
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 October 31, 2003

or

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

Commission File No. 001-31552

Smith & Wesson Holding Corporation

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

87-0543688

(I.R.S. Employer
Identification No.)

14500 North Northsight, Suite 116,

Scottsdale, Arizona

(Address of principal executive offices)

85260

(Zip Code)

(Registrant's telephone number, including area code):

(480) 949-9700

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common stock, \$0.001 par value

American Stock Exchange

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant had 30,761,380 common shares, par value \$0.001, outstanding at January 7, 2004.

EXPLANATORY NOTE

We have restated our previously filed fiscal year 2002 financial statements as set forth in our Form 10-KSB for the fiscal year ended April 30, 2003, filed with the Securities and Exchange Commission on December 18, 2003. Contemporaneously with the filing of this quarterly report on Form 10-Q for the fiscal quarter ended October 31, 2003, we have filed an amendment on Form 10-QSB/A to our quarterly report for the corresponding fiscal quarter ended October 31, 2002, which summarizes certain effects of the restatement, identifies certain recent events and amends certain items contained in our previously filed quarterly report, as further described therein.

SMITH & WESSON HOLDING CORPORATION

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

As of:

	<u>October 31, 2003</u>	<u>April 30, 2003</u>
	<u>(Unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,456,599	\$ 12,182,010
Marketable securities	1,599,680	1,580,440
Accounts receivable, net of allowance for doubtful accounts of \$115,837 on October 31, 2003 and \$107,552 on April 30, 2003	15,138,081	14,908,839
Inventories	15,800,227	15,599,305
Other current assets	7,334,777	8,097,862
Deferred income taxes	3,792,309	3,932,081
Income tax receivable	134,661	175,331
	<hr/>	<hr/>
Total current assets	54,256,334	56,475,868
	<hr/>	<hr/>
Property, plant and equipment, net	8,485,392	7,135,073
Intangibles, net	313,883	310,333
Collateralized cash deposits	21,372,967	21,513,000
Notes receivable	1,129,906	1,000,000
Deferred income taxes	8,836,267	9,308,893
Other assets	7,039,743	10,789,522
	<hr/>	<hr/>
	\$101,434,492	\$106,532,689
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 6,137,667	\$ 8,009,513
Accrued expenses	12,193,554	12,127,323
Accrued payroll	3,096,879	2,996,890
Accrued taxes other than income	1,761,947	1,616,607
Accrued profit sharing	2,797,829	1,620,928
Deferred revenue	181,248	212,787
Current portion of notes payable	2,073,252	92,278
	<hr/>	<hr/>
Total current liabilities	28,242,376	26,676,326
	<hr/>	<hr/>
Notes payable	39,926,748	42,907,722
	<hr/>	<hr/>
Other non-current liabilities	16,804,754	21,918,798
	<hr/>	<hr/>
Commitments and contingencies (Note 8)	—	—
Stockholders' equity:		
Common stock, \$.001 par value, 100 million shares authorized, 30,756,380 shares on October 31, 2003 and 30,619,628 shares on April 30, 2003 issued and outstanding	30,757	30,620
Additional paid-in capital	16,418,364	16,247,108
Accumulated (deficit)	(19,448)	(1,275,361)
Accumulated other comprehensive income	30,941	27,476
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Total stockholders' equity	16,460,614	15,029,843
	<hr/>	<hr/>
	\$101,434,492	\$106,532,689
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The accompanying notes are an integral part of these consolidated financial statements.

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS

AND OTHER COMPREHENSIVE INCOME

	Three months ended		Six months ended	
	October 31, 2003	October 31, 2002	October 31, 2003	October 31, 2002
Net product sales	\$28,874,158	\$24,074,731	\$57,667,014	\$45,372,079
License revenue	362,701	416,128	786,004	711,876
Cost of goods sold	19,808,888	16,913,777	40,070,608	32,315,932
Cost of services	57,496	40,894	57,496	63,327
Gross profit	9,370,475	7,536,188	18,324,914	13,704,696
Operating expenses:				
Research and development, net	169,145	318,717	497,763	520,274
Selling and marketing	3,319,079	2,710,086	6,275,980	5,318,145
General and administrative	4,580,365	3,663,186	7,900,073	6,436,370
Total operating expenses	8,068,589	6,691,989	14,673,816	12,274,789
Income from operations	1,301,886	844,199	3,651,098	1,429,907
Other income/(expense):				
Other income/(expense)	494,836	27,308	(184,784)	54,059
Interest income	73,225	174,790	169,896	362,563
Interest expense	(827,499)	(900,081)	(1,679,312)	(1,796,894)
	(259,438)	(697,983)	(1,694,200)	(1,380,272)
Income before income taxes	1,042,448	146,216	1,956,898	49,635
Income tax expense	371,783	9,354	700,985	24,675
Net income	\$ 670,665	\$ 136,862	\$ 1,255,913	\$ 24,960
Other comprehensive income:				
Unrealized gain on marketable securities net of tax expense of \$8,853, \$5,967, \$1,949 and \$5,967, respectively	15,738	3,169	3,465	12,305
Comprehensive income	\$ 686,403	\$ 140,031	\$ 1,259,378	\$ 37,265
Weighted average number of common equivalent shares outstanding, basic	30,673,786	29,705,499	30,647,088	29,694,556
Net income per share, basic	\$ 0.02	\$ 0.00	\$ 0.04	\$ 0.00
Weighted average number of common equivalent shares outstanding, diluted	37,126,451	33,725,708	37,098,420	33,705,580
Net income per share, diluted	\$ 0.02	\$ 0.00	\$ 0.03	\$ 0.00

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

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Six Months Ended October 31, 2003

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
Balance at April 30, 2003	30,619,628	\$30,620	\$16,247,108	\$(1,275,361)	\$27,476	\$15,029,843
Exercise of options	20,000	20	37,780			37,800
Shares issued under ESPP October 1, 2003	116,752	117	133,476			133,593
Net income for the six months ended October 31, 2003				1,255,913		1,255,913
Other comprehensive income					3,465	3,465
Balance at October 31, 2003	30,756,380	\$30,757	\$16,418,364	\$ (19,448)	\$30,941	\$16,460,614

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

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS

For the Six Months Ended:

	October 31, 2003	October 31, 2002
Cash flows provided by (used for) operating activities:		
Net income	\$ 1,255,913	\$ 24,960
Adjustments to reconcile net income to cash provided by (used for) operating activities:		
Amortization and depreciation	741,073	413,250
Gain on sale of assets	(8,307)	(2,870)
Provision for losses on accounts receivable	15,300	15,000
Provision for excess and obsolete inventory	375,865	197,644
Stock compensation for services	10,000	—
Changes in operating assets and liabilities		
(Increase) decrease in assets:		
Accounts receivable	(244,542)	(340,778)
Inventories	(576,787)	906,707
Other current assets	763,085	(2,018,420)
Deferred taxes	612,398	—
Income tax receivable	40,670	23,237
Note receivable	(129,906)	—
Other assets	3,749,779	(92,600)
Increase (decrease) in liabilities:		
Accounts payable	(1,872,746)	(1,930,586)
Accrued payroll	99,989	(584,846)
Accrued profit sharing	1,176,901	(325,701)
Accrued taxes other than income	145,340	(122,892)
Accrued expenses	66,231	(650,716)
Other non-current liabilities	(5,114,044)	140,227
Deferred revenue	(31,539)	(112)
Due to Walther USA, LLC, net	—	(325,137)
Net cash provided by (used for) operating activities	1,074,673	(4,673,633)
Cash flows (used for) investing activities:		
Payments to acquire marketable securities	(15,775)	(523,426)
Reductions in (additions to) collateralized cash deposits	140,033	(982,670)
Payments to acquire patents	(13,862)	(67,102)
Proceeds from sale of property and equipment	11,209	—
Payments to acquire property and equipment	(2,083,982)	(1,643,769)
Net cash used for investing activities	(1,962,377)	(3,216,967)
Cash flows (used for) financing activities:		
Payment on notes payable, Tomkins	(1,000,000)	—
Payments on loans and notes payable, related parties	—	(357,425)
Proceeds from sale of common stock	133,593	76,012
Proceeds from exercise of options to acquire common stock	28,700	—
Net cash used for financing activities	(837,707)	(281,413)
Net decrease in cash and cash equivalents	(1,725,411)	(8,172,013)
Cash and cash equivalents, beginning of year	12,182,010	20,012,491
Cash and cash equivalents, end of period	\$10,456,599	\$11,840,478

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

SMITH & WESSON HOLDING CORPORATION and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months and Six Months Ended October 31, 2003 and 2002

(1) Basis of Presentation:

The consolidated balance sheet as of October 31, 2003, the consolidated statements of operations for the three and six months ended October 31, 2003 and 2002, and the statement of changes in stockholders' equity and statement of cash flows for the six months ended October 31, 2003 have been prepared by the Company, without audit. In the opinion of management, 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 October 31, 2003 and for the periods presented, have been included. All significant intercompany transactions have been eliminated.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 2003 Annual Report to Shareholders on Form 10-KSB.

