QUARTERLY REPORT

For the quarterly period ended:

September 30, 2010

FREEDOM GROUP
FAMILY OF COMPANIES

FREEDOM GROUP, INC.

(Exact name of company as specified in its charter)

Delaware	**26-0174491**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

870 Remington Drive
P.O. Box 1776
Madison, North Carolina 27025-1776
(Address of principal executive offices) (Zip Code)

(336) 548-8700
(Company's telephone number, including area code)

FREEDOM GROUP, INC.

Quarterly Report

September 30, 2010

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In this Quarterly Report, unless otherwise indicated or the context otherwise requires, references to (1) the terms "we," "us," "our," the "Company" and the "Freedom Group" refer to Freedom Group, Inc. and its subsidiaries on a consolidated basis, (2) the term "FGI" refers to Freedom Group, Inc., (3) the term "Remington" refers to Remington Arms Company, Inc. and its direct and indirect subsidiaries, (4) the terms "Bushmaster" and "BFI" refer to Bushmaster Firearms International, LLC and its direct and indirect subsidiaries, (5) the term "Marlin" refers to the Marlin Firearms Company, (6) the term "DPMS" refers to DPMS Firearms LLC, (7) the term "EOTAC" refers to EOTAC, LLC, (8) the term "H&R" refers to H&R 1871, LLC, (9) the term "Dakota" refers to Dakota Arms, LLC, (10) the term "S&K" refers to S&K Industries, Inc., (11) the term "AAC" refers to Advanced Armament Corp., LLC, (12) the term "Barnes" refers to Barnes Bullets, Inc., (13) the term "E-RPC" refers to E-RPC, LLC and (14) the term "Mountain Khakis" refers to Mountain Khakis, LLC.

FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated, all references to "dollars" and "$" in this Quarterly Report are to, and all monetary amounts in this Quarterly Report are presented in, U.S. dollars. Unless otherwise indicated, the financial information contained in this Quarterly Report has been prepared in accordance with generally accepted accounting principles in the United States ("GAAP").

Certain monetary amounts, percentages and other figures included in this Quarterly Report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

In this Quarterly Report, we refer to and rely on publicly available information regarding our industry and our competitors. Although we believe the information is reliable, we cannot guarantee the accuracy and completeness of the information and have not independently verified it.

FORWARD-LOOKING STATEMENTS

Some of the statements in this Quarterly Report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements relating to trends in the operations and financial results and the business and the products of Freedom Group, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," "intend" and other similar expressions.

Forward-looking statements are made based upon management's current expectations and beliefs concerning future developments and their potential effects on us. Such forward-looking statements are not guarantees of future performance. The following important factors, and those important factors described elsewhere in our earlier quarterly reports, and in our Registration Statement on Form S-1 dated October 20, 2009, as subsequently amended, could affect (and in some cases have affected) our actual results and could cause such results to differ materially from estimates or expectations reflected in such forward-looking statements.

- We are subject to the effects of general global economic and market conditions. Increases in commodity prices, higher levels of unemployment, higher consumer debt levels, declines in consumer confidence, uncertainty about economic stability and other economic factors that may affect consumer spending or buying habits could adversely affect the demand for products we sell. If the current economic conditions and the related factors remain uncertain or persist, spread or deteriorate further, our business, results of operations or financial condition could be materially adversely affected.
- Continued volatility and disruption in the credit and capital markets may negatively impact our revenues and/or our suppliers' or customers' ability to access financing on favorable terms or at all.

- Our ability to make scheduled payments of principal or interest on, or to refinance our obligations with respect to, our indebtedness, as well as our ability to comply with the covenants and restrictions contained in the instruments governing such indebtedness, will depend on our future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors beyond our control including the responses of competitors, changes in customer inventory management practices, changes in customer buying patterns, regulatory developments and increased operating costs, all of which could materially adversely affect our business.
- The degree to which we are leveraged could have important consequences, all of which could materially adversely affect our business, including the following: (i) our ability to obtain additional financing for working capital or other purposes in the future may be limited; (ii) a substantial portion of our cash flow from operations is dedicated to the payment of principal and interest on our indebtedness, thereby reducing funds available for operations; (iii) certain of our borrowings are at variable rates of interest, which could cause us to be vulnerable to increases in interest rates; and (iv) we may be more vulnerable to economic downturns and be limited in our ability to withstand competitive pressures.
- The development of rural property in many locations has curtailed or eliminated access to private and public lands previously available for hunting, and the continuation of the development of rural property could materially adversely affect our industry as well as our business and results of operations.
- A significant portion of our sales are seasonal. As a result of the seasonal nature of our sales, our historical working capital financing needs generally have exceeded cash provided by operations during certain parts of the year. Our ability to meet our debt service and other obligations depends in significant part on customers purchasing our products during the fall hunting season. Notwithstanding our cost containment initiatives and continuing management of costs, a decrease in demand during the fall hunting season for our higher priced, higher margin products would require us to further reduce costs or increase our reliance on borrowings under our credit facility to fund operations. If we are unable to reduce costs or increase our borrowings sufficiently to adjust to such a reduction in demand, our financial condition and results of operations could be adversely affected.
- Lead, copper, steel, brass and zinc prices historically have experienced significant volatility primarily due to increased global demand. Furthermore, fuel and energy costs have increased and have remained volatile over the same time period, although at a slower rate of increase. We currently purchase copper and lead options contracts to hedge against price fluctuations of anticipated commodity purchases. With the volatility of pricing that we have recently experienced, there can be no assurance that we will not see further material adverse changes in commodity pricing or energy costs, and such further changes, were they to occur, could have a material adverse impact on our consolidated financial position, results of operations, or cash.
- Achieving the benefits of our acquisitions will depend in part on the integration of products and internal operating systems in a timely and efficient manner. Such integration may be unpredictable, and subject to delay because the products and systems typically were developed independently and were designed without regard to such integration. If we cannot successfully integrate such products and internal operating systems on a timely basis, we may lose customers and our business and results of operations may be harmed.
- We face significant domestic and international competition and our competitors vary according to product line. Certain of these competitors are subsidiaries of large corporations with substantially greater financial resources than we have. There can be no assurance that we will continue to compete effectively with all of our present competition, and our ability to so compete could be adversely affected by our leveraged condition.
- Sales made to Wal-Mart accounted for approximately 11% and 10% of our total sales for the nine months ended September 30, 2010 and fiscal 2009, respectively, and 9% and 12% of our

accounts receivable balance as of September 30, 2010 and December 31, 2009, respectively. Wal-Mart, together with another customer, accounted for approximately 14% and 18% of our accounts receivable balance as of September 30, 2010 and December 31, 2009, respectively. Our sales to Wal-Mart are generally not governed by a written long-term contract between the parties. In the event that Wal-Mart were to significantly reduce or terminate its purchases of firearms, ammunition and/or other products from us, our financial condition or results of operations could be adversely affected.

