2013	596
2014	596
2015	596
2016	596
Thereafter	1,494
Total future minimum lease payments	4,026
Less amounts representing interest	(645)
Present value of minimum lease payments	3,381
Less current maturities of capital lease	(412)
Long-term maturities of capital lease	$ 2,969

(7) Inventories:

The following sets forth a summary of inventories, stated at the lower of cost or market, as of January 31, 2012 and April 30, 2011 (in thousands):

	January 31, 2012 (Unaudited)	April 30, 2011
Finished goods	$ 18,021	$ 15,409
Finished parts	25,807	18,845
Work in process	8,657	8,091
Raw material	7,674	9,375
Total inventories	$ 60,159	$ 51,720

(8) Intangible Assets:

Intangible assets consisted of the following as of January 31, 2012 and April 30, 2011 (in thousands):

	January 31, 2012 (Unaudited)	April 30, 2011
Developed technology	$ 3,120	$ 3,120
Customer relationships	100	100
Patents, trademarks, and tradenames	7,229	7,036
Software	542	542
	10,991	10,798
Less: Accumulated amortization	(2,946)	(2,106)
Total intangible assets, net	$ 8,045	$ 8,692

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(9) Accrued Expenses:

Accrued expenses consisted of the following as of January 31, 2012 and April 30, 2011 (in thousands):

	January 31, 2012 (Unaudited)	April 30, 2011
Accrued professional fees	$ 3,719	$ 4,585
Deferred revenue	2,829	1,855
Accrued distributor incentives	2,767	6,301
Accrued employee benefits	2,244	2,690
Accrued rebates and promotions	1,978	1,731
Accrued commissions	1,134	1,383
Accrued severance/restructuring costs (Note 14)	760	1,252
Accrued workers' compensation	698	593
Interest payable	612	1,575
Accrued utilities	439	579
Current portion of capital lease obligation	412	—
Pension liability	114	111
Accrued environmental	70	107
Accrued other	2,317	2,594
Total accrued expenses	$ 20,093	$ 25,356

(10) Advertising Costs:

We expense advertising costs, primarily consisting of magazine advertisements, printed materials, and television advertisements, as incurred. For the nine months ended January 31, 2012 and 2011, advertising expense for continuing operations was $11.6 million and $11.5 million, respectively.

(11) Other Non-Current Liabilities:

Other non-current liabilities consisted of the following as of January 31, 2012 and April 30, 2011 (in thousands):

	January 31, 2012 (Unaudited)	April 30, 2011
Product & municipal liability	$ 3,079	$ 2,889
Capital lease obligation, net of current maturities	2,969	—
Environmental	1,970	1,970
Workers' compensation	1,941	1,689
Accrual for uncertain income tax positions	1,060	1,051
Warranty	994	789
Pension liability	279	329
Post retirement medical	—	7
Other	39	39
Other non-current liabilities	$ 12,331	$ 8,763

(12) Warranty Reserve:

We generally provide a lifetime warranty to the original purchaser of our new firearm products and provide warranties for up to two years on the materials and workmanship in our security solutions projects, which includes products purchased by us from third-party manufacturers. We provide for estimated warranty obligations in the period in which we recognize the related revenue. We quantify and record an estimate for warranty-related costs based on our actual historical claims experience and current repair costs. We make adjustments to accruals as warranty claims data and historical experience warrant. Should we experience actual claims and repair costs that are higher than the estimated claims and repair costs used to calculate the provision, our operating results for the period or periods in which such returns or additional costs materialize would be adversely impacted.

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On November 11, 2011, we initiated a recall of all Thompson/Center Arms Venture™ rifles manufactured since the product's introduction in mid 2009. As of January 31, 2012, we had incurred $324,000 in recall costs and we estimate the remaining cost of this recall will be $1.8 million, which is included in the accrued warranty balance. Warranty expense for the nine months ended January 31, 2012 and 2011 was $4.2 million and $2.1 million, respectively.

The following sets forth the change in accrued warranty, a portion of which is recorded as a non-current liability, in the nine months ended January 31, 2012 and 2011 (in thousands):

	January 31, 2012 (Unaudited)	January 31, 2011 (Unaudited)
Beginning Balance	$ 4,213	$ 4,588
Warranties issued and adjustments to provisions	4,249	2,104
Warranty claims	(2,356)	(2,659)
Ending Balance	$ 6,106	$ 4,033

(13) Self-Insurance Reserves:

As of January 31, 2012 and April 30, 2011, we had reserves for workers' compensation, product liability, municipal liability, and medical/dental costs totaling $9.7 million and $9.5 million, respectively, of which $5.0 million and $4.6 million, respectively, have been classified as non-current and included in other non-current liabilities and $2.3 million has been included in accrued expenses, and $2.4 million and $2.6 million, respectively, have been included in accrued product/municipal liability on the accompanying consolidated balance sheets. In addition, $221,000 of excess workers' compensation receivable has been classified as an other asset. While we believe these reserves to be adequate, it is possible that the ultimate liabilities will exceed such estimates. Amounts charged to expense were $9.6 million and $9.0 million for the nine months ended January 31, 2012 and 2011, respectively.

It is our policy to provide an estimate for loss as a result of expected adverse findings or legal settlements on product liability, municipal liability, workers' compensation, and other matters when such losses are probable and are reasonably estimable. It is also our policy to accrue for reasonably estimable legal costs associated with defending such litigation. While such estimates involve a range of possible costs, we determine, in consultation with litigation counsel, the most likely cost within such range on a case-by-case basis. We also record receivables from insurance carriers relating to these matters when their collection is probable. As of January 31, 2012 and April 30, 2011, we had accrued reserves for product and municipal litigation liabilities of $5.5 million (of which $3.1 million and $2.9 million, respectively, were non-current), consisting entirely of expected legal defense costs. In addition, as of January 31, 2012 and April 30, 2011, we had recorded receivables from insurance carriers related to these liabilities of $2.1 million, of which $2.0 million has been classified as other assets and the remaining $25,000 has been classified as other current assets.

(14) Plant Consolidation:

On December 8, 2010, we implemented a restructuring plan to move the production of our hunting products to our Springfield, Massachusetts facility and to close our Rochester, New Hampshire facility. We completed this restructuring plan in November 2011. We have incurred major capital expenditures relating to moving equipment and processes from Rochester, New Hampshire to Springfield, Massachusetts, improving production efficiencies, purchasing tooling for new product offerings, and various projects designed to increase capacity and upgrade manufacturing technology.

In connection with the plant consolidation, in January 2012, we completed the sale of K.W. Thompson, a subsidiary of Thompson/Center Arms, for a purchase price of $900,000. We received $500,000 in cash and issued a $400,000 note receivable that bears interest at 4% and matures in January 2017. We recorded $74,000 of the note receivable included in other current assets and $326,000 included in other assets on our consolidated balance sheet. We also recorded a loss on sale of business, which was calculated as the net assets sold in excess of the purchase price, of $241,000 which is included in general and administrative expenses on our consolidated statements of operations and comprehensive income/(loss). The business sold was not included in discontinued operations because the operations were not material to our overall consolidated financial statements.

The land and building located in Rochester, New Hampshire have been classified as assets held for sale on our consolidated balance sheet in accordance with ASC 360-10-45, *Impairment or Disposal of Long Lived Assets*. The net book values of our assets held for sale totaled $2.5 million and is stated at the lower of the carrying value or fair value.

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For the three months ended January 31, 2012, we recorded $386,000 in facilities-related costs and employee severance and termination benefits, including $365,000 of restructuring expenses in cost of sales, excluding the impact of reduced productivity and efficiencies in our Rochester, New Hampshire facility, and $21,000 in operating expenses. For the nine months ended January 31, 2012, we recorded $2.9 million in facilities-related costs and employee severance and termination benefits, including $2.4 million of restructuring expenses in cost of sales, excluding the impact of reduced productivity and efficiencies in our Rochester, New Hampshire facility, and $525,000 in operating expenses. We do not anticipate any additional expenses during the remainder of fiscal 2012. The total amount incurred in connection with our restructuring plan was $5.6 million, with $2.5 million for employee severance and termination benefits and $3.1 million for facilities-related costs. We plan to pay out the remaining accrued employee severance and termination benefits over our next three fiscal quarters.

The following table summarizes the restructuring liabilities, included in accrued expenses, accrued for and changes in those amounts at January 31, 2012 for the plan discussed above (in thousands):

	Employee Severance and Termination Benefits	Facilities-Related Costs
Balance at April 30, 2011	$ 1,252	$ 409
Costs incurred during the period	1,099	1,803
Costs paid or settled during the period	(1,591)	(2,212)
Balance at January 31, 2012	$ 760	$ —

On December 21, 2010, under the Economic Development Incentive Program of the Commonwealth of Massachusetts, we were awarded a refundable economic incentive tax credit (“ITC”) by the Economic Assistance Coordinating Council in conjunction with our plan discussed above. The ITC is calculated as 40% of qualified capital expenditures placed in service and allows for a refundable tax credit from the Commonwealth of Massachusetts of up to $4.4 million during the fiscal year ending April 30, 2011. As of January 31, 2012, we had recorded the maximum $4.4 million of ITC as a contra asset account included in property, plant, and equipment. We have also recorded $4.4 million as a receivable included in other current assets.

(15) Stockholders’ Equity:

Common Stock

During the nine months ended January 31, 2012, options were exercised and common stock issued as follows:

(a) We issued 126,834 shares of common stock having a market value of $434,000 to former employees upon the exercise of options granted to them while employed by our company and to a director upon the exercise of options granted to her for service provided to our company. The purchase price of these shares was $216,000.

(b) In September 2011, we issued 234,418 shares of common stock under our current Employee Stock Purchase Plan (“ESPP”). The purchase price of these shares was $501,000.