(2) Organization:

Organization

Smith & Wesson Holding Corporation, (the "Company") was incorporated on June 17, 1991 in the State of Nevada as De Oro Mines, Inc. The Company's original Articles of Incorporation provided for 1,000,000 shares of common stock with a par value of \$0.01 per share. From its inception, De Oro Mines, Inc. was a development stage company primarily engaged in the business of developing mining properties. During 1992, De Oro transferred its remaining assets, settled its liabilities and remained dormant until 1996.

On August 15, 1996, the shareholders of the Company authorized the recapitalization of the Company and the amendment of its Articles of Incorporation to allow the corporation to issue up to 100,000,000 shares of a single class of common stock with a par value of \$0.001 per share. The amended Articles were duly adopted as stated and were filed on October 16, 1996 with the State of Nevada.

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

On May 11, 2001, the Company purchased all of the outstanding stock of Smith & Wesson Corp. for \$15,000,000 from Tomkins Corporation and accordingly the operations of Smith Wesson Corp. are included in these financial statements from the date of acquisition (See Note 3 Acquisition of Smith & Wesson Corp.). Smith & Wesson Corp. was incorporated under the laws of the State of Delaware on January 13, 1987. Smith & Wesson Corp. has been in business since 1852, during which period ownership has changed on a few occasions. Prior to incorporation on January 13, 1987, Smith & Wesson Corp. operated as a division of Lear Siegler. On June 9, 1987, Tomkins Corporation ("Tomkins"), a company organized under the laws of the State of Delaware, acquired all the outstanding stock of the Company.

Name Change

At a special meeting held February 14, 2002, and at the recommendation of the Board of Directors, the Company's shareholders approved a change of the Company's name to "Smith & Wesson Holding Corporation."

(3) Acquisition of Smith & Wesson Corp.:

The Acquisition

Pursuant to a Stock Purchase Agreement (the "Acquisition Agreement") dated as of May 11, 2001 between Tomkins and Smith & Wesson Holding Corporation, the Company acquired (the "Acquisition") all of the issued and outstanding shares of the Smith & Wesson Corp. ("Smith & Wesson"). As a result of the Acquisition, Smith & Wesson became a wholly owned subsidiary of the Company. The Company paid \$15,000,000 (the "Purchase Price") in exchange for all of the issued and outstanding shares of Smith & Wesson as follows:

- \$5 million (See the "Melby Loan") of which was paid at closing in cash;
- \$10 million due on or before May 11, 2002 pursuant to the terms of an unsecured promissory note issued by the Company to Tomkins (the "Acquisition Note"). The Acquisition Note accrues interest at a rate of 9% per year; and
- A receivable of \$464,500 due from Tomkins to the Company.

(4) Stock Options:

As described in Note 9, the Company has stock option plans under which employees and directors have options to purchase Common Stock. The Company applies APB Opinion 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock option plans. Accordingly, compensation cost is not recognized in the financial statements except in the event the options are granted to consultants or other non-employees.

The following table illustrates the effect on net income and earnings per share had compensation cost been recognized on the fair value of all options at the grant dates for awards under those plans consistent with Statement of Financial Accounting Standards, No. 123, "Accounting for Stock-Based Compensation" using the Black-Scholes fair value method for option pricing.

	For the six months ended October 31,	
	2003	2002
Net Income — as reported	\$1,255,913	\$ 24,960
Common stock issued in exchange for services, net of tax	6,400	—
Compensation expense, as determined under the Black Scholes option pricing model, net of tax	(258,200)	(541,915)
Net Income (loss) — proforma	\$1,004,113	\$(516,955)
Basic earnings (loss) per common share:		
Net income (loss) — as reported	\$ 0.04	\$ 0.00
Net income (loss) — proforma	\$ 0.03	\$ (0.02)
Diluted earnings (loss) per common share:		
Net income (loss) — as reported	\$ 0.03	\$ 0.00
Net income (loss) — proforma	\$ 0.03	\$ (0.02)

(5) Inventory:

A summary, stated at lower of cost or market, is as follows:

	October 31, 2003	April 30, 2003
Finished goods	\$ 5,229,351	\$ 4,626,363
Finished parts	7,699,204	8,162,006
Work in process	2,184,144	1,897,668
Raw Material	687,528	913,268
	<u>\$15,800,227</u>	<u>\$15,599,305</u>

(6) Advertising Costs:

Advertising costs, consisting primarily of magazine advertisements and printed materials, are expensed as incurred. For the six months ended October 31, 2003 and 2002, advertising expenses amounted to approximately \$2,284,000 and \$1,820,000, respectively.

(7) Self-Insurance Reserves:

As of October 31, 2003 and October 31, 2002, the Company's subsidiary Smith & Wesson had reserves for workers compensation and product liability totaling approximately \$6,844,676 and \$10,337,323, respectively, of which, \$4,424,676 and \$7,487,323, respectively, have been classified as non-current and included in other non-current liabilities and the remaining amounts of \$2,420,000 and \$2,850,000, respectively, are included in accrued expenses on the accompanying consolidated balance sheet. While management believes these reserves to be adequate, there exists a possibility that the ultimate liabilities will exceed such estimates. Amounts charged to expense were \$852,642 and \$211,125 for the six months ended October 31, 2003 and October 31, 2002, respectively.

It is the Company's policy to provide an estimate for loss as a result of expected adverse findings or legal settlements where such losses are probable and are reasonably estimable. It is also the Company's policy to accrue for reasonable estimable legal costs associated with defending such litigation. While such estimates involve a range of possible costs, the Company determines, in consultation with legal counsel, the most likely cost within such range on a case-by-case basis. At October 31, 2003 and October 31, 2002, the Company has product liability reserves of approximately \$5.9 million and \$9.2 million, respectively, comprised entirely of expected legal defense costs.

(8) Commitments and Contingencies:***Litigation***

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

In addition, the Company is also co-defendant in various legal proceedings brought by certain cities, municipalities and counties, against numerous firearms manufacturers, distributors and dealers seeking to recover damages allegedly arising out of the misuse of firearms by third parties in shootings. The complaints by municipalities seek damages, among other things, for the costs of medical care, police and emergency

services, public health services, and the maintenance of courts, prisons, and other services. In certain instances, the plaintiffs seek to recover for decreases in property values and loss of business within the city due to increased criminal violence. In addition, nuisance abatement and/or injunctive relief is sought to change the design, manufacture, marketing and distribution practices of the various defendants. These suits allege, among other claims, strict liability or negligence in the design of products, public nuisance, negligent entrustment, negligent distribution, deceptive or fraudulent advertising, violation of consumer protection statutes and conspiracy or concert of action theories.

The Company's management monitors 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, in the opinion of management, after consultation with litigation counsel, it is uncertain whether the outcome of these claims will have a material adverse effect on the results of operations or financial condition of the Company. Management believes that it has provided adequate reserves for defense costs. The Company does not anticipate a material adverse judgment and intends to vigorously defend itself.

At this time, the estimated range of reasonably possible additional losses, as that term is defined in SFAS No. 5, is zero. A range of reasonably possible losses relating to unfavorable outcomes cannot be made. However, in the product liability cases in which a dollar amount of damages is claimed, the amount of damages claimed, which totaled \$454 million at October 31, 2003, are set forth as an indication of possible maximum liability that the Company might be required to incur in these cases (regardless of the likelihood or reasonable probability of any or all of this amount being awarded to claimants) as a result of adverse judgments that are sustained on appeal.

In the six months ended October 31, 2003, the Company paid \$1.6 million in defense and administrative costs relative to product liability and municipal litigation. During this period, the Company had no expense in settlement fees relative to product liability cases.

The Company has recorded the liability for defense costs at a level before reimbursement from insurance carriers. The Company has 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.