- We utilize numerous raw materials, including steel, zinc, lead, copper, brass, plastics and wood, as well as manufactured parts, which are purchased from one or a few suppliers. Any disruption in our relationship with these suppliers could increase our cost of operations. Such a disruption may result from or be amplified by the recent volatility of and uncertainty in the U.S. and global financial markets.
- The manufacture, sale and purchase of firearms and ammunition are subject to extensive governmental regulation on the federal, state and local levels. Changes in regulation could materially adversely affect our business by restricting the types of products we manufacture or sell or by imposing additional costs on us or our customers in connection with the manufacture or sale of our products. Regulatory proposals, even if never enacted, may affect firearms or ammunition sales as a result of consumer perceptions. While we do not believe that existing federal and state legislation relating to the regulation of firearms and ammunition had a material adverse effect on our sales, no assurance can be given that more restrictive regulations, if proposed or enacted, will not have a material adverse effect on us in the future.
- As a manufacturer of firearms, we were previously named as a defendant in certain lawsuits brought by municipalities or organizations challenging manufacturers' distribution practices and alleging that the defendants have also failed to include a variety of safety devices in their firearms. Our insurance primarily excludes coverage regarding such claims. In the event that additional such lawsuits were filed, or if certain legal theories advanced by plaintiffs were to be generally accepted by the courts, our financial condition and results of operations could be adversely affected.

Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. Except as required by law, we undertake no obligation to publicly revise our forward-looking statements to reflect events or circumstances that arise after the date of this quarterly report.

Freedom Group, Inc. and Subsidiaries
Consolidated Balance Sheets
(Dollars in Millions, Except Per Share Data)

	Unaudited September 30, 2010	December 31, 2009	*Unaudited* September 30, 2009
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 79.9	$ 60.2	$ 6.0
Accounts Receivable Trade - net allowance for doubtful accounts of $0.2 as of September 30, 2010; $0.4 as of December 31, 2009; and $0.1 as of September 30, 2009	125.5	92.5	132.4
Inventories - net	143.3	108.8	125.4
Supplies Inventory - net	6.8	6.5	5.8
Prepaid Expenses and Other Current Assets	13.7	35.2	20.4
Assets Held for Sale	0.6	1.9	1.9
Deferred Tax Assets	12.8	12.9	10.2
Total Current Assets	382.6	318.0	302.1
Property, Plant and Equipment - net	119.1	121.2	116.9
Goodwill	83.3	97.2	67.4
Intangible Assets - net	125.5	114.2	113.9
Debt Issuance Costs - net	27.8	19.4	17.5
Other Noncurrent Assets	17.7	16.9	17.3
Total Assets	$ 756.0	$ 686.9	$ 635.1
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current Liabilities			
Accounts Payable	$ 56.3	$ 52.2	$ 55.9
Book Overdraft	1.5	-	4.4
Current Portion of Long-Term Debt	0.7	0.7	0.7
Current Portion of Product Liability	3.7	2.8	4.4
Income Taxes Payable	-	-	3.2
Other Accrued Liabilities	69.1	87.5	73.0
Total Current Liabilities	131.3	143.2	141.6
Long-Term Debt, net of Current Portion	498.3	276.0	205.2
Retiree Benefits, net of Current Portion	50.1	46.8	83.6
Product Liability, net of Current Portion	10.4	10.4	11.1
Deferred Tax Liabilities	26.8	31.2	12.6
Other Long-Term Liabilities	23.3	12.4	14.6
Total Liabilities	740.2	520.0	468.7
Commitments and Contingencies (Note 13)			
Preferred Stock, $0.01 par value, 20,000,000 shares authorized, of which 19,000,000 shares are designated as Series A preferred, aggregate liquidation preference of $95.6, $238.2, and $232.7, as of September 30, 2010, December 31, 2009, and September 30, 2009, respectively	95.6	238.2	232.7
Total Mezzanine Equity	95.6	238.2	232.7
Common Stock, $.01 par value, 20,000,000 shares authorized, of which 16,673,920 were issued and 16,523,999 outstanding at September 30, 2010; 16,673,920 issued and 16,439,186 outstanding at December 31, 2009; and 16,673,920 issued and 16,442,328 outstanding at September 30, 2009	0.2	0.2	0.2
Less: Treasury Stock	(0.7)	(0.6)	(0.6)
Accumulated Other Comprehensive Loss	(45.2)	(38.3)	(32.3)
Accumulated Equity (Deficit)	(35.7)	(32.3)	(33.3)
Total Parent's Equity (Deficit)	(81.4)	(71.0)	(66.0)
Noncontrolling Interest Equity	1.6	(0.3)	(0.3)
Total Stockholders' Equity (Deficit)	(79.8)	(71.3)	(66.3)
Total Liabilities, Mezzanine Equity and Stockholders' Equity	$ 756.0	$ 686.9	$ 635.1

Freedom Group, Inc. and Subsidiaries

Consolidated Statements of Operations

(Dollars in Millions)

(Unaudited)