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Earnings per Share

The following table provides a reconciliation of the income amounts and weighted average number of common and common equivalent shares used to determine basic and diluted earnings per share for the three and nine months ended January 31, 2012 and 2011 (in thousands, except per share data):

	For the three months ended		For the nine months ended	
	January 31, 2012	January 31, 2011	January 31, 2012	January 31, 2011
Net income/(loss)/comprehensive income/(loss)				
Income/(loss) from continuing operations	$ 5,393	$ (2,715)	$ 8,618	$ 3,687
Loss from discontinued operations, net of tax	(955)	(50,121)	(4,980)	(87,596)
Net income/(loss)/comprehensive income/(loss)	$ 4,438	$ (52,836)	$ 3,638	$ (83,909)
Weighted average shares outstanding — Basic	64,874	60,248	64,700	60,086
Dilutive effect of stock option and award plans	508	—	454	3,115
Dilutive effect of conversion of convertible debt	1,200	—	—	—
Diluted shares outstanding	66,582	60,248	65,154	63,201
Earnings per common share — Basic				
Income/(loss) from continuing operations	$ 0.08	$ (0.05)	$ 0.13	$ 0.06
Loss from discontinued operations	$ (0.01)	$ (0.83)	$ (0.08)	$ (1.46)
Net income/(loss)/comprehensive income/(loss)	$ 0.07	$ (0.88)	$ 0.06	$ (1.40)
Earnings per common share — Diluted				
Income/(loss) from continuing operations	$ 0.08	$ (0.05)	$ 0.13	$ 0.06
Loss from discontinued operations	$ (0.01)	$ (0.83)	$ (0.08)	$ (1.39)
Net income/(loss)/comprehensive income/(loss)	$ 0.07	$ (0.88)	$ 0.06	$ (1.33)

For the three months ended January 31, 2012, 1,301,795 shares of common stock issuable upon the exercise of stock options were excluded from the computation of diluted earnings per share because the effect would be antidilutive. For the three months ended January 31, 2011, 6,138,242 shares of common stock issuable upon the conversion of Convertible Notes, 4,044,070 shares of common stock reserved for issuance to the former stockholders of SWSS, and 1,404,737 shares of common stock issuable upon the exercise of stock options were excluded from the computation of diluted earnings per share because the effect would be antidilutive.

For the nine months ended January 31, 2012, 2,021,211 shares of common stock issuable upon the conversion of Convertible Notes and 2,105,323 shares of common stock issuable upon the exercise of stock options were excluded from the computation of diluted earnings per share because the effect would be antidilutive. For the nine months ended January 31, 2011, 6,369,470 shares of common stock issuable upon the conversion of Convertible Notes, 2,420,670 shares of common stock reserved for issuance to the former stockholders of SWSS, and 1,542,824 shares of common stock issuable upon the exercise of stock options were excluded from the computation of diluted earnings per share because the effect would be antidilutive.

Stock Option and Employee Stock Purchase Plans

We have two stock option plans (the “SOPs”): the 2001 Stock Option Plan and the 2004 Incentive Stock Plan. New grants under the 2001 Stock Option Plan have not been made since the approval of the 2004 Incentive Stock Plan at our September 13, 2004 annual meeting of stockholders. All new grants covering all participants are issued under the 2004 Incentive Stock Plan.

The 2004 Incentive Stock Plan authorizes the issuance of the lesser of (1) 15% of the shares of our common stock outstanding from time to time, or (2) 10,000,000 shares of our common stock. The plan permits the grant of options to acquire common stock, restricted common stock and deferred stock, restricted stock units (“RSUs”), stock appreciation rights, and dividend equivalents. Our board of directors, or a committee established by our board, administers the SOPs, selects recipients to whom awards are granted, and determines the grants to be awarded. Options granted under the SOPs are exercisable at a price determined by our board or committee at the time of grant, but in no event less than fair market value of our common stock on the date granted. Grants of options may be made to employees and directors without regard to any performance measures. All options issued pursuant to the SOPs are nontransferable and subject to forfeiture.

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Unless terminated earlier by our board of directors, the 2004 Incentive Stock Plan will terminate on the earlier of (1) ten years from the date of the later to occur of (i) the original date the plan was approved by our board of directors or our stockholders, whichever is earlier, or (ii) the date an increase in the number of shares reserved for issuance under the plan is approved by our board of directors (so long as such increase is also approved by our stockholders), and (2) such time as no shares of common stock remain available for issuance under the plan and our company has no further rights or obligations with respect to outstanding awards under the plan. The date of grant of an award is deemed to be the date upon which our board of directors or board committee authorizes the granting of such award. Generally, awards vest over a period of three years and are exercisable for a period of ten years. The plan also permits the grant of awards to non-employees, which the board has granted in the past. A separate option grant, outside of the 2004 Incentive Stock Plan, for 500,000 shares was made, at an exercise price of $1.47 per share, in connection with the hiring of our former President and Chief Executive Officer during the fiscal year ended April 30, 2005. Our former President and Chief Executive Officer continued his service as a member of our Board of Directors and was appointed co-vice chairman of the Board. As of January 31, 2012, there were 450,000 options outstanding relating to this grant, which expire on December 6, 2014.

The number of shares and weighted average exercise prices of (i) options granted under the SOPs and (ii) the separate option grant to our former President and Chief Executive Officer outside of the SOPs for the nine months ended January 31, 2012 and 2011 are as follows:

	For the Nine Months Ended January 31,			
	2012		2011	
	Shares	Weighted-Average Price	Shares	Weighted-Average Price
Options outstanding, beginning of year	3,137,565	$ 4.73	3,207,264	$ 4.93
Granted during year	1,134,100	3.17	735,600	3.86
Exercised during year	(126,834)	1.70	(90,334)	1.60
Canceled/forfeited during year	(234,499)	4.91	(490,798)	4.89
Options outstanding, end of period	3,910,332	$ 4.37	3,361,732	$ 4.79
Weighted average remaining contractual life	6.84 years		6.25 years	
Options exercisable, end of period	2,229,775	$ 5.00	2,215,374	$ 4.98
Weighted average remaining contractual life	5.11 years		4.75 years	

The aggregate intrinsic value of outstanding options that were vested as of January 31, 2012 and 2011 was $5.9 million and $1.6 million, respectively. The aggregate intrinsic value of outstanding options that were exercisable as of January 31, 2012 and 2011 was $3.2 million and $1.6 million, respectively. The aggregate intrinsic value of the options exercised for the nine months ended January 31, 2012 and 2011 was $218,000 and $186,000, respectively.

We currently have an ESPP that commenced on June 24, 2002 (the “2001 ESPP”), which authorizes the sale of up to 10,000,000 shares of our common stock to employees. The 2001 ESPP continues in effect for a term of ten years unless sooner terminated. The 2001 ESPP was implemented by a series of offering periods of two years in duration, with four six-month purchase periods in the offering period. The 2001 ESPP was amended in September 2004 so that future offering periods, commencing with the October 1, 2004 offering period, are six months, consistent with the six-month purchase period. The purchase price is 85% of the fair market value of our common stock on the offering date or on the purchase date, whichever is lower. A participant may elect to have payroll deductions made on each payday during the offering period in an amount not less than 1% and not more than 20% (or such greater percentage as the board may establish from time to time before an offering date) of such participant’s compensation on each payday during the offering period. The last day of each offering period is the purchase date for such offering period. An offering period commencing on April 1 ends on the next September 30. An offering period commencing on October 1 ends on the next March 31. Our board of directors has the power to change the duration and/or the frequency of offering and purchase periods with respect to future offerings and purchases without stockholder approval if such change is announced at least five days prior to the scheduled beginning of the first offering period to be affected. The maximum number of shares an employee may purchase during each purchase period is 12,500 shares or a total of $25,000 in shares, based on the fair market value on the first day of the purchase period. The 2001 ESPP is scheduled to expire with the offering period that ends March 31, 2012.

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All options and rights to participate in the 2001 ESPP are nontransferable and subject to forfeiture in accordance with the 2001 ESPP guidelines. In the event of certain corporate transactions, each option outstanding under the 2001 ESPP will be assumed or an equivalent option will be substituted by the successor corporation or a parent or subsidiary of such successor corporation. During the nine months ended January 31, 2012 and 2011, 234,418 and 176,761 shares were purchased under the 2001 ESPP, respectively.

On September 26, 2011, our stockholders approved the 2011 ESPP to replace our expiring 2001 ESPP. Initially, there is a total of 6,000,000 shares of our common stock reserved under the 2011 ESPP, which will include any shares available for issuance under the 2001 ESPP on the first offering date under the 2011 ESPP, but not to exceed 6,000,000 shares. The shares included in the 2011 ESPP will no longer be available for issuance under the 2001 ESPP. The 2011 ESPP will be implemented in a series of successive offering periods, each with a maximum duration of 12 months. If the fair market value ("FMV") per share of our common stock on any purchase date is less than the FMV per share on the start date of a 12-month offering period, then that offering period will automatically terminate, and a new 12-month offering period will begin on the next business day. Each offering period will begin on the April 1 or October 1, as applicable, immediately following the end of the previous offering period. Payroll deductions will be on an after-tax basis, in an amount of not less than 1% and not more than 20% (or such greater percentage as the committee appointed to administer the 2011 ESPP may establish from time to time before the first day of an offering period) of a participant's compensation on each payroll date. The option exercise price per share will equal 85% of the lower of the FMV on the first day of the offering period or the FMV on the exercise date, unless the participant's entry date is not the first day of the offering period, in which case the exercise price will equal 85% of the lower of (i) the greater of the FMV on the first day of the offering period or the FMV of our common stock on the entry date, or (ii) the FMV on the exercise date. The maximum number of shares that a participant may purchase during any purchase period is 12,500 shares, or a total of $25,000 in shares, based on the FMV on the first day of the offering period. The 2011 ESPP's effective date is April 1, 2012, and the 2011 ESPP will remain in effect until the earliest of (a) the exercise date that participants become entitled to purchase a number of shares greater than the number of reserved shares available for purchase under the 2011 ESPP, (b) such date as is determined by our Board of Directors in its discretion, or (c) March 31, 2022.