SEC Investigation

The SEC is conducting an investigation to determine whether there have been violations of the federal securities laws in connection with matters relating to the restatement of our consolidated financial statements for fiscal year 2002. We continue to be in discussions with the SEC and intend to continue to fully cooperate with the SEC.

Environmental Remediation

The Company is subject to numerous federal, state and local laws, which 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, the Company to make significant expenditures of both a capital and expense nature. Several of the more significant federal laws applicable to the Company's 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").

The Company has in place programs and personnel that monitor compliance with various federal, state and local environmental regulations. In the normal course of its manufacturing operations, the Company is subject to occasional governmental proceedings and orders pertaining to waste disposal, air emissions and water discharges into the environment. The Company will fund its environmental costs through cash flows from operating revenue and expects to do so in the future. S&W believes that it is in compliance with applicable environmental regulations in all material respects.

The Company is required to remediate hazardous waste at Company owned facilities. Currently, it owns designated sites in Springfield, Massachusetts and is subject to five 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. The Company 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 the Company. The Company has received notice that it is a potentially responsible party from the Environmental Protection Agency (EPA) and/or individual states under CERCLA or a state equivalent at one site.

The Company has reserves of approximately \$3.9 million (\$3.9 million as non-current) for remediation of the sites referred to above and believes that the time frame for remediation is currently indeterminable. Therefore, the time frame for payment of such remediation is likewise currently indeterminable thus making any net present value calculation irrelevant. The Company's estimates of these costs are based upon presently enacted laws and regulations, currently available facts, experience in remediation efforts utilizing existing technology, and the ability of other potentially responsible parties or contractually liable parties to pay the allocated portions of any environmental obligations. Where the available information is sufficient to estimate the amount of liability, that estimate has been used; where 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. The Company does not have insurance coverage for its environmental remediation costs. The Company has 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 from consultants.

On February 25, 2003, S&W sold approximately 85 acres of company-owned property in the City of Springfield, Massachusetts to the Springfield Redevelopment Authority ("SRA") for \$1.75 million, resulting in a net gain of \$1.7 million. The terms of the sale included a cash payment of \$750,000 at the closing and a promissory note for the remaining \$1.0 million. The note is collateralized by a mortgage on the sold property. This note is due in 2022 and accrues interest at a fixed rate of 6.0% per annum.

This property is excess land adjacent to the Company's manufacturing and office facility. The 85 acres includes three of S&W's five previously disclosed release areas which have identified soil and groundwater contamination under the MCP, specifically the South Field, West Field, and Fire Pond. This property was acquired by SRA as a defined "Brownfield" under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) (s) 101(39). S&W believes that the SRA plans to create a light industrial and other commercial use development park on the property. SRA, with the support of the City of Springfield, has received governmental "Brownfield" grants or loans to facilitate the remediation and development of the property. S&W has entered into certain environmental agreements and other contractual assurances with the SRA associated with the sale which requires the SRA to complete remediation of the property. S&W has not revised its environmental reserve but will monitor the progress of the SRA in the remediation and development of the property. The SRA's progress and success in the Brownfield redevelopment of the property, specifically approval of remediation by governing authorities, will allow the Company to review its environmental reserve to determine if a reduction is appropriate. This possible reduction could have a significant impact on the Company's earnings for the period in which such reduction is made.

Based on information known to the Company, management does not expect current environmental regulations or environmental proceedings and claims to have a material adverse effect on the results of operations or financial conditions of the Company. However, it is not possible to predict with certainty the impact on the Company 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 the Company.

Contracts

Employment Agreements — The Company has entered into employment agreements with certain officers and managers to retain their expertise in the ordinary course of business.

Other Agreements — The Company has various distribution agreements with various third parties in the ordinary course of business.

(9) Stockholders' Equity:

Common Stock

During the three months ended October 31, 2003 and 2002, warrants were exercised as follows:

(a) In September 2003, the Company issued 10,000 shares of common stock having a market value of \$19,000 to an unrelated third party upon the exercise of options with an underlying value of \$17,200. The difference was recorded as consulting expense.

(b) In October 2003, the company issued 116,752 shares of common stock having a market value of \$133,593 under its employee stock purchase plan.

The following table provides a reconciliation of the income (loss) amounts and shares used to determine basic and diluted earnings (loss) per share.

	For the Three Months Ended October 31, 2003			For the Three Months Ended October 31, 2002		
	Net Income	Shares	Per Share Amount	Net (Loss)	Shares	Per Share Amount
Basic income (loss) earnings per share	\$670,665	30,673,786	\$0.02	\$136,862	29,705,499	\$0.00
Effect of dilutive stock options	—	6,452,665	0.00	—	4,020,209	0.00
Diluted income (loss) earnings per share	\$670,665	37,126,451	\$0.02	\$136,862	33,725,708	\$0.00

All options were included in the October 31, 2003 computation of diluted earnings per share because the average exercise price for all options outstanding was less than the average market price of the common shares at the end of the period. Options to purchase 300,000 shares of the Company's Common Stock were excluded from the October 31, 2002 computation of diluted earnings per share because the effect would be antidilutive.

Stock Warrants

The Company issued warrants related to the financing of debt used for the acquisition of Smith & Wesson Corp., as incentive bonuses to employees and directors, and as compensation to outside consultants during fiscal year 2002.

In consideration for past services to the Company, including services rendered in connection with the acquisition of Smith & Wesson, the Company issued a Common Stock Purchase Warrant, dated May 11, 2001 (formally approved by the Board of Directors on April 24, 2001), to Mitchell Saltz, former Chief Executive Officer and a director of both the Company and Smith & Wesson (the "Saltz Warrant"). The Saltz Warrant entitles Mr. Saltz to purchase up to 5,000,000 shares of common stock at an exercise price of \$0.89 per share, subject to adjustment as set forth therein. The Saltz Warrant is exercisable immediately and expires five years from the date of issuance. The Company relied upon Section 4(2) of the Securities Act with respect to the issuance of the Saltz Warrant.

In consideration for past services to the Company, including services rendered in connection with the acquisition of Smith and Wesson, the Company issued a Common Stock Purchase Warrant, dated May 11, 2001 (formally approved by the Board of Directors on April 24, 2001), to Robert L. Scott, former President and a director of both the Company and Smith & Wesson (the "Scott Warrant"). The Scott Warrant entitles

Mr. Scott to purchase up to 5,000,000 shares of common stock at an exercise price of \$0.89 per share, subject to adjustment as set forth therein. The Scott Warrant is exercisable immediately and expires five years from the date of issuance. The Company relied upon Section 4(2) of the Securities Act with respect to the issuance of the Scott Warrant.

Employee Stock Option and Employee Stock Purchase Plans

The Company adopted the Employee Stock Option Plan (“the SOP”). The SOP authorizes the issuance of up to 10,000,000 shares of the Company’s common stock pursuant to the exercise of the options granted thereunder. The Board of Directors through its Compensation Committee administers the SOP, selects recipients to whom options are granted and determines the number of shares to be awarded. Options granted under the SOP are exercisable at a price determined by the Committee at the time of grant, but in no event less than fair market value. Grants of options may be made to employees and directors without regard to any performance measures. All options issued pursuant to the SOP are nontransferable and subject to forfeiture. The term of the SOP, unless earlier terminated by the Board, is ten years or May 14, 2011. Any options granted under the SOP shall become exercisable over a period of no longer than ten (10) years. Unless otherwise specified by the Board or the Committee in the resolution authorizing such option, the date of grant of an option shall be deemed to be the date upon which the Board or the Committee authorizes the granting of such option. Generally, options vest over a period of three years. In some instances, however, that time period has been reduced. During the six months ended October 31, 2003 and 2002, the Company granted 30,000 and 590,000 options under the SOP, respectively.