	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Net Sales	$ 207.6	$ 235.7	$ 561.0	$ 663.0
Cost of Goods Sold	146.9	154.6	382.2	437.0
Gross Profit	60.7	81.1	178.8	226.0
Selling, General and Administrative Expenses	39.3	44.3	112.6	119.5
Research and Development Expenses	3.6	2.8	12.7	8.2
Impairment Charges	0.7	-	1.7	-
Other Expense (Income)	2.1	2.9	6.2	1.0
Operating Income	15.0	31.1	45.6	97.3
Interest Expense	15.6	8.1	38.5	22.7
Income (loss) from Continuing Operations before Taxes, Equity in Losses from Unconsolidated Joint Venture and Noncontrolling Interest in Consolidated Subsidiary	(0.6)	23.0	7.1	74.6
Income Tax Provision (Benefit)	(0.3)	8.1	2.6	26.8
Equity in Losses from Unconsolidated Joint Venture	0.1	(0.1)	0.3	-
Net Income (Loss)	(0.4)	15.0	4.2	47.8
Add: Net Loss Attributable to Noncontrolling Interest	0.1	0.1	0.3	0.3
Net Income (Loss) Attributable to Controlling Interest	$ (0.3)	$ 15.1	$ 4.5	$ 48.1
Net Income (Loss) Attributable to Controlling Interest	$ (0.3)	$ 15.1	$ 4.5	$ 48.1
Accretion of Preferred Stock	0.9	(5.4)	(7.9)	(15.3)
Net Income (Loss) Applicable to Common Stock	$ 0.6	$ 9.7	$ (3.4)	$ 32.8
Net Income (Loss) Per Common Share, Basic	$ 0.03	$ 0.60	$ (0.21)	$ 2.01
Net Income (Loss) Per Common Share, Diluted	$ 0.03	$ 0.56	$ (0.21)	$ 1.98
Weighted Average Number of Shares Outstanding, Basic	16,408,114	16,324,113	16,386,657	16,329,658
Weighted Average Number of Shares Outstanding, Diluted	17,192,898	16,979,227	17,098,752	16,565,963

Net Sales are presented net of Federal Excise taxes of $18.0 and $20.1 for the three months ended September 30, 2010 and 2009, respectively. Net sales are presented net of Federal Excise taxes of $45.6 and $55.0 for the nine months ended September 30, 2010 and 2009, respectively.

Freedom Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in Millions)

(Unaudited)

	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Operating Activities		
Net Income	$ 4.2	$ 47.8
Adjustments to reconcile Net Income to Net Cash Provided by Operating Activities:		
Impairment Charges	1.7	-
Depreciation and Amortization	24.3	20.0
Equity in Losses from Unconsolidated Joint Venture	0.3	-
Loss on Disposal of Property, Plant, and Equipment	0.6	0.4
Loss on Early Extinguishment of Debt	-	2.1
Contributions to Pension and Other Retirement Plans	(2.3)	(6.1)
Pension and Other Retirement Plans Expense	5.5	4.4
Provision for Deferred Income Taxes - net	(4.3)	(3.7)
Share Based Compensation Charges	0.4	0.4
Other Non-Cash Charges (Benefits)	(0.1)	6.3
Changes in Operating Assets and Liabilities net of effects of acquisitions:		
Accounts Receivable Trade - net	(31.5)	(23.7)
Inventories - net	(31.7)	0.7
Prepaid Expenses and Other Current and Long-Term Assets	14.3	3.1
Other Noncurrent Assets	0.6	(0.2)
Accounts Payable	5.3	11.1
Income Taxes Payable	(0.1)	1.0
Other Accrued and Long-Term Liabilities	(5.7)	23.6
Net Cash (used in) provided by Operating Activities	(18.5)	87.2
Investing Activities		
Purchase of Property, Plant and Equipment	(15.5)	(7.5)
Termination of Interest Rate Swaps	-	(0.4)
Proceeds from Sale of Property, Plant and Equipment	0.7	-
Cash contribution to Membership Interest	-	(0.8)
Acquisition of Businesses, net of Cash Acquired	(5.1)	(5.6)
Net Cash used in Investing Activities	(19.9)	(14.3)
Financing Activities		
Proceeds from Revolving Credit Facilities	33.1	84.7
Payments on Revolving Credit Facilities	(33.1)	(127.8)
Payments on Capital Leases	(0.5)	-
Principal Borrowings on Long-Term Debt	220.5	195.7
Principal Payments on Long-Term Debt	-	(281.4)
Repurchase of Preferred and Common Stock	(150.7)	(2.0)
Debt Issuance Costs	(12.6)	(18.3)
Distributions to Noncontrolling Interests	(0.1)	-
Change in Book Overdraft	1.5	4.4
Net Cash provided by (used in) Financing Activities	58.1	(144.7)
Change in Cash and Cash Equivalents	19.7	(71.8)
Cash and Cash Equivalents at Beginning of Period	60.2	77.8
Cash and Cash Equivalents at End of Period	$ 79.9	$ 6.0
Supplemental Cash Flow Information:		
Cash Paid During the Year for:		
Interest	$ 34.9	$ 18.7
Income Taxes	6.7	25.6
Previously accrued Capital Expenditures	3.4	1.2
Noncash Financing and Investing Activities:		
Financing of insurance policies	-	3.2
Capital Lease Obligations Incurred	0.5	0.9

Note 1 -- Basis of Presentation

The accompanying unaudited interim consolidated financial statements of Freedom Group, Inc. ("FGI" or the "Company"), which owns 100% of FGI Holding Company, Inc. ("FGI Holding"), which in turn owns 100% of FGI Operating Company, Inc. ("FGI Opco"), and includes the financial results of Remington Arms Company, Inc. ("Remington"), Bushmaster Firearms International, LLC ("BFI" or "Bushmaster"), Barnes Bullets, LLC ("Barnes") and E-RPC, LLC ("E-RPC"). Remington, in turn, owns The Marlin Firearms Company ("Marlin") and its subsidiary, H&R 1871, LLC ("H&R"), Advanced Armament, LLC ("AAC"), and a 75% interest in Mountain Khakis, LLC ("Mountain Khakis"), and BFI owns DPMS Firearms, LLC ("DPMS"). All significant intercompany accounts and transactions have been eliminated.

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of FGI and subsidiaries as of and for the year ended December 31, 2009. These unaudited interim statements include all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the periods presented. The results for the three month period may not be indicative of a full year's result.