We measure the cost of employee services received in exchange for an award of an equity instrument based on the grant-date fair value of the award. We calculate the fair value of our stock options and warrants issued to employees using the Black-Scholes model at the time the options and warrants were granted. That amount is then amortized over the vesting period of the option or warrant. With our 2001 ESPP, fair value is determined at the beginning of the purchase period and amortized over the term of the offering period.

The following assumptions were used in valuing our options and 2001 ESPP purchases during the nine-month periods ended January 31, 2012 and 2011:

	For the Nine Months Ended January 31,	
	2012	2011
Stock option grants:		
Risk-free interest rate	0.89 -2.20%	1.31 -2.47%
Expected term	5.30 -8.18 years	5.36 -9.0 years
Expected volatility	67.0 - 75.0%	69.5 - 76.4%
Dividend yield	0%	0%
Employee Stock Purchase Plan:		
Risk-free interest rate	0.06%	0.19%
Expected term	6 months	6 months
Expected volatility	49.9%	40.1%
Dividend yield	0%	0%

We estimate expected volatility using historical volatility for the expected term. The fair value of each stock option or 2001 ESPP purchase was estimated on the date of the grant using the Black-Scholes option pricing model (using the risk-free interest rate, expected term, expected volatility, and dividend yield variables, as noted in the above table). The weighted-average fair value of stock options granted during the nine months ended January 31, 2012 was $2.09 per share. There were 1,134,100 and 735,600 options granted during the nine months ended January 31, 2012 and 2011, respectively. The total stock-based compensation expense, including stock options, purchases under the 2001 ESPP, and RSU awards, was $1.8 million and $976,000 for the nine months ended January 31, 2012 and 2011, respectively. Stock-based compensation expense is included in general and administrative expenses.

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We calculate the fair value of our performance-based RSUs ("PSUs") issued to employees using the Monte-Carlo model at the time the PSUs were granted. We use the following assumptions in valuing our PSUs: (a) grant date market value of our common stock and the NASDAQ Composite Index, (b) expected volatilities of our common stock and the NASDAQ Composite Index (c) correlation coefficient between our common stock and the NASDAQ Composite Index, (d) risk-free interest rate, and (e) dividend yield.

During the nine months ended January 31, 2012 and 2011, we granted 95,200 and 120,200 PSUs, respectively, with an aggregate maximum award of 190,400 and 240,400 PSUs, respectively, to current and former employees. These PSUs were granted to certain of our named executive officers and vest based on the relative performance of our stock price against the NASDAQ Composite Index over a three-year period. The aggregate fair market value of our RSU and PSU grants is being amortized to compensation expense over the vesting period (three years). During the nine months ended January 31, 2012 and 2011, we issued 8,500 and 66,195 shares of common stock, respectively, under RSUs and PSUs that had vested during such periods with a total market value of $35,000 and $267,000, respectively. During the nine months ended January 31, 2012, we cancelled 88,700 PSUs previously granted to our former President and Chief Executive Officer. During the nine months ended January 31, 2011, we cancelled an aggregate of 134,999 PSUs, consisting of (i) 53,333 PSUs previously granted to our former President and Chief Executive Officer, as financial targets associated with these PSUs were not met for the fiscal year ended April 30, 2011, (ii) 40,000 PSUs previously granted to our former Executive Vice President and Chief Financial Officer, (iii) 15,000 PSUs previously granted to our former President of SWSS, and (iv) 26,666 PSUs previously granted to our former President and Chief Executive Officer, as financial targets associated with these PSUs were not met for the fiscal year ended April 30, 2010. Compensation expense recognized related to grants of RSUs and PSUs, excluding the $180,000 impact of the 88,700 cancelled PSUs, was $227,000 for the nine months ended January 31, 2012. Compensation expense recognized related to grants of RSUs and PSUs, excluding the $905,000 impact of the 134,999 cancelled PSUs previously granted to the former employees named above, was $246,000 for the nine months ended January 31, 2011. As of January 31, 2012, there was $286,000 of unrecognized compensation cost related to unvested RSUs, much of which relates to PSUs. This cost is expected to be recognized over a weighted average of 2.0 years.

Stockholder Rights Plan

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

In general, until the earlier to occur of (i) ten days following a public announcement that a person or group of affiliated or associated persons (with certain exceptions) has acquired beneficial ownership of 15% or more of the outstanding shares of our common stock or (ii) ten business days (or such later date as may be determined by action of our board of directors prior to such time as any person or group of affiliated persons becomes an "Acquiring Person") following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of 15% or more of the then outstanding shares of our common stock, the Rights will be evidenced, with respect to any of the common stock certificates outstanding as of August 25, 2005, by such common stock certificates together with a copy of a summary describing the Rights. As of January 31, 2012, we have not had any such changes that would have resulted in the execution of the Rights Plan.

(16) Income Taxes:

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

At January 31, 2012, we had gross tax-affected unrecognized tax benefits of approximately $1.1 million, all of which, if recognized, would favorably impact our effective tax rate. Included in the unrecognized tax benefits at January 31, 2012 and 2011 was approximately $238,000 and $401,000, respectively, of accrued interest and penalties related to uncertain tax positions, which have been recorded in other non-current liabilities as none of these positions are expected to reverse in the next 12 months.

The full value of our unrecognized tax benefits has been classified as non-current income tax liabilities because a payment of cash is not anticipated within one year of the balance sheet date. In fiscal 2012, we expect to incur additional interest on outstanding tax accounts. We do not expect this change to be material. Interest and penalties related to income tax liabilities are included in income tax expense.

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With limited exceptions, we are subject to U.S. federal, state, local, and non-U.S. income tax audits by tax authorities for fiscal years subsequent to April 30, 2008.

(17) Commitments and Contingencies:

Litigation

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

In addition, we are a co-defendant in legal proceedings brought by the City of Gary, Indiana against numerous firearm manufacturers, distributors, and dealers seeking to recover damages allegedly arising out of the misuse of firearms by third parties in shootings. The city's complaint seeks money damages, among other things, for the costs of investigating crime, preventing crime, costs of medical care, police and emergency services, and decreases in property values. In addition, nuisance abatement and/or injunctive relief is sought to change the design, manufacture, marketing, and distribution practices of the various defendants. The suit alleges public nuisance, negligent distribution and marketing, and negligent design. We believe that the various allegations as described above are unfounded, and, in addition, that any accidents and any results from them were due to negligence or misuse of the firearm by a third party and that there should be no recovery against us.

We are also involved in several purported stockholder derivative lawsuits. These actions were brought by putative plaintiffs on behalf of our company against certain of our officers and directors. The lawsuits are based principally on a theory of breach of fiduciary duties. The putative plaintiffs seek unspecified damages on behalf of our company from the individual defendants, and recovery of their attorneys' fees.

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

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

At this time, an estimated range of reasonably possible additional losses relating to unfavorable outcomes cannot be made.

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

New Cases

The following case was filed against us or became reportable during the nine months ended January 31, 2012.

Mark D. Lee v. Smith & Wesson Corp., et al., in the Court of Common Pleas of Richland County, Ohio. This civil action, originally filed on November 11, 2008, alleged that the plaintiff sustained an injury to his right eye on November 11, 2006 while operating a Smith & Wesson Model 460 XVR revolver. The plaintiff sought unspecified damages against us and the seller of the firearm. The complaint alleged that this incident occurred when the cylinder of the revolver swung open upon firing, allowing gases and particles to escape from the firearm during firing. The complaint asserted claims for negligence, strict liability, and breach of warranty. On August 18, 2010, the plaintiff filed a Notice of Voluntary Dismissal Without Prejudice, as well as a Notice of Substitution of Counsel. The plaintiff re-filed his action, on August 17, 2011, within the one-year statute of limitations. On October 24, 2011, the court awarded us costs in the amount of approximately $4,600 from the first filing. The case is stayed by the court pending payment by the plaintiff of those costs, which were paid on February 1, 2012.

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Travis Lee Crosby v. Smith & Wesson Holding Corporation, et al., in the Court of Common Pleas Fourteenth Judicial Circuit, for the County of Colleton, South Carolina. The complaint, filed on October 24, 2011, and served on us in December 2012, alleges that the plaintiff sustained injuries on September 10, 2011, when a Walther PPK pistol a co-defendant was handling discharged unintentionally. The plaintiff alleges negligence, gross negligence, defective manufacturing, defective design, failure to warn, and breach of express and implied warranties. The plaintiff seeks unspecified damages. On February 20, 2009, we announced a recall of certain Walther PPK/S pistols manufactured by us, to correct a condition that may occur in certain pistols. On February 28, 2012, we filed our Answer, Affirmative Defenses and Cross-Claim to the plaintiff's complaint as well as a motion to dismiss the plaintiff's punitive damages claim against us. A hearing on our motion to dismiss is scheduled for March 22, 2012.

Ronald Sewell v. Smith & Wesson Holding Corporation, et al., in the United States District Court for the Northern District of Alabama. The plaintiff filed his complaint on January 2, 2012 in the Circuit Court of St. Clair County, Alabama against us, TCA, the dealer from whom the plaintiff purchased the rifle, and 14 fictitious party defendants. On February 2, 2012, we removed this case to the United States District Court for the Northern District of Alabama. On February 10, 2012, we filed our answer to the plaintiff's complaint. The plaintiff alleges that he was injured when a Venture rifle he was handling fired a round through his foot. The plaintiff alleges violation of the Alabama Extended Manufacturer's Liability Doctrine (AEMLD), failure to warn, and breach of warranty. On November 8, 2011, we announced a limited recall of the Venture rifle. On November 11, 2011, we announced an expanded recall of the Venture rifle to correct a condition that may occur in certain of our rifles. On February 20, 2012, the plaintiff filed a motion to remand the case back to the Circuit Court.