The number and weighted average exercise prices of options granted under the SOP, for the six months ended October 31, 2003 and 2002 are as follows:

	For the six months ended October 31,			
	2003		2002	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options Outstanding, beginning of the period	2,542,500	\$1.10	1,550,000	\$0.81
Granted during the period	30,000	\$1.53	590,000	\$1.29
Exercised during the period	(20,000)	\$1.44	—	—
Cancelled/forfeited during the period	0	—	—	—
Options outstanding, end of the period	2,552,500	\$1.11	2,140,000	\$0.94
Shares exercisable, end of the period	1,725,845		656,673	

A summary of stock options outstanding and exercisable at October 31, 2003 follows:

	Outstanding			Exercisable	
	Number Outstanding at October 31	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at October 31	Weighted Average Exercise Price
Range of Exercise Prices					
\$0.81 – \$0.81	1,350,000	8.30 years	\$0.81	900,010	\$0.81
\$1.18 – \$1.54	1,142,500	9.18 years	\$1.41	820,835	\$1.44
\$1.69 – \$2.04	60,000	9.20 years	\$1.98	5,000	\$1.72
\$0.81 – \$2.04	2,552,500	8.71 years	\$1.11	1,725,845	\$1.11

The Company adopted an Employee Stock Purchase Plan (“the ESPP”), which authorizes the sale of up to 10,000,000 shares of the Company’s common stock to employees and directors. The ESPP commenced operating on June 24, 2002 and shall continue in effect for a term of ten (10) years unless sooner terminated. The ESPP shall be implemented by a series of offering periods of twenty-four (24) months duration, with new offering periods commencing on or about April 1 and October 1 of each year (or at such other time or times as

may be determined by the Board of Directors). The purchase price shall be equal to 85% of the fair market value of a share of common stock on the offering date or on the purchase date, whichever is lower. A participant shall elect to have payroll deductions made on each payday during the offering period in an amount not less than one percent (1%) and not more than twenty percent 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 first offering period began on June 24, 2002 and will continue until March 31, 2004. Each offering period shall consist of four (4) consecutive purchase periods of six (6) months' duration. The last day of each purchase period shall be the purchase date for such purchase period. A purchase period commencing on April 1 shall end on the next September 30. A purchase period commencing on October 1 shall end on the next March 31. The Board of Directors of the Company shall have 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 (5) 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 shall be 12,500 shares. All options and rights to participate in the ESPP are nontransferable and subject to forfeiture in accordance with the ESPP guidelines. In the event of certain corporate transactions, each option outstanding under the ESPP shall be assumed or an equivalent option shall be substituted by the successor corporation or a parent or Subsidiary of such successor corporation. During the six months ended October 31, 2003 and 2002, 116,752 and 67,117 shares, respectively, were purchased under the ESPP out of a total authorized of 10,000,000 shares.

The Company applies APB 25 in accounting for its stock compensation plans, under which no compensation cost has been recognized except in the event options are granted to consultants or other non-employees, at below market exercise prices. The effect on net income and earnings per share had compensation cost been recognized based on the fair value of the options at the grant dates for awards under those plans consistent with Statement of Financial Accounting Standards, No. 123, "Accounting for Stock Based Compensation" using the Black-Scholes fair value method for option pricing is detailed in Note 4 under "Stock Options."

For the purpose of computing the pro forma effects of stock compensation under the fair value accounting method, the fair value of each stock option grant or ESPP purchase was estimated on the date of the grant using the Black-Scholes option pricing model. The weighted-average fair value of stock options granted during the six months ended October 31, 2003 and 2002 was \$1.36 and \$1.11, respectively. The weighted-average fair value of ESPP shares granted during six months ended October 31, 2003 and 2002 was \$.58 and \$.59, respectively. The following weighted-average assumptions were used for stock option grants and ESPP purchases during the following periods:

	Six Months Ended October 31,	
	2003	2002
Stock option grants:		
Risk-free interest rate	3.35%	4.05%
Expected life	8.09 years	8.9 years
Expected volatility	85.2%	92.5%
Dividend yield	0%	0%
Employee Stock Purchase Plan:		
Risk-free interest rate	3.88%	3.98%
Expected life	6 months	5.3 months
Expected volatility	69.4%	88.9%
Dividend yield	0%	0%

(10) Subsequent Events:

On December 5, 2003, Messrs. Saltz and Melby resigned respectively as CEO/ Chairman and as COO/ President of the Company and entered into Severance Agreements with the Company. Each of them will continue to serve as members of the Board of Directors. The Severance Agreements provide them with the

salary plus certain benefits they were receiving at the time of resignation through December 31, 2004. Also, the Company has agreed to provide them with a secretary and an office of comparable square footage to their existing personal offices and rent per square foot as being paid by the Company in December 2003 for its corporate headquarters office at a location which is not in the same building as the corporate headquarters. Messrs. Saltz and Melby also agreed that at all votes of shareholders of the Company on or before December 31, 2005, they would not directly or indirectly cause or permit any shares beneficially owned by either of them to be voted for any person other than the nominees recommended by the Nominating Committee of the Board of Directors of the Company and nominated by the Board of Directors in the Company's proxy statements. The foregoing voting obligations shall not apply if either Mr. Saltz or Mr. Melby is not recommended by the Nominating Committee to be nominated to stand for election to the Board of Directors by the shareholders.

Effective December 31, 2003, Corey Lambrecht was removed from his duties as Executive Vice President. The Company is presently in discussion with Mr. Lambrecht regarding the terms of his separation.

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

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of Smith & Wesson Holding Corporation's results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and the notes thereto. Unless the context otherwise requires, the terms "Company," "we," "us" and "our" refer to Smith & Wesson Holding Corporation, Smith & Wesson Corp., and their subsidiaries combined, and the terms "holding company" and "parent company" refer to Smith & Wesson Holding Corporation while the references to "S&W" refer to Smith & Wesson Corp.

Forward-Looking Statements

This report on Form 10-Q contains "forward-looking statements" within the meaning of Sections 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and the Company intends that such forward-looking statements be subject to the safe harbors created thereby. The Company is hereby providing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in forward-looking statements of the Company herein. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions, future events or performances (often, but not always through the use of words or phrases such as "will result," "expects to," "will continue," "anticipates," "plans," "intends," "estimated," "projects," and "outlook") are not historical facts and may be forwarding-looking and, accordingly, such statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in the forward-looking statements. Such "forward-looking statements" are subject to risks and uncertainties set forth in the Risk Factors section of this filing as well as in the Company's Risk Factors section of the Form 10-KSB for the year ended April 30, 2003.

Critical Accounting Policies:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Smith & Wesson Holding Corporation and its wholly owned subsidiaries — Smith & Wesson Corp., Smith & Wesson Firearms Training Center GmbH (Germany), Smith & Wesson Distributing, Inc., Smith & Wesson, Inc., Smith & Wesson Licensing, LLC, Smith & Wesson Interactive Management, LLC, Smith & Wesson Technology, LLC and Lost Coast Ventures, Inc. (Inactive) and its majority owned subsidiary — Smith & Wesson Advanced Technologies, LLC. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting periods. Operating results in the future could vary from the amounts derived from management's estimates and assumptions. In addition, future facts and circumstances could alter management's estimates with respect to the adequacy of insurance reserves. The more significant estimates and assumptions used by management in the preparation of the financial statements relate to the reserves established for uncollectible accounts receivable, obsolete and slow moving inventory and certain accrued liabilities, including, but not limited to, product, environmental and warranty liabilities and workers compensation.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete and the risks and rewards of ownership have transferred to the customer, which is generally upon shipment.

The Company recognizes tooling, forging, heat treating, finishing, plating, and engineering support revenues after acceptance by the customer and only when no further contingencies or material performance obligations exist, when collectibility is reasonably assured and the Company has earned the right to receive and retain payments for services performed and billed.

The Company recognizes revenue from use of its registered trademarks and from licenses to use its Identi-Kit software. Software revenue is recognized over the subscription period.

Trademark licensing revenues are comprised of (i) initial fees that are collected upon the signing of, or upon meeting certain conditions in, the licensing agreement and (ii) minimum royalties and/or a percentage of a licensee's sales of licensed products that are collectible over a multi-year period.

The Company recognizes trademark licensing revenues for all individual licensees on a quarterly basis based on actual receipts due from licensees through the date of our financial statements. These revenues are comprised of minimum royalties and/or a percentage of a licensee's sales on licensed products. Under the Company's current licensing agreements, these revenues are payable on a calendar quarter basis. Fees received upon initial signing of license agreements are recognized as revenues to the extent of costs incurred. Due to a combination of uncertain factors regarding existing licensees and insufficient historical experience, the Company believes that reasonable assurance of collectibility does not exist based on the results and past payment performance of licensees in general. Therefore, the Company does not initially recognize minimum royalty payments, but instead records such revenue over the period the minimum royalty becomes due and payable. The Company also believes, due to the factors noted above, that an allowance for "uncollectible minimum royalties" cannot be reasonably estimated.

Product Liability

The Company provides reserves for potential product liability defense costs based on estimates determined in consultation with counsel. Adjustments to the provision for product liability are evaluated on an ongoing basis and are charged or credited to cost of sales. This evaluation is based upon information regarding potential or existing product liability cases. Any future costs as a result of this evaluation are recorded when considered both probable and reasonably estimable. At this time, the estimated range of reasonably possible additional losses, as that term is defined in SFAS No. 5, is zero.