Note 2 -- Business Combinations and Formations

As discussed below, the Company made various acquisitions and formed a joint venture during 2009 and the nine months ended September 30, 2010. These acquisitions and the joint venture are being accounted for as business combinations using the purchase method of accounting, in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805 "Business Combinations" whereby the final purchase price (including assumed liabilities) is allocated and pushed down to the assets acquired based on their estimated fair market values at the date of the acquisition.

Mountain Khakis, LLC Joint Venture

On May 28, 2010, the Company, through its Remington subsidiary, formed a new venture with Mountain Khakis. The Company has a 75% ownership interest in Mountain Khakis (the "Mountain Khakis Venture") and Mountain Khakis owns the remaining 25%. Remington's initial investment was $3.3, with an additional $1.8 invested subsequent to the formation date, and expected subsequent cash contributions of $0.9 over the next 9 months. The Mountain Khakis Venture was funded with cash from operating activities and its operations are consolidated with Remington in accordance with FASB ASC 805 "Business Combinations." Mountain Khakis designs and markets specialty outdoor apparel and the new venture is expected to augment existing product lines and enhance availability of durable, comfortable, high-quality apparel to consumers.

Barnes Bullets, Inc.

On December 31, 2009, the Company acquired certain assets and liabilities of Barnes, a supplier of copper bullets, including copper-tin composite core bullets, for approximately $25.6 (the "Barnes Acquisition"). The Barnes Acquisition was funded with operating cash. The Company believes the Barnes Acquisition will demonstrate its commitment to the ammunition business by offering shooters and hunters a premium line of high performance bullets. The preliminary allocation is subject to valuations which are not yet complete and may affect or change the values of some or all acquired assets and liabilities.

Advanced Armament Corp.

On October 2, 2009, the Company, through Remington, completed the acquisition of certain assets and liabilities of AAC for approximately $11.1 and an additional amount of approximately $8.0 due in 2015 upon achievement of certain employment and financial conditions (the "AAC Acquisition"). The AAC Acquisition was funded with cash from operations. AAC manufactures and markets a full line of firearm accessory products used in certain military (including current use by the Department of Defense), law enforcement and commercial markets.

(dollars in millions, except share and per share amounts) – Unaudited

The preliminary allocation is subject to valuations which are not yet complete and may affect or change the values of some or all acquired assets and liabilities.

S&K Industries, Inc.

On September 22, 2009, the Company, through Remington, acquired certain assets and liabilities from S&K Industries, Inc. ("S&K"), a supplier of the Company's wood stocks for certain of its firearms operations, for approximately $3.8 (the "S&K Acquisition") which was funded with operating cash. The fair value of the net assets acquired was approximately $5.8 including $2.0 of non-cash purchase commitments that were eliminated by the Company upon consolidation. The Company believes the S&K Acquisition will improve efficiencies in its firearms manufacturing processes as well as reduce certain costs of acquiring the wood stocks.

Dakota Arms, LLC

On June 5, 2009, the Company, through Remington, completed its acquisition of certain assets and liabilities, primarily consisting of inventory, equipment and brand names of Dakota Arms, LLC (the "Dakota Acquisition"). Dakota Arms, LLC is a producer of high-end rifles, shotguns and ammunition. The total acquisition cost of the Dakota Acquisition was approximately $1.8, and was funded from the operating cash of the Company. The Company completed the Dakota Acquisition in an effort to position the Company in the largely customized, high precision, large caliber and safari segments of the market, with premium aspirational firearm and ammunition brands including *Dakota Arms*, *Miller Arms* and *Nesika*, as well as *Dan Walter* premium gun cases.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in accordance with FASB ASC 805 "Business Combinations":

	Dakota	**S&K**	**AAC**	**Barnes**	**Mountain Khakis**
Accounts Receivable	$—	$—	$0.2	$1.2	$2.6
Inventory	1.4	1.9	1.2	4.8	1.1
Property, Plant and Equipment	0.9	3.2	0.8	0.5	0.3
Other Non-Current Assets	—	—	—	—	0.2
Goodwill	—	0.8	2.1	8.5	5.6
Identifiable Intangible Assets	1.7	—	7.3	10.7	—
Total Assets Acquired	$4.0	$5.9	$11.6	$25.7	$9.8
Current Liabilities	$0.6	$0.1	$0.5	$0.1	$0.3
Other Non-Current Liabilities	0.9	—	—	—	1.5
Total Liabilities Assumed	$1.5	$0.1	$0.5	$0.1	$1.8
Total Assets Acquired Less Liabilities Assumed	$2.5	$5.8	$11.1	$25.6	$8.0
Gain on Bargain Purchase	(0.7)	—	—	—	—
Noncontrolling Interest	—	—	—	—	(2.0)
Estimated Acquisition Cost	$1.8	$5.8	$11.1	$25.6	$6.0

Pro Forma Financial Information

The following unaudited pro forma results of operations assume that the Dakota Acquisition, S&K Acquisition, AAC Acquisition, Barnes Acquisition, and Mountain Khakis Venture occurred on January 1 of each of the respective periods. The results have been adjusted for the impact of certain items related to the Dakota Acquisition, S&K Acquisition, AAC Acquisition, Barnes Acquisition, and Mountain Khakis Venture such as additional amortization expense of identified intangible assets, recognition of write-up in cost of sales as inventory is sold and the related income tax effects. Income taxes are provided at the estimated effective rate of 40%. This unaudited pro forma information should not be relied upon as necessarily being indicative of historical results, nor indicative of the results that may be obtained in the future.