Cases Dismissed or Resolved

Universal Safety Response, Inc. v. Barrier1 Systems, Inc., in the United States District Court for the Northern District of New York. On August 16, 2011, this case was settled within the limits of our self-insured retention.

Todd Brown and Kathy Brown v. Smith & Wesson Corp., in the United States District Court for the Western District of Arkansas. Trial began on June 27, 2011. During the course of the trial, the plaintiff voluntarily withdrew this action without prejudice. The plaintiff has one year to re-file this action. Pursuant to the court's order, the plaintiff must pay our costs and fees for the first trial prior to re-filing this action.

J.D. Nelson, et al. v. Smith & Wesson Corp., et al., in the United States District Court for the District of Alaska. This suit was filed in the state court of Alaska on June 3, 2009, and removed to the United States District Court on January 25, 2010 after service of process. On May 18, 2010, the district court granted our motion to dismiss, and dismissed the plaintiffs' case in its entirety. On June 1, 2010, the plaintiffs filed a motion for reconsideration. On June 14, 2010, the plaintiffs' motion for reconsideration was denied by the district court. The plaintiffs filed an appeal to the Ninth Circuit Court of Appeals on June 18, 2010. On September 1, 2011, the appellate court affirmed the decision of the district court dismissing the case in its entirety.

Chester Wolfe, et al. v. Smith & Wesson Holding Corporation, et al., in the Common Pleas Court of Miami County, Ohio. On September 3, 2011, this case was settled within the limits of our self-insured retention.

Charles Quasté v. Smith & Wesson Corporation, in the United States District Court for the Eastern District of Pennsylvania. On October 20, 2011, this case was settled within the limits of our self-insured retention.

Cybergun, S.A. v. Smith & Wesson Holding Corporation and Smith & Wesson Corporation, in the Commercial Court of Paris, France. On September 9, 2011, this case was settled within the limits of our self-insured retention.

Smith & Wesson Holding Corporation and Smith & Wesson Corp. v. Cybergun, S.A., et al., in the United States District Court for the District of Arizona. On September 9, 2011, this case was settled within the limits of our self-insured retention.

Art Bundy v. Smith & Wesson Holding Corp., et al.; and Dwight Nance v. Smith & Wesson Holding Corp., et al., in the United States District Court for the District of Massachusetts. On January 12, 2012, the Court granted Defendants' Motion to Dismiss the Verified Shareholder Derivative Complaint and denied Plaintiffs' Cross-Motion to Defendants' Motion to Dismiss, dismissing the case in its entirety. The plaintiffs' deadline to appeal expired on February 13, 2012. The plaintiffs did not appeal.

In re Smith & Wesson Holding Corp. Securities Litigation. This case is a consolidation of the following three cases: *William Hwang v. Smith & Wesson Holding Corp., et al.; Joe Cranford v. Smith & Wesson Holding Corp., et al.;* and *Joanne Trudelle v. Smith & Wesson Holding Corp., et al.* It was filed in the United States District Court for the District of Massachusetts (Springfield).

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On March 25, 2011, the district court granted our Motion for Summary Judgment, dismissing the consolidated action with prejudice. The plaintiffs appealed the district court's decision. On February 17, 2012, the First Circuit Court of Appeals affirmed the district court's decision, dismissing the case in its entirety.

Cases on Appeal

There were no cases pending appeal as of January 31, 2012.

Pending Cases

Norman Hart v. Smith & Wesson Holding Corp., et al.; and *Frank Holt v. Smith & Wesson Holding Corp., et al*., in the United States District Court for the District of Massachusetts. These two actions were filed on or about September 1, 2010 (Holt) and September 17, 2010 (Hart) in the United States District Court for the District of Nevada. They are purported derivative actions brought by two separate plaintiffs on behalf of our company against certain of our officers and directors. The complaints allege, *inter alia*, that the officer and director defendants breached their fiduciary duties by failing to: (1) institute and maintain internal controls permitting us to engage in systematic violations of the U.S. Foreign Corrupt Practices Act of 1977 ("FCPA"); (2) maintain internal accounting controls despite our obligation to do so under the FCPA; and (3) take any steps to prevent the purportedly unlawful conduct engaged in by certain company executives. The putative plaintiffs seek unspecified damages on behalf of our company from the individual defendants and recovery of their attorneys' fees. On November 15, 2010, the parties stipulated to a scheduling order, signed by the court that same day, that, among other things: (1) consolidated the two cases; and (2) set forth a schedule for the putative plaintiffs to file a consolidated amended complaint, and then a motion to dismiss briefing schedule. On or about November 23, 2010, the defendants removed the action from the District Court of Nevada, Clark County to the United States District Court for the District of Nevada. On December 8, 2010, the putative plaintiffs filed an ex parte motion for extension of time to file their consolidated amended complaint, indicating that they intended to file a motion to remand the case back to state court. The district court granted the motion on December 14, 2010, and ordered that the consolidated amended complaint was due within 14 days after the district court rules on the then-anticipated motion to remand. The putative plaintiffs filed their anticipated motion to remand on December 21, 2010. On December 22, 2010, defendants filed a response to the motion to remand, in which they consented to the remand. On or about May 9, 2011, this case was remanded back to the Clark County District Court for the State of Nevada. On May 24, 2011, the putative plaintiffs filed their consolidated Verified Amended Complaint. On June 10, 2011, the putative plaintiffs agreed to dismiss their Nevada state court complaint with the intention of refilling a similar complaint in the United States District Court for the District of Massachusetts. On July 20, 2011, the putative plaintiffs filed their Verified Shareholder Derivative Complaint in the United States District Court for the District of Massachusetts. On September 30, 2011, we moved to dismiss the Verified Shareholder Derivative Complaint. On November 14, 2011, the putative plaintiffs filed their opposition to our Motion to Dismiss. We filed our Reply in Support of the Motion to Dismiss on December 12, 2011. A hearing on our Motion to Dismiss has been scheduled for April 25, 2012.

Aaron Sarnacki v. Smith & Wesson Holding Corp., et al., in the United States District Court for the District of Massachusetts. This action was filed on or about October 28, 2010 in the United States District Court for the District of Arizona. It is a purported derivative action brought by the plaintiff on behalf of our company against certain of our officers and directors. The complaint alleges that the officer and director defendants breached their fiduciary duties by providing misleading statements concerning our earnings and business prospects for fiscal 2008. The complaint also asserts that between June 14, 2007 and December 6, 2007, the officer and director defendants provided false statements about our financial results. The putative plaintiffs seek unspecified damages on behalf of our company from the individual defendants and recovery of their attorneys' fees. On January 13, 2011, this action was transferred to the United States District Court for the District of Massachusetts. On July 1, 2011, we moved to dismiss the Verified Shareholder Derivative Complaint. On October 3, 2011, putative plaintiffs filed their opposition to our Motion to Dismiss. We filed our reply in Support of the Motion to Dismiss on October 17, 2011. The court heard oral argument on our Motion to Dismiss on January 18, 2012. No decision has issued to date.

Brian Ward v. Thompson/Center Arms Company, Inc., et al., in the Forty-Sixth Circuit Court for Otsego County, Michigan. The complaint was filed on October 16, 2006 and alleges that the plaintiff sustained eye injuries using a Thompson/Center Arms rifle. The plaintiff asserts product liability claims against both our company and the retailer based on negligence and warranty principles. The plaintiff is seeking an unspecified amount of compensatory damages. On November 15, 2006, we filed an answer denying all allegations of liability. On February 2, 2009, the plaintiff filed a second amended complaint. On February 17, 2009, we filed our answer to the plaintiff's complaint. On October 9, 2009, we filed a motion for summary judgment. On October 21, 2009, the plaintiff opposed our motion. A hearing on our motion for summary judgment was held on November 3, 2009. Expert discovery is ongoing. A case evaluation as required by the Michigan court was held on November 13, 2009, in which the panel recommended a settlement in favor of the plaintiff in the amount of $325. We rejected this proposed settlement award. On December 12, 2009, the court granted our motion for summary judgment on the manufacturing defect, failure to recall, and failure to test claims, and denied our motion on the design defect claims under the theories of risk-utility and failure to warn. A settlement conference was scheduled for August 5, 2010, but was postponed because the plaintiff's counsel is retiring. A settlement conference was held on November 2, 2010 with no agreement reached. Trial is scheduled to begin in May 2012.

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U.S. Department of Justice ("DOJ") Investigation

On January 19, 2010, the DOJ unsealed indictments of 22 individuals from the law enforcement and military equipment industries, one of whom was our former Vice President-Sales, International & U.S. Law Enforcement. We were not charged in the indictment. We also were served with a Grand Jury subpoena for the production of documents. We have always taken, and continue to take seriously, our obligation as an industry leader to foster a responsible and ethical culture, which includes adherence to laws and industry regulations in the United States and abroad. Although we are cooperating fully with the DOJ in this matter and have undertaken a comprehensive review of company policies and procedures, the DOJ may determine that we have violated FCPA laws. We cannot predict when this investigation will be completed or its outcome. There could be additional indictments of our company, our officers, or our employees. If the DOJ determines that we violated FCPA laws, or if our employee is convicted of FCPA violations, we may face sanctions, including significant civil and criminal penalties. In addition, we could be prevented from bidding on domestic military and government contracts and could risk debarment by the U.S. Department of State. We also face increased legal expenses and could see an increase in the cost of doing international business. We could also see private civil litigation arising as a result of the outcome of the investigation. In addition, responding to the investigation may divert the time and attention of our management from normal business operations. Regardless of the outcome of the investigation, the publicity surrounding the investigation and the potential risks associated with the investigation could negatively impact the perception of our company by investors, customers, and others. On February 21, 2012, the DOJ filed a motion to dismiss with prejudice the indictments of the remaining defendants who are pending trial, including our former Vice President-Sales, International & U.S. Law Enforcement. On February 24, 2012, the district court granted the motion to dismiss.