Stock Options

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation." Under APB 25, compensation cost is recognized over the vesting period based on the excess, if any, on the date of

grant of the fair value of the Company's shares over the employee's exercise price. When the exercise price of the employee share options is less than the fair value price of the underlying shares on the grant date, deferred stock compensation is recognized and amortized to expense in accordance with FASB Interpretation No. 28 over the vesting period of the individual options. Accordingly, if the exercise price of the Company's employee options equals or exceeds the market price of the underlying shares on the date of grant, no compensation expense is recognized. Options or shares awards issued to non-employees or non-employee directors are valued using the fair value method and expensed over the period services are provided.

Results of Operations for the Three and Six Months Ended October 31, 2003 Compared to the Three and Six Months Ended October 31, 2002

Net product sales for the three and six months ended October 31, 2003 were \$28,874,158 and \$57,667,014, respectively, which represent an increase of 19.9% over net products sales of \$24,074,731 for the three month period ended October 31, 2002 and an increase of 27.1% over net products sales of \$45,372,079 for the six month period ended October 31, 2002. Net income of \$670,665 for the three months ended October 31, 2003 and \$1,255,913 for the six months ended October 31, 2003 were \$533,803 and \$1,230,953, respectively, higher than the net income of \$136,862 and \$24,960, respectively, for the same three month and six month periods ended October 31, 2002.

Basic net income per share improved by \$0.02 in the three months ended October 31, 2003, to \$0.02 from \$0.00 net income per share for the same three months ended October 31, 2002. Basic net income per share improved by \$0.04 in the six months ended October 31, 2003, to \$0.04 from \$0.00 net income per share for the same three months ended October 31, 2002. The substantial increase in sales is primarily due to increased sales of handguns.

Net Product Sales

In the three months ended October 31, 2003, firearms sales increased by \$5,703,045 over the same three months ended October 31, 2002 to \$24,628,242. In the six months ended October 31, 2003, firearms sales increased by \$13,455,837 over the same six months ended October 31, 2002 to \$49,390,672. The increases result from domestic sales continuing to recover from the effects of the boycott that had taken place in the year prior to the Company's acquisition of Smith & Wesson. The Company also saw a substantial increase in the line of Walther firearms that we distribute exclusively in the United States. Sales of Walther products increased by \$1,392,427 to \$3,977,870 in the three months ended October 31, 2003 and by \$3,035,794 to \$8,264,376 in the six months ended October 31, 2003, with the continued success of the P99 and P22 pistols as well as the re-introduction of the popular PPK pistol. The sales growth also resulted from the introduction of several new products in the fourth quarter of fiscal year 2003. Sales of these new products accounted for approximately \$5.7 million and \$11.9 million of the sales increase in the quarter and six month period, respectively. Total units sold in the three months and six months ended October 31, 2003 increased approximately 26.7% and 30.0% over the same three months and six months ended October 31, 2002, or approximately 72,000 units as compared to 57,000 with respect to the three month periods and approximately 141,000 units as compared to 109,000 with respect to the six month periods, respectively.

In the three months ended October 31, 2003, retail sales decreased by \$300,781 over the comparable period in the prior fiscal year to \$175,409 and in the six months ended October 31, 2003, retail sales decreased by \$783,451 over the prior fiscal year to \$354,433. In each instance the decrease was primarily because of the Company's decision in August 2002 to close three of the four S&W owned retail stores. Handcuff sales increased by \$476,649 over the same three month period in the prior fiscal year to \$1,985,553 and by \$789,104 over the same six month period in the prior fiscal year to \$3,400,977. Specialty Services sales decreased by \$1,011,226 and \$1,186,057 over the same three month and six month periods ended October 31, 2002, to \$1,231,407 and \$2,928,462, respectively, reflecting the Company's decision to utilize certain equipment solely for its own manufacturing processes and therefore no longer offer machining services to other companies.

Net Licensing Revenues

Net licensing revenues for the three months ended October 31, 2003 were \$305,205 compared to net licensing revenues of \$375,234 for the same three months ended October 31, 2002. Net licensing revenues for the six months ended October 31, 2003 were \$728,508 compared to net licensing revenues of \$648,549 for the same six months ended October 31, 2002. Substantially all of the increase in net licensing revenues growth for the six month period is attributable to growth in royalties received from existing licensees.

Gross Profit

Gross profit of \$9,370,475 for the three months ended October 31, 2003 was \$1,834,287 or 24.3% higher than the gross profit of \$7,536,188 for the three months ended October 31, 2002. The gross profit margin was 32.1% on net product sales and licensing revenue of \$29,236,859 for the three months ended October 31, 2003 as compared to 30.8% on net product sales and licensing revenue of \$24,490,859 for the three months ended October 31, 2002. Gross profit for the six months ended October 31, 2003 of \$18,324,914 was \$4,620,218 or 33.7% higher than the gross profit of \$13,704,696 for the six months ended October 31, 2002. The gross profit margin was 31.3% on net sales and licensing revenue of \$58,453,018 for the six months ended October 31, 2003 as compared to 29.7% on net sales and licensing revenue of \$46,083,955 for the six months ended October 31, 2002.

The significant changes in gross profit and gross profit margin resulted primarily from increased efficiency in our manufacturing operations and a reduction in the cost per unit produced. Management continues to believe that S&W's marketing efforts since the acquisition in May 2001 have resulted in greater demand for our products and that execution of our current business plan will result in continued market acceptance. In response to the increased demand for S&W handguns, production was increased accordingly. This increase in production was accomplished primarily through increased efficiency and the addition of new equipment placed into service. In addition, certain fixed costs such as depreciation, insurance and manufacturing support did not increase or increased at a substantially lower rate than the production increase. As a result, the cost per unit produced decreased significantly, contributing to the improved gross profit.

Research and Development

The Company incurred \$169,145, net of expense reimbursement of \$236,621 from the National Institute of Justice, research and development costs for the three months ended October 31, 2003 and \$497,763, net of expense reimbursement from the National Institute of Justice of \$367,255 of research and development costs for the six months ended October 31, 2003. These expenses are compared to net expenses of \$318,717 for the three months ended October 31, 2002, representing a decrease of 46.9% for the quarter and \$520,274 for the six months ended October 31, 2002, representing a decrease of 4.3% for the six month period. These costs relate to an ongoing effort by S&W to develop technology to introduce "authorized user only handguns" as well as an ongoing effort by the Company to develop advanced technology products for law enforcement. For the three months and six months ended October 31, 2003, research and development of advanced technologies, amounted to \$142,778 and \$436,840, respectively, of total research and development expense. The advanced technologies research and development during these periods included marketing of an improved web based version of our Identi-Kit composite sketch technology, as well as the development of secure wireless middleware technology through a joint venture with APPSware Holding, Inc.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses (SG&A) for the three months ended October 31, 2003 were \$7,899,444 or 27.0% of net product sales and license revenues compared to \$6,373,272 or 26.0% of net product sales and license revenues for the three months ended October 31, 2002. Total selling, general and administrative expenses (SG&A) for the six months ended October 31, 2003 were \$14,176,053 or 24.3% of net product sales and license revenues compared to \$11,754,515 or 25.5% of net product sales and license revenues for the six months ended October 31, 2002.

During the three months ended October 31, 2003, SG&A incurred by S&W was \$6,152,219, or 77.9% of total SG&A and the Company's corporate SG&A was \$1,747,225 or 22.1% of total SG&A. During the six months ended October 31, 2003, SG&A incurred by S&W was \$11,274,285 or 79.5% of total SG&A and the Company's corporate SG&A was \$2,901,768 or 20.5% of total SG&A.

S&W SG&A for the three and six months ended October 31, 2003 increased \$478,957, or 8.4%, and \$711,158, or 6.7%, respectively from the same periods in 2002, which was primarily due to the increase in the profit sharing contribution due to the increased profits. Professional fees increased by \$591,379 for the three months ended October 31, 2003 due to the costs associated with the restatement of fiscal year 2002 financials and the ongoing SEC investigation. In the three months ended October 31, 2002, S&W incurred \$442,163 in one-time severance costs.