(dollars in millions, except share and per share amounts) – Unaudited

	Three Months Ended September 30, (Pro Forma)		Nine Months Ended September 30, (Pro Forma)	
	2010	**2009**	**2010**	**2009**
Net Sales	$ 207.6	$ 242.6	$ 562.7	$ 683.0
Operating Income	15.0	33.4	45.2	99.4
Net Income (Loss)	(0.3)	16.5	4.1	49.4

Note 3 -- Fair Value Measurements

FASB ASC 820 "Fair Value Measurements and Disclosures" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date (that is, an exit price). The exit price is based on the amount that the holder of the asset or liability would receive or need to pay in an actual transaction (or in a hypothetical transaction if an actual transaction does not exist) at the measurement date. In some circumstances, the entry and exit price may be the same; however, they are conceptually different. The accounting standards also establish a three-level hierarchy that prioritizes the inputs used in fair value measurements. The hierarchy consists of three broad levels as follows:

- Level 1 – Quoted market prices in active markets for identical assets or liabilities;
- Level 2 – Observable inputs other than quoted prices within Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These include certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Recurring Fair Value Measurements

The following table presents assets measured at fair value on a recurring basis as of September 30, 2010, December 31, 2009, and September 30, 2009:

	September 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Commodity Contract Derivatives	N/A	$ 2.2	N/A	$ 2.2
Life Insurance Policies	N/A	$ 0.1	N/A	$ 0.1

	December 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Commodity Contract Derivatives	N/A	$ 11.1	N/A	$ 11.1
Life Insurance Policies	N/A	$ 0.2	N/A	$ 0.2

(dollars in millions, except share and per share amounts) – Unaudited

	September 30, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Commodity Contract Derivatives	N/A	$ 11.1	N/A	$ 11.1
Life Insurance Policies	N/A	0.2	N/A	0.2

The fair value of commodity contract derivatives is provided by the Company's commodity brokers whose inputs are classified within Level 2 of the fair value hierarchy. Most derivative contracts are not listed on an exchange and are measured based on observable inputs such as spot and future commodity prices. Life insurance policies are valued by using cash surrender values, net of related policy loans, and are classified within Level 2 of the fair value hierarchy.

Nonrecurring Fair Value Measurements

The following table presents assets measured at fair value on a nonrecurring basis for the three and nine months ended September 30, 2010:

	Three Months Ended September 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Impairment Charge**
Property, Plant, and Equipment	$ -	$ -	$ 1.3	$ 0.6
Goodwill	-	-	-	0.1

	Nine Months Ended September 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Impairment Charge**
Property, Plant, and Equipment	$ -	$ -	$ 2.2	$ 1.4
Goodwill	-	-	-	0.1
Trademarks	-	-	-	0.2

In the three months ended September 30, 2010, the Company recognized an impairment charge of $0.6 to reduce the carrying value of its inoperative building and equipment located in Gardner, Massachusetts. The carrying value of the building and equipment prior to the impairment was $1.9. Refer to Note 17.

In the nine months ended September 30, 2010, the Company recognized $1.4 of impairment charges on building and equipment that reduced its original carrying value from $3.6 to $2.2. The impairment charges consisted of a $0.4 impairment charge related to assets at its idle target manufacturing facility at Findlay, Ohio of which the original carrying value of the assets was approximately $1.0; a $0.4 impairment charge related to equipment at its ammunition manufacturing facility in Lonoke, Arkansas, of which the original carrying value of the assets was approximately $0.7; and a $0.6 impairment charge to reduce the carrying value of its inoperative building and equipment located at its idle firearms manufacturing facility in Gardner, Massachusetts, of which the carrying value had been $1.9. The fair values of these assets were based on negotiations with independent third parties, which are classified as Level 3 inputs. Refer to Note 17 for supplemental information regarding impairments of property, plant, and equipment.

In the three months ended September 30, 2010, the Company recognized an impairment charge of $0.1 to reduce the carrying value of goodwill associated with a facility closure. The carrying value of the goodwill was $0.1 prior to the impairment. Refer to Note 5.

(dollars in millions, except share and per share amounts) – Unaudited

In the nine months ended September 30, 2010, the Company recognized an impairment charge of $0.2 to reduce the carrying value of its discontinued tradenames. The carrying value of the L.C. Smith and New England Firearms brand names prior to the impairment was $0.2. Refer to Note 5.

Other Fair Value Measurements and Concentrations of Credit Risk

Due to their liquid nature, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, income taxes payable, and other noncurrent accrued liabilities are considered representative of their fair values. The Company's debt had an estimated fair value of $506.2 and $292.9, as of September 30, 2010 and December 31, 2009, respectively, and a carrying value of $499.0 and $276.7 as of September 30, 2010 and December 31, 2009, respectively. The fair value of the Company's fixed rate notes was measured using the active quoted trading price of its notes at September 30, 2010 and December 31, 2009, which is considered a Level 2 input.

The Company also has concentrations of credit risk with certain customers. Approximately 12.9% and 11.9% of total net sales for the three months ended September 30, 2010 and 2009, respectively, and 10.5% and 10.0% of total net sales for the nine months ended September 30, 2010 and 2009, respectively, consisted of sales made to one customer from all reportable business segments.

Note 4 -- Inventories

Inventories consist of the following at:

	September 30, 2010	December 31, 2009	September 30, 2009
Raw Materials	$ 37.3	$ 26.5	$ 31.4
Semi-Finished Products	32.5	24.6	33.7
Finished Products	72.5	56.4	59.0
Subtotal	142.3	107.5	124.1
LIFO Adjustment	1.0	1.3	1.3
Total	$ 143.3	$ 108.8	$ 125.4

The Company's inventories are stated at the lower of cost or market. The majority of the Company's inventories are determined by the First-In, First-Out ("FIFO") method. Inventory costs associated with Semi-Finished Products and Finished Products include material, labor, and overhead while costs associated with Raw Materials include primarily material. The Company provides inventory allowances based on excess and obsolete inventories.

The Company accounts for a portion of its inventory using the Last-In First-Out ("LIFO") method. As of September 30, 2010, December 31, 2009, and September 30, 2009, approximately 9.2%, 6.9% and 8.2%, respectively, of the Company's total inventory excluding the LIFO adjustment was accounted for under the LIFO method. Under a FIFO assumption, inventories would have been lower by $1.0, $1.3, and $1.3 at September 30, 2010, December 31, 2009, and September 30, 2009, respectively.