Securities and Exchange Commission ("SEC") Investigation

In fiscal 2011, we received a subpoena from the staff of the SEC giving notice that the SEC is conducting a non-public, fact-finding inquiry to determine whether there have been any violations of the federal securities laws. It appears this civil inquiry was triggered in part by the DOJ investigation into potential FCPA violations. We have always taken, and continue to take seriously, our obligation as an industry leader to foster a responsible and ethical culture, which includes adherence to laws and industry regulations in the United States and abroad. Although we are cooperating fully with the SEC in this matter, the SEC may determine that we have violated federal securities laws. We cannot predict when this inquiry will be completed or its outcome. If the SEC determines that we have violated federal securities laws, we may face injunctive relief, disgorgement of ill-gotten gains, and sanctions, including fines and penalties, or may be forced to take corrective actions that could increase our costs or otherwise adversely affect our business, results of operations, and liquidity. We also face increased legal expenses and could see an increase in the cost of doing business. We could also see private civil litigation arising as a result of the outcome of this inquiry. In addition, responding to the inquiry may divert the time and attention of our management from normal business operations. Regardless of the outcome of the inquiry, the publicity surrounding the inquiry and the potential risks associated with the inquiry could negatively impact the perception of our company by investors, customers, and others.

Environmental Remediation

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

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

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

Pursuant to the merger agreement related to our acquisition of Thompson/Center Arms, the former stockholders of Thompson Center Holding Corporation agreed to indemnify us for losses arising from, among other things, environmental conditions related to Thompson/Center Arms' manufacturing activities. Of the purchase price, $8.0 million was placed in an escrow account, a portion of which was to be applied to environmental remediation at the manufacturing site in Rochester, New Hampshire. In November 2008, $2.5 million of the escrow account was released to the former stockholders of Thompson Center Holding Corporation. We and the former stockholders of Thompson Center Holding Corporation recently entered into a settlement agreement under which approximately $1.2 million was released to us from the escrow account for remediation costs and the remainder was released to such former stockholders. Site remediation costs will be paid with monies released from the escrow account. We have estimated the total site remediation costs at $1.5 million and have established an accrual equal to that amount with $77,000 reported in accrued liabilities and the remainder in non-current liabilities. We believe the likelihood of environmental remediation costs exceeding the amount accrued to be remote. In connection with our intended sale of this property as discussed in Note 14, however, we may have to increase the reserve, incur additional remediation costs, or take other actions required by the buyer.

We had reserves of $2.0 million and $608,000 as of January 31, 2012 and 2011, respectively, for remediation of the sites referred to above and believe that the time frame for remediation is currently indeterminable. As of January 31, 2012 and 2011, we had recorded $2.0 million and $577,000, respectively, of environmental reserve in non-current liabilities with the remaining balances recorded in accrued expenses. Based on the indeterminable time frame for remediation, the time frame for payment of such remediation is likewise currently indeterminable, thus making any net present value calculation impracticable. Our estimate of these costs is based upon currently enacted laws and regulations, currently available facts, experience in remediation efforts, existing technology, and the ability of other potentially responsible parties or contractually liable parties to pay the allocated portions of any environmental obligations.

When the available information is sufficient to estimate the amount of liability, that estimate has been used; when the information is only sufficient to establish a range of probable liability and no point within the range is more likely than any other, the lower end of the range has been used. We may not have insurance coverage for our environmental remediation costs. We have not recognized any gains from probable recoveries or other gain contingencies. The environmental reserve was calculated using undiscounted amounts based on independent environmental remediation reports obtained.

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

Deferred Compensation

Post-Retirement Pension Plan — We have a senior executive supplemental retirement plan for certain Thompson/Center Arms officers, which covered three former executives at January 31, 2012. Benefits under this plan are paid monthly (currently monthly benefit is $3,000 and is adjusted annually based on the percent change in the CPI for all Urban Consumers) for ten years following the retirement of an officer or director. This is an unfunded, non-qualified, and non-contributory plan under which we pay all future obligations. As of January 31, 2012, $393,000 has been accrued in the financial statements, based upon the present value of the estimated future obligation using a discount rate of 2.17% and the remaining months of commitment. Estimated future benefit payments by fiscal year are as follows: 2012 — $29,128; 2013 — $116,510; 2014 — $97,092; 2015 — $77,673; 2016 — $64,728; and thereafter — $25,891.

Suppliers

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

Contracts

Employment Agreements — We have employment, severance, and change of control agreements with certain officers and managers.

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

Outstanding Letters of Credit/Restricted Cash — We had open letters of credit aggregating $1.2 million as of January 31, 2012. We had restricted cash totaling $3.3 million as of January 31, 2012, of which $2.5 million acts as a compensating balance against our line of credit dated December 7, 2010 and $812,000 is related to the environmental remediation required to be performed in accordance with our credit facility with TD Bank.

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(18) Fair Value Measurements:

In accordance with ASC 820-10, the *Fair Value Measurements and Disclosures Topic*, financial assets and liabilities recorded on the accompanying consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1 — Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we have the ability to access at the measurement date (examples include active exchange-traded equity securities, listed derivatives, and most U.S. Government and agency securities).

Level 2 — Financial assets and liabilities whose values are based on quoted prices in markets in which trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets. Level 2 inputs include the following:

- quoted prices for identical or similar assets or liabilities in non-active markets (such as corporate and municipal bonds which trade infrequently);
- inputs other than quoted prices that are observable for substantially the full term of the asset or liability (examples include interest rate and currency swaps); and
- inputs that are derived principally from or corroborated by observable market data for substantially the full term of the asset or liability (such as certain securities and derivatives).

Level 3 — Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect our assumptions about the assumptions a market participant would use in pricing the asset or liability. We currently do not have any Level 3 financial assets or liabilities.

The following table presents information about our assets and liabilities that are measured at fair value on a recurring basis as of January 31, 2012 and April 30, 2011, respectively, and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value (in thousands):

Description	January 31, 2012	(Level 1)	April 30, 2011	(Level 1)
Assets:				
Cash equivalents and short-term deposits	$ 25,733	$ 25,733	$ 58,283	$ 58,283
Total assets	$ 25,733	$ 25,733	$ 58,283	$ 58,283

We purchase certain finished goods and component parts from a European supplier and pay for them in Euros. We routinely purchase foreign exchange forward contracts to minimize the impact of fluctuations in foreign exchange rates. Forward contracts provide full protection for us against the devaluation of the U.S. dollar to the euro. If the euro strengthens above the average rate, we will not pay more than the average rate. We have not elected to designate our derivative instruments as qualifying for hedge accounting treatment under ASC 815-20-25 and, accordingly, we record any gains and losses from these derivative contracts as an element of other income (expense) at each reporting period, based on the change in the estimated fair value of these contracts. We determine the fair values of the derivative financial instruments based on the exchange rates of the euro quoted in active markets. As of January 31, 2012, we had no forward contracts outstanding.

Other than those acquired in business combinations, long-lived tangible assets are recorded at cost and depreciated over their useful lives. Indefinite-lived intangible assets and goodwill acquired in business combinations are tested for impairment on an annual basis on February 1st and between annual tests if indicators of potential impairment exist. See Note 3—*Discontinued Operations* for details on impairment of long-lived assets related to our discontinued security solutions division for the three and nine months ended January 31, 2012.

The following table presents information about the effect of derivative instruments on our financial performance for the nine months ended January 31, 2012 and 2011 (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Income on Derivative	Amount of Gain Recognized in Income on Derivative 2012	2011
Foreign Exchange Contracts (unrealized)	Other income/(expense)	$ —	$ 619

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(19) Recent Accounting Pronouncements:

Recently Issued Accounting Standards

In June 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The amendments in this ASU require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05*. ASU 2011-12 indefinitely defers certain reclassification adjustment provisions of ASU 2011-05. ASU 2011-12 is also effective for interim and annual periods beginning after December 15, 2011. We do not expect these ASU's to have a material impact on our consolidated financial statements.

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

Overview

Please refer to the 2011 Highlights found in the Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended April 30, 2011. This section sets forth key objectives and key performance indicators used by us as well as key industry data tracked by us.

The results of SWSS, our security solutions division, which were previously reported as a separate business segment, are being presented as discontinued operations in the consolidated statements of operations and comprehensive income/(loss) for all periods presented. See Note 3 — *Discontinued Operations* in the notes to consolidated financial statements and *Discontinued Operations* below on page 30 for additional information regarding these discontinued operations. Unless otherwise indicated, any reference to income statement items in this Management's Discussion and Analysis of Financial Condition and Results of Operations refers to results from continuing operations.

Third Quarter Fiscal 2012 Highlights

Net sales for the three months ended January 31, 2012 were $98.1 million, an increase of $18.9 million, or 23.8%, over net sales of $79.2 million for the three months ended January 31, 2011. Handgun sales increased as a result of new products introduced late in fiscal 2011 and an increase in production capacity to meet large consumer demand in this category. We have recently experienced significant consumer demand for handguns, including full size and concealed carry products. The primary reason for our increased modern sporting rifle sales was because of the strong sales of our opening price point rifle. Hunting product sales decreased from the prior year comparable quarter, primarily as a result of decreased black powder sales, constrained bolt action rifle sales as we satisfy the Thompson/Center Arms Venture rifle recall, and productivity and efficiency losses as we completed the move of our hunting operations to our Springfield, Massachusetts facility.

Gross profit as a percentage of net sales was 30.6% for the three months ended January 31, 2012 compared with 24.5% for the three months ended January 31, 2011. In the prior year comparable quarter, we implemented a strategic price repositioning for certain of our products that resulted in a short-term reduction in margin from price protection to distributors on inventory in stock at that time. There were no such transactions during the current year quarter. The increase in gross profit margin was also attributable to reduced promotional activity and reduced costs as a result of completing the relocation of our hunting operations from Rochester, New Hampshire to our Springfield, Massachusetts facility in November 2011.