S&W SG&A for the three and six month periods ended October 31, 2003 include, but is not limited to in each event respectively, depreciation and amortization expense of \$105,305 and \$205,607, selling and marketing employee remuneration of \$801,561 and \$1,689,548, commissions of \$329,125 and \$624,424, advertising expense of \$1,210,085 and \$2,284,300, general and administrative employee remuneration of \$1,014,427 and \$2,145,820, profit sharing contribution of \$697,176 and \$1,176,902 and professional fees of \$856,027 and \$1,024,452.

Corporate SG&A for the three and six month periods ended October 31, 2003 increased \$937,329, or 117.2%, and \$1,611,092, or 124.8%, respectively, from the same periods in 2002, which were primarily due to hiring additional personnel, as well as, increased selling and administrative expenses required to increase revenue for the licensing subsidiary, start-up costs of approximately \$700,000 for the Company's new lifestyle catalog and market the Identi-Kit.Net product for the technology subsidiary of the Company.

Professional fee expense related to the fiscal year 2002 restatement and ongoing SEC investigation for the six months ending October 31, 2003 was \$756,470 most of which was incurred in the last three months. Of these amounts \$573,052 is included in S&W SG&A and the remaining \$183,418 is in corporate SG&A.

The Company's commitment to continue to improve S&W's market share, expansion of its licensing capabilities, diversification into advanced technology products aimed at law enforcement, an increase in professional fees related to the restatement and SEC investigation, severance payments due to former executives and increases in insurance costs in the aftermath of September 11, 2001, as well as other general expense increases will require the Company to increase SG&A expenses in the remainder of fiscal year 2004 and will possibly continue into fiscal year 2005.

The Company has recently entered into severance agreements with its former executives at the holding company. (See Note 10 to the Consolidated Financial Statements.) Under general accepted accounting principles in the United States of America, the Company is required to recognize these expenses at the time in which these agreements were executed. The combined expenses related to these severance agreements are expected to cost the Company approximately \$800,000. Therefore, these expenses will all be recognized in and significantly impact the third quarter of fiscal year 2004.

Other Income/Expense

Other income, exclusive of interest expense, for the three months ended October 31, 2003 was \$568,061 as compared to income of \$202,098 for the three months ended October 31, 2002. Included in other income was a \$767,768 insurance reimbursement of defense costs for municipal litigation and certain product liability cases. This was partially offset by \$313,775 in currency exchange loss on purchases of Walther products and components for our SW99 series pistols. Other expense, exclusive of interest expense, for the six months ended October 31, 2003 was \$14,888 as compared to income of \$416,622 for the six months ended October 31, 2002.

Interest Expense

Interest expense for the three and six month periods ended October 31, 2003 was \$827,499 and \$1,679,312, respectively, as compared to \$900,081 and \$1,796,891, respectively, for the same periods in 2002. The decrease in interest expense during these periods is attributable to the early repayments of principal on the Tomkins Note.

Income Before Income Taxes

Income before income taxes increased \$896,232 from income of \$146,216 for the three months ended October 31, 2002 to income of \$1,042,448 for the three months ended October 31, 2003. Income before income taxes increased \$1,907,263 from income of \$49,635 for the six months ended October 31, 2002 to a profit of \$1,956,898 for the six months ended October 31, 2003.

Income Taxes

For the three months ended October 31, 2003, income tax expense is estimated to be \$371,783 as compared to an estimated income tax expense of \$9,354 for the same three months ended October 31, 2002. This tax expense is being accrued at an estimated effective rate of 35.6%. The increase in tax expense as compared to the same three months ended October 31, 2002 is primarily attributable to a decrease in deferred tax assets for the three months ended October 31, 2003 of \$323,433.

For the six months ended October 31, 2003, income tax expense is estimated to be \$700,985 as compared to an estimated income tax expense of \$24,675 for the same six months ended October 31, 2002. This tax expense is being accrued at an estimated effective rate of 35.8%. The increase in tax expense as compared to the same six months ended October 31, 2002 is primarily attributable to a decrease in deferred tax assets for the six months ended October 31, 2003 of \$612,398.

The October 31, 2002 income tax provision did not contain a deferred tax component as a valuation allowance had previously been established and maintained as of October 31, 2002 for deferred tax assets in excess of deferred tax liabilities. During the fourth quarter of the fiscal year ended April 30, 2003, the Company released federal and state valuation allowances totaling \$13.5 million. We continue to maintain a valuation allowance of \$0.5 million relating to state net operating loss carryforwards.

We currently have significant deferred tax assets resulting from net operating loss carryforwards and other deductible temporary differences, which will reduce taxable income in future periods. In assessing the realization of our deferred tax assets, we consider whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of our deferred income tax assets depends upon generating future taxable income during the period in which our temporary differences become deductible and before our net operating loss carryforwards expire. We evaluate the recoverability of our deferred income tax assets by assessing the need for a valuation allowance on a quarterly basis. If we determine that it is more likely than not that our deferred income tax assets will not be recovered, a valuation allowance will be established against some or all of our deferred income tax assets. Recording a valuation allowance or reversing a valuation allowance could have a significant effect on our future results of operations and financial position.

Liquidity and Capital Resources

For the six months ended October 31, 2003 the Company's principal ongoing cash requirements are to finance the production of our manufactured products and to fund the development or growth of advanced technology products, our trademark licensing program, our new catalog sales program and to meet other working capital requirements. Growth of the licensing program and development of advanced technology products are a primary focus at the holding company level which as of October 31, 2003 had approximately \$3.0 million of investment capital available to it for these initiatives as well as for working capital requirements. Other areas of growth, including the catalog program and manufactured products, are financed by the operations and working capital of S&W.

The Company had cash, cash equivalents and short-term investments of approximately \$33.4 million at October 31, 2003. Of this amount, approximately \$21.4 million was held as collateral for the line of credit and long-term note with Banknorth, N.A. as described below. A majority of the cash and cash equivalents of the Company are held by S&W. The Company maintains its cash in money market and bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Smith & Wesson Holding Corporation's use of cash held by S&W is subject to certain covenants and restrictions imposed by the terms of the S&W acquisition and its lenders. These restrictions include limitations on the use of cash, dividends paid to Smith & Wesson Holding Corporation by S&W and S&W's ability to incur or guaranty indebtedness.

Net cash provided by operating activities during the six months ended October 31, 2003 was approximately \$1.1 million, compared to cash used for operating activities of approximately \$4.7 million during the six months ended October 31, 2002. The increase in net cash provided by operating activities for the period ended October 31, 2003 as compared to the same period the previous year is due substantially to the increase in net income of \$1.2 million and the delay in the fiscal year 2003 profit sharing payment of \$1.6 million due to the delay in filing the annual financial statements.

Net cash utilized by investing activities was approximately \$2.0 million during the six months ended October 31, 2003 compared to cash utilized by investing activities of approximately \$3.2 million during the six months ended October 31, 2002. Substantially all of the cash for investing activities in the current period related to the acquisition of various machinery and equipment by S&W.

Capital expenditures amounted to approximately \$2.1 million and \$1.6 million during the six months ended October 31, 2003 and the six months ended October 31, 2002, respectively. During the remainder of fiscal year 2004, the Company expects to spend approximately \$3.0 million on new capital to maintain its current manufacturing facilities and improve production output. The Company intends to fund any capital expenditures remaining in fiscal year 2004 with existing cash or funds provided from operations.

Net cash used for financing activities was approximately \$0.8 million during the six months ended October 31, 2003 compared to approximately \$0.3 million during the six months ended October 31, 2002. Net cash used for financing activities in the current period is due substantially to the paydown of the Tomkins Note. The Company does not anticipate a need for increased external financing for the remainder of fiscal year 2004.

The Company obtained a \$15.0 million long-term loan from Banknorth in April 2002, which was used to repay short-term debt related to the S&W acquisition. This note accrues interest at a fixed rate of 5.85% per annum and has a 12-year term commencing on March 28, 2002. The note is amortized over a 10-year period, requires monthly interest-only payments until March 28, 2004, and monthly principal and interest payments of \$165,403 thereafter for the life of the loan. The loan is fully collateralized by S&W's marketable securities, and/or cash. Of the proceeds from the Banknorth note, \$5.0 million was used to repay in full the Melby Note.