Note 5 -- Goodwill and Other Intangible Assets

The change in the carrying amount of goodwill for the nine months ended September 30, 2010 and 2009, and the twelve months ended December 31, 2009 by segment is as follows:

(dollars in millions, except share and per share amounts) – Unaudited

	September 30, 2010	Net Adjustments	December 31, 2009	Net Adjustments	September 30, 2009
Goodwill					
Firearms:					
gross carrying value	$ 79.5	$ (0.4)	$ 79.9	$ 0.1	$ 79.8
aggregate impairment	(36.8)	(0.1)	(36.7)	-	(36.7)
net	42.7	(0.5)	43.2	0.1	43.1
Ammunition:					
gross carrying value	32.6	(11.9)	44.5	20.5	24.0
aggregate impairment	-	-	-	-	-
net	32.6	(11.9)	44.5	20.5	24.0
All Other and Reconciling Items:					
gross carrying value	15.6	(1.5)	17.1	9.2	7.9
aggregate impairment	(7.6)	-	(7.6)	-	(7.6)
net	8.0	(1.5)	9.5	9.2	0.3
Total	$ 83.3	$ (13.9)	$ 97.2	$ 29.8	$ 67.4

On May 28, 2010, the Company acquired Mountain Khakis, resulting in $5.6 of capitalized goodwill within the All Other reporting segment. As part of the application of purchase accounting related to the S&K Acquisition, AAC Acquisition, and Barnes Acquisition, the Company recorded initial estimates associated with goodwill of $30.9. Subsequent to December 31, 2009, net adjustments of $19.5 were made to the initial estimates of goodwill to decrease the adjusted opening balance to $11.4. The adjustments resulted in $1.6 being allocated to beginning inventory balances, which has been fully recognized in Cost of Goods Sold as of September 30, 2010, and $18.1 being allocated to identifiable intangible assets, resulting in the recognition of $2.3 of amortization expense for the nine months ended September 30, 2010. The remaining ($0.2) related to adjustments to other working capital accounts.

In August 2010, the Company consolidated the manufacture of certain of its firearms by closing one of its smaller assembly facilities. The site was closed and the related goodwill associated with the facility was written down to zero, resulting in a non-cash charge to earnings of $0.1. There were no other materially significant charges related to the closure.

The following tables summarize the amounts of goodwill and identifiable intangible assets, along with the accumulated amortization and amortization period:

	September 30, 2010 Gross Balance	Accumulated Amortization	September 30, 2010 Net Balance	Amortization Period
Goodwill	$ 83.3	N/A	$ 83.3	Indefinite
Identifiable Intangible Assets				
Tradenames/Trademarks	$ 68.6	N/A	$ 68.6	Indefinite
Customer Relationships/Lists	38.9	$ (9.8)	29.1	16.6 Years*
License Agreements	8.4	(4.0)	4.4	7.0 Years*
Unpatented Technology	12.0	(5.3)	6.7	7.0 Years
Other	21.2	(4.5)	16.7	5.1 Years*
Total Intangible Assets	149.1	(23.6)	125.5	11.6 Years*
Total Goodwill and Intangibles	$ 232.4	$ (23.6)	$ 208.8	

* Represents weighted average amortization period for the capitalized balance of the intangible asset.

(dollars in millions, except share and per share amounts) – Unaudited

During the nine months ended September 30, 2010, the Company recorded tradename impairment charges of $0.2 related to the discontinued use of the L.C. Smith and New England Firearms brand names on its firearms. Pardner Pump and Excell Auto Shotguns are the only firearms sold which had the New England Firearms and H&R brand names on the shotguns. Beginning in June 2010, these shotguns will only carry the H&R brand. Parts for L.C. Smith and New England Firearms products will continue to use the brand names. The impairment testing was conducted internally based on external market participants' judgment of the tradename's fair value resulting in a $0.2 reduction in its carrying value. The impaired tradename asset is classified under the Firearms reporting segment and the related charge is aggregated with charges in the Impairment Charges caption of the Statement of Operations.

	December 31, 2009 Gross Balance	**Accumulated Amortization**	**December 31, 2009 Net Balance**	**Amortization Period**
Goodwill	$ 97.2	N/A	$ 97.2	Indefinite
Identifiable Intangible Assets				
Tradenames/Trademarks	$ 68.8	N/A	$ 68.8	Indefinite
Customer Relationships/Lists	38.9	$ (7.9)	31.0	16.6 Years*
License Agreements	8.4	(3.1)	5.3	7.0 Years*
Unpatented Technology	12.0	(4.0)	8.0	7.0 Years
Other	3.1	(2.0)	1.1	4.7 Years*
Total Intangible Assets	131.2	(17.0)	114.2	12.9 Years*
Total Goodwill and Intangibles	$ 228.4	$ (17.0)	$ 211.4	

	September 30, 2009 Gross Balance	**Accumulated Amortization**	**September 30, 2009 Net Balance**	**Amortization Period**
Goodwill	$ 67.4	N/A	$ 67.4	Indefinite
Identifiable Intangible Assets				
Tradenames/Trademarks	$ 67.7	N/A	$ 67.7	Indefinite
Customer Relationships/Lists	38.2	$ (7.2)	31.0	17.1 Years*
License Agreements	8.5	(2.9)	5.6	7.0 Years*
Unpatented Technology	11.9	(3.5)	8.4	6.0 Years
Other	3.1	(1.9)	1.2	4.7 Years*
Total Intangible Assets	129.4	(15.5)	113.9	11.7 Years*
Total Goodwill and Intangibles	$ 196.8	$ (15.5)	$ 181.3	

Amortization expense related to identifiable intangible assets for the nine and three months ended September 30, 2010 was $6.6 and $2.1, respectively, and $4.7 and $1.6 for the nine and three months ended September 30, 2009, respectively.