Income from continuing operations for the three months ended January 31, 2012 was $5.4 million, or $0.08 per fully diluted share, compared with a loss from continuing operations of $2.7 million, or $0.05 per fully diluted share, for the three months ended January 31, 2011. Income for the current quarter was favorably impacted primarily by increased net sales and improved gross profit margin, reduced legal expenses related to our DOJ and SEC investigations, and reduced consulting fees from improving our customer acceptance process in our foreign markets in the prior year comparable quarter.

Net sales for the nine months ended January 31, 2012 were $282.2 million, an increase of $41.6 million, or 17.3%, over net sales of $240.6 million for the nine months ended January 31, 2011. The increase in handgun and modern sporting rifle product sales for the nine months ended January 31, 2012 resulted from the same factors noted above. Walther product sales for the nine months ended January 31, 2012 declined because of increased offerings from competitors at lower price points as well as a production hold on one of Walther's higher volume products. The decline in hunting product sales from the prior year comparable period resulted from decreased black powder sales, constrained bolt action rifle sales, and the productivity and efficiency losses arising from the completed move of our hunting operations.

Gross profit as a percentage of net sales was 28.8% for the nine months ended January 31, 2012 compared with 30.5% for the nine months ended January 31, 2011. The decrease in gross profit margin was attributable to $2.1 million in warranty costs associated with the recall of all Thompson/Center Arms Venture rifles manufactured since the product's introduction in mid 2009 and a $1.6 million increase in costs associated with the completed relocation of our hunting operations from Rochester, New Hampshire to our Springfield, Massachusetts facility as well as efficiency losses related to that relocation.

Income from continuing operations for the nine months ended January 31, 2012 was $8.6 million, or $0.13 per fully diluted share, compared with income from continuing operations of $3.7 million, or $0.06 per fully diluted share, for the nine months ended January 31, 2011. The increase resulted primarily from increased net sales and corresponding gross profit, reduced DOJ and SEC investigation costs, reduced consulting fees from improving our customer acceptance process in foreign markets in the prior year, and reduced promotional expenses. These reductions were offset by an increase in employee-related costs, interest on our Senior Notes, and increased costs associated with the completed relocation of our hunting operations.

Results of Operations

Net Sales

The following table sets forth certain information relating to net sales for the three months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Handguns	$ 56,973	$ 48,797	$ 8,176	16.8%
Walther	7,695	8,303	(608)	-7.3%
Modern Sporting Rifles	20,112	7,628	12,484	163.7%
Hunting Firearms	3,999	6,898	(2,899)	-42.0%
Parts & Accessories	4,036	3,519	517	14.7%
Total Firearms	92,815	75,145	17,670	23.5%
Other Non-Firearms	5,310	4,093	1,217	29.7%
Total Net Sales	$ 98,125	$ 79,238	$ 18,887	23.8%

Net sales for the three-month period ended January 31, 2012 increased 23.8% over the comparable quarter last year because we were able to address increased consumer demand with increases in production capacity, particularly for handgun products, which saw a sales increase of $8.2 million over the comparable quarter last year, most noticeably on pistol product sales. Net sales of modern sporting rifles increased $12.5 million over the comparable quarter last year primarily because of strong demand for a model that hits attractive price points. Hunting product net sales were down from the comparable quarter last year primarily due to a decline in black powder sales, constrained bolt action rifle sales as we serviced the Thompson/Center Arms Venture rifle recall, and productivity and efficiency losses as we completed the move of our hunting operations to our Springfield, Massachusetts facility.

The order backlog as of January 31, 2012 was $198.5 million, or $124.7 million higher than at the end of the comparable quarter last year, primarily as a result of backlog generated by increased orders for handguns and modern sporting rifles.

Net sales into our sporting goods distribution channel were approximately $86.8 million for the three months ended January 31, 2012, an increase of 26.1% over the comparable quarter last year, which was primarily a result of increased handgun and modern sporting rifle sales. Net sales into our professional channels were $10.4 million, an increase of 6.0% over the comparable quarter last year. Law enforcement channel net sales were higher, in part, because of increased shipments of our polymer pistol products to such state agencies as the Massachusetts and Vermont state police as well as an increase in handcuffs shipments to the California state police. International sales declined due to variable timing as the result of our focus on fewer, but larger, international customers.

The following table sets forth certain information relating to net sales for the nine months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Handguns	$ 164,112	$ 136,912	$ 27,200	19.9%
Walther	21,197	23,889	(2,692)	-11.3%
Modern Sporting Rifles	49,366	23,690	25,676	108.4%
Hunting Firearms	18,645	30,122	(11,477)	-38.1%
Parts & Accessories	14,511	13,217	1,294	9.8%
Total Firearms	267,831	227,830	40,001	17.6%
Other Non-Firearms	14,323	12,736	1,587	12.5%
Total Net Sales	$ 282,154	$ 240,566	$ 41,588	17.3%

Net sales for the nine-month period ended January 31, 2012 increased 17.3% over the comparable period last year because of the strength of orders for handgun and modern sporting rifle products supported by increased production capacity as noted above. Walther product net sales decreased 11.3% as a result of increased offerings in small frame and concealed carry products from competitors at lower price points, as well as a production hold on one of Walther's higher volume products. Net sales of hunting products were lower than in the prior year comparable period as a result of lower orders for black powder products, constrained bolt action rifle sales as we serviced the Thompson/Center Arms Venture rifle recall, and move-related productivity and efficiency losses as we completed the move of our hunting operations to our Springfield, Massachusetts facility.

Net sales into our sporting goods distribution channel were approximately $246.2 million for the nine months ended January 31, 2012, an increase of 20.0% over the comparable period last year, which was primarily the result of increased pistol and modern sporting rifle sales. Net sales into our professional channels were $34.2 million, which were flat from the comparable period last year. Law enforcement and federal government channel net sales were slightly above the prior year period, and international net sales were slightly below the prior year period.

Cost of Sales and Gross Profit

The following table sets forth certain information regarding cost of sales and gross profit for the three months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Cost of sales	$ 68,121	$ 59,847	$ 8,274	13.8%
% of net sales	69.4%	75.5%		
Gross profit	$ 30,004	$ 19,391	$ 10,613	54.7%
% of net sales	30.6%	24.5%		

Gross profit for the three months ended January 31, 2012 increased from the comparable quarter last year primarily as a result of increased net sales and the corresponding impact of improved absorption. The increase in gross profit percentage can also be attributed to additional spending associated with our strategic price repositioning activities as well as an additional $4.0 million of promotional costs we incurred in the prior year comparable quarter to stimulate sales. We also experienced a reduction in plant consolidation costs of $438,000 as a result of completing our hunting operations move to our Springfield, Massachusetts facility.

The following table sets forth certain information regarding cost of sales and gross profit for the nine months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Cost of sales	$ 201,028	$ 167,118	$ 33,910	20.3%
% of net sales	71.2%	69.5%		
Gross profit	$ 81,126	$ 73,448	$ 7,678	10.5%
% of net sales	28.8%	30.5%		

Gross profit for the nine months ended January 31, 2012 increased from the comparable period last year primarily as a result of increased net sales and the corresponding impact of improved absorption. Gross profit as a percentage of net sales was negatively impacted by $2.1 million of warranty costs associated with the recall of all Thompson/Center Arms Venture rifles manufactured since the product's introduction in mid 2009; $2.4 million of costs and reduced productivity and efficiency losses in our hunting products as we completed the move of our hunting operations to our Springfield, Massachusetts facility; and $753,000 of increased consulting services for procurement cost savings initiatives during the period. We also experienced $1.7 million of increased depreciation expense from higher capital spending in fiscal 2011 as well as $3.3 million of increased employee and maintenance costs primarily because of the completed hunting operations move.

Operating Expenses

The following table sets forth certain information regarding operating expenses for the three months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Research and development	$ 992	$ 1,207	$ (215)	-17.8%
Selling and marketing	8,062	8,921	(859)	-9.6%
General and administrative	10,666	11,203	(537)	-4.8%
Total operating expenses	$ 19,720	$ 21,331	$ (1,611)	-7.6%
% of net sales	20.1%	26.9%		

Operating expenses decreased $1.6 million from the comparable quarter last year because of $2.4 million of reduced professional and consulting fees on the DOJ and SEC matters and from related improvements made to our customer acceptance process in foreign markets during the prior year comparable quarter. We also experienced reduced legal expenses because of the International Trade Commission action filed against several of our black powder competitors in fiscal 2011 and reduced consulting expenses for our internal audit activities. These reductions were partially offset by $790,000 of increased incentive accruals; $1.6 million of additional profit sharing expense; and $614,000 of additional stock-based compensation expense primarily related to options granted to our President and Chief Executive Officer. Operating expenses as a percentage of net sales for the three months ended January 31, 2012 also decreased from the prior year comparable quarter as a result of the reduction in professional fees mentioned above and our cost-cutting initiatives implemented during the current fiscal year.

In connection with the completed move of our hunting operations, we completed the sale of our foundry business in January 2012 for a purchase price of $900,000. We incurred a $241,000 loss on the sale of this business, which was calculated as the net assets sold in excess of the purchase price, which is included in our general and administrative expenses for the three months ended January 31, 2012. The business sold was not included in discontinued operations because the operations were not material to our overall consolidated financial statements.