The remaining \$27.0 million debt relates to an existing obligation by S&W to Tomkins and was guaranteed by the Company as a part of the acquisition agreement. The note accrues interest at a fixed rate of 9.0% per annum and has a term of 10 years commencing on May 11, 2001. It is uncollateralized, may be prepaid in part or in whole at any time, and is amortized over a 10-year period. The note requires monthly interest-only payments until May 11, 2004, and monthly principal and interest payments of \$482,672 thereafter for the life of the loan. Although the loan is uncollateralized, it does contain covenants restricting Smith & Wesson Holding Corporation's use of S&W cash and other assets, limits the amount of dividends that may be paid to Smith & Wesson Holding Corporation by S&W to \$1.8 million per year (other than for the year ended April 30, 2002), and requires immediate repayment if there is a change in ownership of S&W or a change in control of Smith & Wesson Holding Corporation. Of the original balance of \$30.0 million, \$2.0 million was repaid in April 2003, and \$1.0 million was repaid in July 2003.

As of October 31, 2003 the Company had open letters of credit aggregating \$5.1 million.

We believe that our existing sources of liquidity combined with cash generated from our current licensing operation and dividends received from S&W will be sufficient to meet our anticipated cash requirements needed to manage our licensing program and manage our advanced technology products operations, as well as satisfy operating expense requirements for at least the next 12 months. Beyond this time period, growth plans, commitments and related operating expenses at the holding company level may need to be reevaluated and reduced or may require revenue generation from advanced technology products or other sources or revenue growth from the licensing subsidiary to meet its anticipated future expenses and debt service requirements. In order to meet these potential future needs, the Company may be required to seek additional equity or debt financing and/or debt refinancing. The timing and amount of any such financing requirements will depend on a number of factors, including demand for our products, changes in industry conditions, new product acceptance and competitive factors. There can be no assurance that such financing will be available on acceptable terms if required, and any additional equity financing would result in incremental ownership

dilution to our existing shareholders. Based upon its cash position at October 31, 2003, and its financial projections for the upcoming year, S&W believes that it has adequate sources of liquidity to meet debt obligations, pay the annual dividend to the parent, and finance operational and capital requirements for at least the next 12 months.

The Company is incurring significant legal and accounting costs relating to the restatement of the financial statements for the fiscal year ended April 30, 2002, the restatement of the quarters in fiscal year 2002, the SEC investigation and severance agreements with certain former officers of the holding company entered into in December 2003. As a result of these costs, we expect to record significant expenses in the third quarter of fiscal year 2004 that will directly affect operating profit and will likely lead to a net loss for the third quarter of fiscal year 2004.

Various legal actions, proceedings and claims have been instituted against the Company's subsidiary, S&W. (For further discussion of litigation and legal proceedings pending against the Company and its subsidiary, see Part II — Item 1 — Legal Proceedings; and Note 8 to the Consolidated Financial Statements.) Management believes that, in every case, the allegations are unfounded, defenses exist, and that there should be no recovery against S&W. Legislation has been passed in approximately 30 states precluding suits of the type brought by municipalities. Some of these laws are effective retroactively while others are not.

The Company's management reviews every lawsuit and claim at the outset and is in contact with its special litigation counsel on an ongoing basis. The provision for product liability claims is based upon many factors, which vary for each case. These factors include the type of claim, nature and extent of injuries, historical settlement ranges, jurisdiction where filed, and advice of counsel. An accrual is established for each lawsuit and claim, when appropriate, based on the nature of each such lawsuit or claim. If at such time management determines that a claim is reasonably possible and the amount of such claim estimable, an accrual is made. Although reserves have been established for estimable legal defense costs, management believes that the cases are without merit and as such has not provided reserves for settlements or judgments.

Amounts are charged to product liability expense in the period in which the Company becomes aware that a claim or, in some instances a threat of claim, has been made when potential losses or costs of defense can be reasonably estimated. Such amounts are determined based on the Company's experience in defending similar claims. On a quarterly basis the cases are reviewed with outside counsel, and if necessary, reserves are adjusted accordingly based upon individual case developments. During the six months ended October 31, 2003, the Company incurred product liability expense of \$248,142.

Since it is not possible to forecast the outcome of litigation or the timing of costs, in the opinion of management, after consultation with its litigation counsel, it is uncertain whether any ongoing litigation, including punitive damage claims, will have a material adverse effect on the financial position of the Company or a material impact on the Company's financial results for a particular period.

The Company is subject to numerous federal, state and local laws, which regulate or otherwise relate to the protection of the environment. The Company may be required to remove hazardous waste or remediate the alleged effects of hazardous substances on the environment associated with past operations or disposal practices. As of October 31, 2003, the Company has reserves of approximately \$3.9 million for environmental matters. The amount of the Company's liabilities for remedial environmental activities are very difficult to estimate due to such factors as currently available facts, remediation technology, enacted laws or regulations and the unknown extent of the remedial actions that may be required.

The Company has identified environmental issues on the property at the Springfield, Massachusetts facility. The Company has a voluntary remediation project underway as part of the Massachusetts Contingency Plan (MCP). The Company has established reserves to cover the cost of this remediation project and believes these reserves to be adequate.

On February 25, 2003, S&W sold approximately 85 acres of company-owned property in the City of Springfield, Massachusetts to the Springfield Redevelopment Authority (SRA). The 85 acres has identified soil and groundwater contamination which previously was part of six of S&W's voluntary remediation projects, specifically the South Field, West Field, and Fire Pond release areas, under the MCP. This property was acquired

by SRA as a defined "Brownfield" under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) (s) 101(39). S&W believes that the SRA plans to create a light industrial and other commercial use development park on the property. SRA, with the support of the City of Springfield, has received governmental "Brownfield" grants or loans to facilitate the remediation and development of the property. S&W has entered into certain environmental agreements and other contractual assurances with the SRA associated with the sale which require SRA to complete remediation. S&W has not revised the environmental reserve, but will monitor the progress of the SRA in the remediation and development of the property. Based on SRA's progress and success in the Brownfield redevelopment of the property, as well as specific approval of remediation by governing authorities, the Company may reduce the environmental reserve. This reduction would have a significant impact on the Company's earnings for the period in which such reduction is made.

The Company also has a potential environmental issue at its ranges at its facility in Springfield, Massachusetts. This site may require remediation if the Company were to decide to cease using this facility as a shooting range. The Company has no plans to discontinue use of its training facility.

Risk Factors

In addition to the other information contained in this quarterly report, the reader should carefully read and consider the following risk factors. If any of these risks actually occur, our business, financial condition or operating results could be adversely affected and the trading price of our common stock could decline.

- We are under investigation by the SEC to determine whether there have been violations of the federal securities laws in connection with matters relating to the restatement of our consolidated financial statements for fiscal year 2002. While we have fully cooperated with the SEC and intend to continue to do so, we can not predict what the outcome of the investigation will be or when it will be completed. If the SEC determines that we have violated federal securities laws, we may face sanctions, including, but not limited to, significant monetary penalties and injunctive relief.
- Our management has spent considerable time and effort dealing with internal and external investigations of our controls and procedures, and this diversion of management's time may adversely affect our business and our results of operations.
- We have made, and continue to make, changes to our internal controls, our disclosure controls and procedures, our internal controls over financial reporting and our corporate governance policies and procedures. Any design, operating maintenance or evaluation failure or circumvention of these controls and procedures could seriously harm our business.
- If we fail to satisfy our plan for our return to compliance with the American Stock Exchange's continued listing standards, our stock will likely be delisted. If our stock is delisted, our stock could become more difficult to trade and our ability to raise funds in the capital markets may be impaired, which could have a material adverse effect on our business.
- We are incurring significant legal and accounting costs relating to the restatement of our financial statements for the fiscal year ended April 30, 2002, the SEC investigation and recently approved severance arrangements with former officers that will directly affect our operating profit and will likely lead to a net loss for the third quarter of fiscal year 2004.
- We are subject to sales cycles driven by national events (such as 9/11/2001) which can cause dramatic increases or decreases in demand for our products and we have no ability to predict or control those cycles.
- We are defending many lawsuits brought by various cities and counties arising out of the design, manufacture, marketing and distribution of our handguns. While we are vigorously defending these lawsuits and believe they are without merit and further believe our insurance is adequate in light of judgments entered against the industry to date, there is no assurance that a jury may not render a judgment against us in excess of insurance coverage limits.