Estimated annual amortization for identifiable intangible assets over the next five calendar years is as follows:

Year	Amount
2010 (remainder of fiscal year)	$2.2
2011	8.7
2012	8.6
2013	8.3
2014	6.3
Thereafter	22.8

(dollars in millions, except share and per share amounts) – Unaudited

Note 6 -- Other Accrued Liabilities

Other Accrued Liabilities consisted of the following at:

	September 30, 2010	December 31, 2009	September 30, 2009
Marketing	$ 13.0	$ 15.1	$ 12.8
Incentive Compensation	4.7	15.8	12.6
Excise Tax	11.4	3.3	2.4
Payroll & Related Payroll Taxes	6.9	9.0	10.7
Interest	4.7	12.0	3.6
Escrow	3.0	2.2	2.5
Other	25.4	30.1	28.4
Total	$ 69.1	$ 87.5	$ 73.0

Note 7 -- Debt

Long-term debt consisted of the following at:

	September 30, 2010	December 31, 2009	September 30, 2009
FGI 10.25% Senior Secured Notes due 2015	$ 275.3	$ 275.3	$ 195.8
FGI Credit Facility (ABL Revolver)	-	-	8.7
FGI 11.25%/11.75% Pay-In-Kind Notes due 2015	220.8	-	-
Mountain Khakis Notes	1.6	-	-
Capital Lease Obligations	1.3	1.4	1.4
Total Debt	499.0	276.7	205.9
Less: Current Portion	(0.7)	(0.7)	(0.7)
Noncurrent Portion	$ 498.3	$ 276.0	$ 205.2

New Debt Agreements

11.25%/11.75% Senior Pay-In-Kind Notes due 2015

On April 7, 2010, the Company's direct subsidiary, FGI Holding, issued $225.0 aggregate principal amount of 11.25%/11.75% Senior Pay-in-Kind Notes (the "PIK Notes") due 2015. FGI Holding used the net proceeds of the PIK Notes issuance to pay a dividend in the amount of the $220.5 million net proceeds of the PIK Notes issuance to FGI, which FGI used to repurchase $150.5 million of its preferred stock on April 16, 2010.

Prior to the issuance of the PIK Notes, FGI formed FGI Holding as a new wholly-owned subsidiary, which in turn formed a new wholly-owned subsidiary, FGI Opco. In connection with the issuance of the PIK Notes, FGI transferred substantially all of its assets (principally equity interests in its subsidiaries, other than the stock of FGI Holding) to FGI Opco and FGI Opco assumed all of the liabilities of FGI (other than those that relate to retained assets), including the obligations under the 10.25% Senior Secured Notes due 2015 (the "Opco Notes") and the ABL Revolver (collectively, the "Transfer Transactions").

As a part of Transfer Transactions, (i) FGI Opco became a borrower under the ABL Revolver and the related financing documents with the same force and effect as if originally named as a borrower, (ii) FGI Opco was substituted as issuer of the Opco Notes with the same force and effect as if it were the original issuer, (iii) FGI Opco granted a security interest in all its personal property for the benefit of the secured parties under the ABL Revolver and the Opco Notes, (iv) FGI was released from all liability and obligations under the ABL Revolver and the Opco Notes, and the related lien on all the collateral granted by FGI was released, and (v) each of FGI and FGI Holding unconditionally guaranteed the obligations of FGI Opco under the Opco Notes.

The PIK Notes are not guaranteed by FGI Holding’s subsidiaries. The Company guaranteed the PIK Notes on the issue date, but is not obligated to continue such guarantee. Interest is payable on the PIK Notes semi-annually in arrears on April 1 and October 1, commencing on October 1, 2010. On or prior to April 1, 2015, interest will be payable, at the election of FGI Holding (1) entirely in cash or (2) 50% in cash and 50% by increasing the principal amount of the outstanding notes or by issuing additional PIK notes. For interest payments on the PIK Notes that FGI Holding elects to pay entirely as cash interest, the cash interest will accrue at a rate equal to 11.25% per annum. For interest payments on the PIK Notes that FGI Holding elects to pay 50% as cash interest and 50% as PIK interest, cash interest on the notes will accrue at a rate equal to 5.875% per annum and PIK interest on the PIK Notes will accrue at a rate equal to 5.875% per annum. If FGI Holding elects to pay any PIK interest, FGI Holding will increase the principal amount of the PIK Notes or issue new PIK Notes in an amount equal to the amount of PIK interest for the applicable interest payment period (rounded down to the nearest whole dollar) to holders of the PIK Notes on the relevant record date.

FGI Holding will be required to redeem the PIK Notes at 106% plus accrued interest of the principal amount of the PIK Notes with the proceeds of certain qualified equity issuances if a qualified equity issuance occurs prior to October 1, 2011. If a qualified equity issuance occurs on or subsequent to October 1, 2011, April 1, 2013, or October 1, 2014, the PIK Notes are mandatorily redeemable at 105%, 102.5%, and 100%, respectively, of the principal amount of the PIK Notes including accrued interest. FGI Holding may also redeem the PIK Notes at its option, in whole or in part. If voluntary redemption occurs prior to October 1, 2011, the PIK Notes are redeemable at 100% of the principal amount of the PIK Notes plus the applicable premium and accrued interest. If a voluntary redemption occurs on or subsequent to October 1, 2011, April 1, 2013, or October 1, 2014, the PIK Notes are redeemable at 105%, 102.5%, and 100%, respectively, of the principal amount of the PIK Notes including accrued interest. In the event of a change in control, the PIK Notes are redeemable in whole or in part at FGI Holding’s option at 106% of the principal amount of the PIK Notes plus accrued interest.

The PIK Notes rank equally in right of payment with all of FGI Holding’s senior debt and senior in right of payment to all of FGI Holding’s subordinated debt. The PIK Notes will be effectively junior to any secured debt of FGI Holding to the extent of the collateral securing such debt. Since the PIK Notes are not guaranteed by any of FGI Holding’s subsidiaries, the PIK Notes will be structurally subordinated to all indebtedness and other liabilities for FGI Holding’s subsidiaries, including FGI Opco.

The indenture governing the PIK Notes contains covenants which include, among others, limitations on the ability of FGI Holding and its restricted subsidiaries: to incur additional debt or issue disqualified stock; to permit its restricted subsidiaries to issue preferred stock; make certain investments; enter into transactions with affiliates; merge, consolidate or sell all or substantially all assets; allow certain restrictions on the ability of the restricted subsidiaries to pay dividends or make other payments to the Company; and incur liens on assets. The indenture also requires FGI Holding to own 100% of FGI Opco’s capital stock at all times.

In April 2010, the Company elected to pay half of its October 1, 2010 interest payable in cash and increase the PIK Notes principal by approximately $6.4. The Company paid cash of approximately $6.4 on September 30, 2010. The remaining interest of $6.4 is included in Other Long-Term Liabilities and will be added to the PIK Note principal on October 1, 2010.