The following table sets forth certain information regarding operating expenses for the nine months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Research and development	$ 3,571	$ 3,099	$ 472	15.2%
Selling and marketing	24,823	26,206	(1,383)	-5.3%
General and administrative	33,483	34,344	(861)	-2.5%
Total operating expenses	$ 61,877	$ 63,649	$ (1,772)	-2.8%
% of net sales	21.9%	26.5%		

Operating expenses for the nine months ended January 31, 2012 decreased $1.8 million from the prior year comparable period as a result of $5.2 million of reduced professional and consulting fees on the DOJ and SEC matters and from related improvements made to our customer acceptance process in foreign markets during the prior year comparable period, as well as cost-cutting initiatives noted above. Bad debt recoveries on previously reserved for accounts contributed to a $592,000 reduction in bad debt expense. Trade show and travel expense declined because of multiple international shows in the comparable period last year. Because of our backlog position, we were able to reduce our advertising and promotional expenses from the prior year comparable period. These reduced expenses were offset by $4.8 million of increased employee-related costs because of $1.8 million in increased incentive accruals; profit sharing of $1.2 million; $988,000 of severance benefits for our former President and Chief Executive Officer; and $820,000 of additional stock-based compensation expense from the prior year comparable period primarily related to options granted to our President and Chief Executive Officer. Research and development costs increased $472,000 over the prior year comparable period because of additional headcount; increased incentive accruals; costs during the completed hunting product transition to our Springfield facility; as well as certain employee costs previously recorded in cost of sales that were re-evaluated as research and development costs related to our hunting products.

Operating Income from Continuing Operations

The following table sets forth certain information regarding operating income from continuing operations for the three months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Operating income from continuing operations	$ 10,284	$ (1,940)	$ 12,224	630.1%
% of net sales	10.5%	-2.4%		

The increase in operating income from continuing operations for the three months ended January 31, 2012 compared with the prior year comparable quarter resulted primarily from increased net sales and corresponding gross profit. We also experienced $2.4 million of reduced professional and consulting fees on the DOJ and SEC matters and from related improvements made to our customer acceptance process in foreign markets during the prior year comparable quarter, reduced promotional activity, and reduced costs by completing the move of our hunting products from New Hampshire to Massachusetts.

The following table sets forth certain information regarding operating income from continuing operations for the nine months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Operating income from continuing operations	$ 19,249	$ 9,799	$ 9,450	96.4%
% of net sales	6.8%	4.1%		

The increase in operating income from continuing operations for the nine months ended January 31, 2012 compared with the prior year comparable period resulted primarily from increased net sales and corresponding gross profit combined with $5.2 million of reduced professional and consulting fees on the DOJ and SEC matters and from related improvements made to our customer acceptance process in foreign markets during the prior year comparable period.

Other Income/(Expense)

The following table sets forth certain information regarding other income/(expense) for the three months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Other income/(expense)	$ 8	$ (463)	$ 471	101.7%

Other income for the three-month period ended January 31, 2011 included a $497,000 unrealized loss on foreign currency hedges. No such adjustments or gains occurred during the current three-month period.

The following table sets forth certain information regarding other income for the nine months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Other income	$ 62	$ 692	$ (630)	-91.0%

Other income for the nine-month period ended January 31, 2011 included $619,000 of unrealized gains on foreign currency hedges. No such adjustments or gains occurred during the current nine-month period.

Interest Expense

The following table sets forth certain information regarding interest expense for the three months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Interest expense	$ 1,629	$ 1,453	$ 176	12.1%

Interest expense increased for the three months ended January 31, 2012 from the comparable quarter last year because of increased interest expense related to the Senior Notes, which bear interest at a rate of 9.5% per annum compared to our former Convertible Notes, which bore interest at a rate of 4% per annum. In December 2011, we were required to repurchase $29.7 million of Convertible Notes and we redeemed the remaining $334,000 of the Convertible Notes in January 2012.

The following table sets forth certain information regarding interest expense for the nine months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Interest expense	$ 6,044	$ 3,659	$ 2,385	65.2%

Interest expense increased for the nine months ended January 31, 2012 from the comparable period last year because of increased interest expense related to the Senior Notes and $563,000 of increased amortization of debt issuance costs that we wrote off in connection with reducing our line of credit in October 2011.

Income Taxes

The following table sets forth certain information regarding income tax expense/(benefit) for the three months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Income tax expense/(benefit)	$ 3,664	$ (852)	$ 4,516	530.0%

Income tax expense increased as a result of the increase in operating profit.

The following table sets forth certain information regarding income tax expense for the nine months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Income tax expense	$ 5,845	$ 3,994	$ 1,851	46.3%

Income tax expense increased as a result of the increase in operating profit. The effective tax rates for the nine months ended January 31, 2012 and 2011 were 40.59% and 47.68%, respectively. The effective tax rate for the nine-month period ended January 31, 2011 excluded the adjustment related to impairment of long-lived assets and a $3.1 million valuation adjustment related to the contingent consideration recorded in connection with our acquisition of SWSS as a discrete item. See *Discontinued Operations* below for more details. We expect that the effective tax rate will remain stable throughout the rest of the fiscal year.

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Net Income/(Loss) from Continuing Operations

The following table sets forth certain information regarding net income/(loss) from continuing operations and the related per share data for the three months ended January 31, 2012 and 2011 (dollars in thousands, except per share data):

	2012	2011	$ Change	% Change
Net income/(loss) from continuing operations	$ 5,393	$ (2,715)	$ 8,108	298.6%
Net income/(loss) per share from continuing operations				
Basic	$ 0.08	$ (0.05)	$ 0.13	260.0%
Diluted	$ 0.08	$ (0.05)	$ 0.13	260.0%

Net income/(loss) from continuing operations for the three months ended January 31, 2012 increased primarily because of increased sales volumes and corresponding gross profit. We also experienced significantly less professional and consulting fees as noted above.

The following table sets forth certain information regarding net income from continuing operations and the related per share data for the nine months ended January 31, 2012 and 2011 (dollars in thousands, except per share data):

	2012	2011	$ Change	% Change
Net income from continuing operations	$ 8,618	$ 3,687	$ 4,931	133.7%
Net income per share from continuing operations				
Basic	$ 0.13	$ 0.06	$ 0.07	116.7%
Diluted	$ 0.13	$ 0.06	$ 0.07	116.7%

Net income from continuing operations for the nine months ended January 31, 2012 increased because of the same items noted above during the three-month period.

Discontinued Operations

The following is a summary of the operating results of discontinued operations of our security solutions division (dollars in thousands, except per share data):

	For the Three Months Ended:		For the Nine Months Ended:	
	January 31, 2012	January 31, 2011	January 31, 2012	January 31, 2011
Net sales from discontinued operations	$ 8,432	$ 10,099	$ 21,879	$ 39,976
Loss before income taxes	$ (1,600)	$ (53,908)	$ (8,306)	$ (93,143)
Net loss from discontinued operations	$ (955)	$ (50,121)	$ (4,980)	$ (87,596)
Net loss per share from discontinued operations				
Basic	$ (0.01)	$ (0.83)	$ (0.08)	$ (1.46)
Diluted	$ (0.01)	$ (0.83)	$ (0.08)	$ (1.39)

Net sales from discontinued operations for the three and nine months ended January 31, 2012 decreased 61.5% and 74.7%, respectively, from the three and nine months ended January 31, 2011, respectively. The reduction in security solutions net sales resulted primarily from reduced or delayed demand because of federal budget constraints. The net loss from discontinued operations was significantly lower for the three and nine months ended January 31, 2012 due to the inclusion of a $51.0 million and $90.5 million impairment charge related to goodwill and intangible assets that was recorded during the three and nine months ended January 31, 2011, respectively. In addition, the nine months ended January 31, 2011 included $3.1 million of income associated with a reduction in contingent consideration for shares held for issuance to former stockholders in connection with our acquisition of SWSS. Excluding the impairment charge and the income from the valuation of contingent consideration, the adjusted loss for the three and nine months ended January 31, 2011 would have been $1.5 million and $3.0 million, respectively. The loss from discontinued operations was $563,000 lower for the three months ended January 31, 2012 because of reduced operating expenses from cost-cutting initiatives and a reduction in payroll and benefit costs resulting from lower headcount. The loss from discontinued operations was $2.0

million higher for the nine months ended January 31, 2012 than the adjusted loss in the prior comparable period because of the significant reduction in sales and the related impact on gross margin along with additional severance costs associated with the divestiture. These impacts on loss from discontinued operations were partially offset by reduced operating expenses due to cost-cutting initiatives and a reduction in payroll from lower headcount.

Liquidity and Capital Resources

Our principal cash requirements are to finance the growth of our operations, including acquisitions, and to service our existing debt. Capital expenditures for new products, capacity expansion, and process improvements represent important operational cash needs. Cash flows from discontinued operations are reported within the consolidated statements of cash flow in the respective cash flow captions.

The following table sets forth certain information relative to cash flow for the nine months ended January 31, 2012 and 2011 (dollars in thousands):

	2012	2011	$ Change	% Change
Operating activities	$ 8,258	$ 178	$ 8,080	4539.3%
Investing activities	(10,156)	(7,291)	(2,865)	39.3%
Financing activities	(30,649)	(148)	(30,501)	20608.8%
Total	$ (32,547)	$ (7,261)	$ (25,286)	348.2%

Operating Activities

On an annual basis, operating activities represent the principal source of our cash flow although seasonal factors sometimes require us to incur short-term borrowings for operating and investing activities. Due to the cyclical nature of the hunting business, we typically expect to use cash resources in operations during our first fiscal quarter with future quarters typically covering this early cash usage.

In the nine months ended January 31, 2012, we generated $8.3 million in cash from operating activities, an increase of $8.1 million from the amount generated in the first nine months of fiscal 2011. Included in cash from operating activities was $869,000 of cash provided by and $2.1 million of cash used by discontinued operations during the nine months ended January 31, 2012 and 2011, respectively. The $13.7 million reduction in accounts payable during the nine months ended January 31, 2012 was significantly larger than the $8.1 million reduction in the prior year comparable period because of the high level of capital spending present in the end of fiscal 2011 payables balances. In addition, due to the timing of federal excise tax return due dates, which included four payments during the nine months ended January 31, 2012 versus three payments during the nine months ended January 31, 2011, the change in cash related to accrued taxes other than income declined by $8.5 million for the current period. Offsetting these reductions, during the nine months ended January 31, 2012, in spite of increased sales, accounts receivable declined $17.8 million versus an $11.3 million decline in the prior comparable period driven by a reduction in security solutions sales and increased collection efforts. Discontinued operations had a $2.3 million impact on the reduction in accounts receivable.