- If forced to comply with a settlement with HUD restricting our design, manufacturing, marketing and distribution of firearm products, we could be substantially impaired from competing with manufacturers who sell competing products. We believe the HUD Settlement is not legally binding, and have received confirmation that the HUD Settlement will not be enforced, but can provide no assurance that a court would not rule otherwise, as the HUD Settlement has not been formally rescinded.
- We have substantial repayment obligations related to the purchase of our wholly-owned subsidiary, Smith & Wesson Corp. for which we are developing a viable sales model to generate sufficient cash flow to make the payments required. Various covenants prohibit us from making payments directly from our subsidiary, Smith & Wesson Corp. We must begin to repay the principal on one of our loans in April 2004.
- We are expanding our technology, licensing and catalog operations. All of these areas are highly competitive and subject to changes in demand.
- Our two significant notes contain covenants and the preemptive rights held by Colt Melby could limit our discretion with respect to various business matters.
- Cost of insurance for all firearms manufacturers continue to increase and we have been impacted by those increases.
- We continue our efforts to overcome adverse publicity from past settlement agreements.
- Some of our competitors' cost structures may be more advantageous than ours.
- We operate in a highly regulated business at the international, national, state and local levels and there is no assurance that regulation may not increase having a material adverse effect on our business, including not only regulation related to firearm production itself but also related to environmental laws in a manufacturing context in general.
- We are currently engaged in remedial investigation and cleanup activities at certain sites and cannot be sure that we have identified all existing contamination or will not cause contamination in the future, making our reserves of approximately \$3.9 million inadequate.
- We depend on outside suppliers and vendors for our raw materials and other supplies.
- Demand for our products is subject to the popularity of our product line, acceptance of new product designs, ongoing quality control and adequate supply of Walther products from our German supplier.
- We are exposed to currency risk from foreign exchange rate fluctuations in connection with inventory we purchase from a European supplier. If the U.S. Dollar continues to weaken and our hedging arrangements do not provide adequate protection, we could experience additional expenses on inventory we purchase annually from the European supplier.

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

We do not enter into any market risk sensitive instruments for trading purposes. Our principal market risk relates to changes in the value of the Euro relative to the U.S. Dollar. A portion of our gross revenues during the three and six months ended October 31, 2003 (\$4.6 million and \$10.2 million, respectively, representing approximately 15.7% and 17.5%, respectively, of aggregate gross revenues) came from the sale of goods that were purchased, wholly or partially from a European manufacturer, in Euros. Annually, we purchase approximately \$10 million of inventory from a European supplier. This exposes us to risk from foreign exchange rate fluctuations. A 10% drop in the value of the U.S. Dollar in relation to the Euro would, to the extent not covered through adjustments in our prices, reduce our gross profit on that \$10 million of inventory by approximately \$1 million. In an effort to offset our risks from unfavorable foreign exchange fluctuations, we enter into Euro forward contracts. As of April 30, 2003, there was approximately \$1.3 million remaining on a twelve-month forward contract entered into on October 4, 2002 with an average exchange rate of \$0.98 per Euro. As of June 29, 2003, we had exhausted our remaining October 2002 forward contract so we entered into a five-month forward contract to purchase \$3.6 million of Euros at an average exchange rate of \$1.18 per Euro.

During the three and six months ended October 31, 2003, we recognized a net loss of \$91,854 and net gain of \$80,096, respectively, from the closeout of certain such forward contracts. As of October 31, 2003 we had fully exhausted both our October 4, 2002 and June 29, 2003 forward contracts and had not entered into any new forward contracts. Since then, as of November 3, 2003, we entered into a six-month Euro forward contract expiring on May 3, 2004 to purchase \$5 million of Euros at an average exchange rate of \$1.14 per Euro. Thus, after May 3, 2004, we could experience additional expenses relating to the inventory we purchase annually from the European supplier if the value of the U.S. Dollar relative to the Euro does not increase. For example, after May 3, 2004, if the exchange rate of the U.S. Dollar is \$1.28 per Euro, we would expect to incur additional expenses of approximately \$1.5 million for the 12 months thereafter, and if the exchange rate of the U.S. Dollar is \$1.32 per Euro, we would expect to incur additional expenses of approximately \$2.2 million for the same period.

Item 4. Controls and Procedures

Evaluation of Disclosure 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 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, without limitation, controls and procedures designed to ensure that information required to be disclosed by our Company in the reports we file or submit under the Exchange Act is accumulated and communicated to our Company's 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 our Chief Executive Officer and Chief Financial Officer in overseeing the accuracy and timeliness of our 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 the date of the evaluation, our disclosure controls and procedures are effective in that they were reasonably designed to ensure that information required to be disclosed by our Company in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. It should be noted that any system of controls, however well designed and operated, is based in part upon certain assumptions and can provide only reasonable, and not absolute, assurance that the objectives of the system are met.

Changes in Internal Controls

In September 2003, the Board also formed a Nominating and Governance Committee to assist in identifying and pursuing qualified director candidates and adopted specific Corporate Governance Guidelines to delineate and promote the Company's commitment to maintaining a strong governance tone from the top. Moreover, recently we have implemented a remedial plan incorporating our management's additional recommendations for enhancements to our control processes and procedures relating to Corporate Governance. As part of this remedial plan, our board of directors adopted additional corporate governance policies and procedures applicable to management decision-making, governance of S&W, hiring practices, delineation of management responsibilities, involvement of outside counsel, marketing efforts, contracting with outside consultants, strategic planning, assessment of marketing efforts and related subsidiaries of the Company, information management and organizational structure. Proposed or completed enhancements to our control processes and procedures include: increased review of the facts and circumstances surrounding our transac-

tions, implementations and products; expansion of our corporate governance to include enhanced training with respect to financial policies and procedures for our administrative personnel and personnel in our subsidiaries; enhancement of our post-transaction monitoring; enhanced analysis and support in connection with our accounting procedures; and enhanced analysis and support for our accrued liability accounts. With the assistance of our advisors we continue to consider further actions, including without limitation, actions to address any deficiencies we may identify, and to further improve the effectiveness of our control processes and procedures.

In addition, in December 2003 our Board of Directors adopted a Corporate Governance Plan intended, among other things, to further enhance our disclosure controls and procedures as more fully reported in Item 8A of our most recently filed Form 10-KSB and in Item 4 of our Form 10-Q for the three months ended July 31, 2003.

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

The SEC is conducting an investigation to determine whether there have been violations of the federal securities laws in connection with matters relating to the restatement of our consolidated financial statements for fiscal year 2002. We continue to be in discussions with the SEC and intend to continue to fully cooperate with the SEC.

The nature of the legal proceedings against the Company is discussed in Note 8 to the Consolidated Financial Statements included in this Report on Form 10-Q, which is incorporated herein by reference. The Company has previously reported all cases instituted against it through December 8, 2003, and the results of those cases where terminated, in its Form 10-KSB report previously filed with the Securities and Exchange Commission, to which reference is hereby made.

No new cases were instituted against the Company or its wholly-owned subsidiary Smith & Wesson Corp. during the three months ended October 31, 2003. There are no material updates to previously reported pending cases since the filing of the most recently filed Form 10-Q.

Item 6. *Exhibits and Reports on Form 8-K*

(a) 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

(b) Reports on Form 8-K:

The Company filed a Current Report on Form 8-K on August 14, 2003, relating to the Company's announcement that its annual report on Form 10-KSB would be delayed as a result of its restatement of its financial statement for fiscal year 2002.

SIGNATURES

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

Dated: January 9, 2004

SMITH & WESSON HOLDING CORPORATION,
a Nevada corporation

By: /s/ ROY C. CUNY

Roy C. Cuny, *CEO, Director*

INDEX TO EXHIBITS

- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
- 32.1 Section 1350 Certification of Principal Executive Officer
- 32.2 Section 1350 Certification of Principal Financial Officer

CERTIFICATION

I, Roy C. Cuny, Chief Executive Officer, certify that:

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

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

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

4. The registrant's other certifying officer(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)) 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) 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

(c) 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/ ROY C. CUNY

Roy C. Cuny
Chief Executive Officer

Date: January 9, 2004

CERTIFICATION

I, Damian A. Larson, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Smith & Wesson Holding Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(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)) 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) 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
 - (c) 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/ DAMIAN A. LARSON

Damian A. Larson
Chief Financial Officer

Date: January 9, 2004

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. (s) 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Smith & Wesson Holding Corporation (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended October 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; 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/ ROY C. CUNY

Roy C. Cuny
Chief Executive Officer

Dated: January 9, 2004

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. (s) 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. (s) 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Smith & Wesson Holding Corporation (the “Company”) hereby certifies, to such officer’s knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended October 31, 2003 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; 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/ DAMIAN A. LARSON

Damian A. Larson
Chief Financial Officer

Dated: January 9, 2004

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. (s) 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.