Investing Activities

Cash used for investing activities increased by $2.9 million for the nine months ended January 31, 2012 over the comparable period in fiscal 2011 and was attributed to increased capital spending during the period of $3.8 million, offset by $500,000 of proceeds received for the sale of our foundry business. Cash used for investing activities by discontinued operations was $487,000 and $544,000 for the nine months ended January 31, 2012 and 2011, respectively. We currently expect to spend $18.0 million to $20.0 million, including $3.4 million related to the capital lease described below, on capital expenditures in fiscal 2012, an increase of $2.0 million to $4.0 million, respectively, over the $16.0 million spent in fiscal 2011, which is net of the $4.4 million economic incentive tax credit ("ITC"), as discussed below. Major capital expenditures in fiscal 2012 relate to increasing capacity for existing products; moving equipment and processes from Rochester, New Hampshire to Springfield, Massachusetts; improving production efficiencies; tooling for new product offerings; and various projects designed to upgrade manufacturing technology.

On October 28, 2011, we entered into a non-cash capital lease agreement totaling $3.5 million. The proceeds from the lease were used to finance the acquisition of machinery and equipment to increase production capacity. Borrowings under the lease have an effective interest rate of 5.76% and are payable in 60 monthly installments through fiscal 2017.

The following sets forth the future minimum lease payments as of January 31, 2012 (in thousands):

	Capital Lease Obligation (Unaudited)
2012	$ 148
2013	596
2014	596
2015	596
2016	596
Thereafter	1,494
Total future minimum lease payments	4,026
Less amounts representing interest	(645)
Present value of minimum lease payments	3,381
Less current maturities of capital lease	(412)
Long-term maturities of capital lease	$ 2,969

On December 21, 2010, in accordance with the Economic Development Incentive Program of the Commonwealth of Massachusetts, we were awarded a refundable economic ITC by the Economic Assistance Coordinating Council in conjunction with our plan to move production of our hunting products. The ITC is calculated as 40% of qualified capital expenditures placed in service and allows for a refundable tax credit from the Commonwealth of Massachusetts of up to $4.4 million during the fiscal year ending April 30, 2011, the majority of which will be received after filing our fiscal 2011 tax return in fiscal 2012.

Financing Activities

Cash used by financing activities was $30.6 million for the nine months ended January 31, 2012. This usage was primarily related to repayment of $30.0 million of Convertible Notes in December 2011 and January 2012, as noted below, and debt issue costs paid in the period relating to the debt exchanges transacted in late fiscal 2011. We had no short-term bank borrowings at January 31, 2012 or 2011.

On December 15, 2006, we issued an aggregate of $80.0 million of Convertible Notes maturing on December 15, 2026 to qualified institutional buyers pursuant to the terms and conditions of a securities purchase agreement and indenture. As noted below, we exchanged a total of $50.0 million of Convertible Notes for $50.0 million of Senior Notes. On December 15, 2011, holders of Convertible Notes required us to repurchase $29.7 million of Convertible Notes and on January 21, 2012, we redeemed the remaining $334,000 of the Convertible Notes utilizing cash on hand.

On January 14, 2011, we issued an aggregate of $23.1 million of Senior Notes to two investors in exchange for $23.1 million of Convertible Notes pursuant to the terms and conditions of an exchange agreement and the Senior Notes Indenture. On February 10, 2011 and March 3, 2011, we issued an aggregate of $16.8 million and $10.1 million, respectively, of Senior Notes to additional investors in exchange for $16.8 million and $10.1 million, respectively, of Convertible Notes pursuant to the terms and conditions of additional exchange agreements and the Senior Notes Indenture. As a result, we exchanged a total of $50.0 million of Convertible Notes for $50.0 million of Senior Notes.

The Senior Notes bear interest at a rate of 9.5% per annum payable on June 15 and December 15 of each year.

At any time prior to January 14, 2014, we may, at our option, (a) redeem all or a portion of the Senior Notes at a redemption price of 100% of the principal amount of the Senior Notes, plus an applicable premium, plus accrued and unpaid interest as of the redemption date, or (b) redeem up to 35% of the aggregate principal amount of the Senior Notes with the net cash proceeds of one or more equity offerings at a redemption price of 104.75% of the principal amount of the Senior Notes, plus accrued and unpaid interest as of the redemption date; provided that in the case of clause (b) above, at least 65% of the aggregate original principal amount of the Senior Notes remains outstanding and the redemption occurs within 60 days after the closing of the equity offering. On and after January 14, 2014, we may, at our option, redeem all or a portion of the Senior Notes at a redemption price of (1) 104.75% of the principal amount of the Senior Notes to be redeemed, if redeemed during the 12-month period beginning on January 14, 2014; or (2) 100% of the principal amount of the Senior Notes to be redeemed, if redeemed during the 12-month period beginning on January 14, 2015, plus, in either case, accrued and unpaid interest on the Senior Notes as of the applicable redemption date. Subject to certain restrictions and conditions, we may be required to make an offer to repurchase the Senior Notes from the holders of the Senior Notes in connection with a change of control or disposition of assets. If not redeemed by us or repaid pursuant to the holders' right to require repurchase, the Senior Notes mature on January 14, 2016.

The Senior Notes are general unsecured obligations of our company. The Senior Notes Indenture contains certain affirmative and negative covenants, including limitations on restricted payments, limitations on indebtedness, limitations on the sale of assets, and limitations on liens.

The limitation on indebtedness in the Senior Notes Indenture is only applicable at such time that the consolidated coverage ratio (as set forth in the Senior Notes Indenture) for us and our restricted subsidiaries is less than 2.00 to 1.00. In general, as set forth in the Senior Notes Indenture, the consolidated coverage ratio is determined by comparing our prior four quarters' consolidated EBITDA (earnings before interest, taxes, depreciation, and amortization) to our consolidated interest expense.

Our future capital requirements will depend on many factors, including our rate of growth, the timing and extent of new product introductions, the expansion of sales and marketing activities, and the amount and timing of acquisitions of other companies. We cannot assure you that further equity or debt financing will be available to us on acceptable terms or at all.

Summary

As of January 31, 2012, we had $25.7 million in cash and cash equivalents on hand, including restricted cash of $3.3 million. We had a $60.0 million revolving line of credit with TD Bank, upon which we had no borrowings as of January 31, 2012. During the three months ended January 31, 2012, we repurchased all $30.0 million of Convertible Notes with cash on hand. Our credit agreement with TD Bank contains financial covenants relating to maintaining maximum leverage and minimum debt service coverage. The Senior Notes Indenture contains a financial covenant relating to times interest earned. We were in compliance with all debt covenants as of January 31, 2012. Based upon our current working capital position, current operating plans, and expected business conditions, we believe that our existing capital resources and credit facilities will be adequate to fund our operations, including our outstanding debt and other commitments, for the next 12 months.

Other Matters

Critical Accounting Policies

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Significant accounting policies are disclosed in Note 3 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended April 30, 2011. The most significant areas involving our judgments and estimates are described in the Management's Discussion and Analysis of Financial Conditions and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended April 30, 2011, to which there have been no material changes. Actual results could differ from estimates made.

Recent Accounting Pronouncements

The nature and impact of recent accounting pronouncements is discussed in Note 19 to our consolidated financial statements commencing on page 24 of this report, which is incorporated herein by reference.

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

During the period ending January 31, 2012, we did not enter into or transact any forward option contracts related to fluctuations in exchange rates when purchasing finished goods and components from a European supplier. We continue to review the dollar/euro relationship and have purchased euros at the spot rate and will continue to do so until such time that we determine that our foreign exchange risk will be best mitigated by entering into one or more forward contracts. During the three months ended January 31, 2011, we experienced a net gain of $220,000 on foreign exchange transactions that were executed during the period. During the nine months ended January 31, 2011, we experienced a net gain of $7,000 on foreign exchange transactions that were executed during the period. As of January 31, 2012, we had no forward contracts outstanding.

Item 4. *Controls and Procedures*

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

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of January 31, 2012, our disclosure controls and procedures are effective at a reasonable assurance level in that they were reasonably designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act (i) is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and (ii) is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

The nature of legal proceedings against us is discussed in Note 17 to our consolidated financial statements commencing on page 18 of this report, which is incorporated herein by reference.

Item 6. ***Exhibits***

31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
101.INS†	XBRL Instance Document
101.SCH†	XBRL Taxonomy Extension Schema Document
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document

† Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

SMITH & WESSON HOLDING CORPORATION,
a Nevada corporation

By: */s/ P. JAMES DEBNEY*
P. James Debney
President and Chief Executive Officer

By: */s/ JEFFREY D. BUCHANAN*
Jeffrey D. Buchanan
Chief Financial Officer

Dated: March 8, 2012

INDEX TO EXHIBITS

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Exhibit 31.1

CERTIFICATION

I, P. James Debney, certify that:

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

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

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

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

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

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

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

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

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

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

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

By: */s/ P. JAMES DEBNEY*
P. James Debney
President and Chief Executive Officer

Date: March 8, 2012

Exhibit 31.2

CERTIFICATION

I, Jeffrey D. Buchanan, certify that:

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

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

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

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

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

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

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

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

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

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

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

By: */s/ JEFFREY D. BUCHANAN*
Jeffrey D. Buchanan
Chief Financial Officer

Date: March 8, 2012

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Smith & Wesson Holding Corporation (the "Company") for the quarterly period ended January 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, P. James Debney, President and Chief Executive Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

By: */s/ P. JAMES DEBNEY*
P. James Debney
President and Chief Executive Officer

Dated: March 8, 2012

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Smith & Wesson Holding Corporation (the "Company") for the quarterly period ended January 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey D. Buchanan, Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

By: */s/ JEFFREY D. BUCHANAN*
Jeffrey D. Buchanan
Chief Financial Officer

Dated: March 8, 2012