Mountain Khakis Notes

In conjunction with the Mountain Khakis Venture, the Company assumed $1.6 of Mountain Khakis debt (the “Mountain Khakis Notes”). The Mountain Khakis Notes represent nine individual notes to unrelated parties with maturities ranging from March 2012 through May 2013. Interest rates for the Mountain Khakis Notes range between 10% and 12%.

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Amendment of Opco Notes

FGI entered into the Joinder Agreement and Second Amendment to Loan and Security Agreement and Amendment to Other Financing Agreements (the "Joinder Agreement") on March 30, 2010, by and among FGI, Remington, Marlin, H&R, Bushmaster, DPMS, E-RPC, RA BRANDS, L.L.C., ("RA Brands"), and FGI Opco, Wells Fargo Bank, National Association, a national banking association and successor by merger to Wachovia Bank, National Association, in its capacity as agent (in such capacity, "Agent") for various financial institutions (the "Lenders"), and such Lenders, which became effective as of April 7, 2010. Pursuant to the Joinder Agreement, FGI Opco became a borrower under the Opco Notes with the same force and effect as if originally named as a borrower and assumed, and agreed to perform and observe, each of the terms and provisions of the Opco Notes. FGI Opco became directly and primarily liable as a borrower for all of the Opco Notes obligations and granted the Agent a security interest in all its personal property. The parties to the Joinder Agreement also agreed that after giving effect to the formation of FGI Holding and FGI Opco, FGI would be released and discharged from all liability under the Opco Notes. In addition, certain provisions of the Loan Agreement were amended to reflect the corporate structure after completion of the formation of FGI Opco.

As of September 30, 2010, approximately $124.4 in additional borrowings, including the minimum availability requirement of $30.0, was available under the ABL Revolver. Standby letters of credit outstanding as of September 30, 2010 were $6.8. At September 30, 2010, December 31, 2009 and September 30, 2009, the Company was in compliance with all financial covenants.

Note 8 -- Stock Compensation

Restricted Stock/Restricted Shares

The following table summarizes restricted common share activity for the nine months ended September 30, 2010:

	Restricted Common Shares Outstanding	Weighted Average Grant Date Fair Value	Shares Vested
Balance January 1, 2010	314,840	$1.61	219,674
Granted	104,861	11.64	
Forfeited	(5,622)	3.18	
Repurchased	(14,426)	3.18	
Balance September 30, 2010	399,653	$4.17	282,416

The vesting of the restricted stock occurs at various times through 2014. Compensation expense was less than $0.1 for the three and nine months ended September 30, 2010. The remaining compensation cost of approximately $1.2 will be recognized through 2014.

Stock Options

On May 14, 2008, the board of directors of FGI (the "FGI Board") adopted the American Heritage Arms, Inc. 2008 Stock Incentive Plan (the "Plan"). The Plan is designed to provide a means by which certain current employees, officers, non-employee directors and other individual service providers may be given an opportunity to benefit from increases in the value of FGI common stock ("Common Stock"), through the grant of awards. FGI, by means of the Plan, seeks to retain the services of such eligible persons and to provide incentives for such persons to exert maximum effort for the success of FGI and its subsidiaries.

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The awards under the Plan may be in the form of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards and stock unit awards. The maximum aggregate number of shares of Common Stock that may be issued under all awards granted to participants under the Plan is 2,424,703 shares, including approximately 123,416 shares which are restricted shares and not stock options, subject to certain adjustments as set forth in the Plan.

On May 14, 2008, the FGI Board adopted the form of Nonqualified Stock Option Award Agreement (the "Form Award Agreement"). The Form Award Agreement outlines terms relating to stock option awards, including (i) the exercise price per share of each option granted, which shall be the fair market value of a share of the Common Stock on the date of grant (as defined in the Plan), (ii) the vesting schedule of the options granted, and (iii) acceleration provisions upon the occurrence of a change in control, termination of employment without cause or termination of employment for good reason.

For the three and nine months ended September 30, 2010, the Company recognized approximately $0.1 and $0.4, respectively, in expense related to the options outstanding under the Plan. In addition, the Company expects to recognize approximately $1.9 in total remaining stock compensation expense in relation to these options through 2014.

A summary of the stock option activity for the Plan for the nine months ended September 30, 2010 follows:

	Number of Awards	**Weighted Average Exercise Price**
Awards outstanding, January 1, 2010	1,292,613	$ 2.65
Granted	222,507	11.64
Forfeited	(48,572)	2.84
Exercised (1)	(9,985)	3.32
Awards outstanding, September 30, 2010	1,456,563	$ 4.01
Awards vested, September 30, 2010	592,044	$ 2.58
Shares available for grant, September 30, 2010	834,739	

(1) In August 2010, one of the Company's former employees exercised all of their vested options. The cash received by the Company from exercised options and the related, realized tax benefits were both less than $0.1.

The fair value of granted options for the Plan was estimated at the grant date using the Black-Scholes pricing model with the following assumptions and results:

Expected dividend yield	-
Expected volatility	59%
Weighted average risk-free interest rate	2.12%
Expected holding period (in years)	5.53
Weighted average fair value of awards	$2.04

Note 9 -- Mezzanine and Stockholders' Equity

The Company is authorized to issue 20,000,000 shares of $0.01 par value preferred stock as approved by the FGI Board. As of September 30, 2010, there were 19,000,000 shares of preferred stock approved for issuance as

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Series A with no other approved classes of preferred stock issued or outstanding. The Company is also authorized to issue 20,000,000 shares of $0.01 par value common stock. The Company's treasury shares are recorded at cost.

The changes in the number of shares of preferred and common stock issued, held in treasury, and outstanding are summarized below:

	Issued	**Held in Treasury**	**Outstanding**
Shares of Preferred Stock at December 31, 2009......	18,697,464	(70,000)	18,627,464
Purchases (1)...	-	(11,456,324)	(11,456,324)
Shares of Preferred Stock at September 30, 2010.....	18,697,464	(11,526,324)	7,171,140
Shares of Common Stock at December 31, 2009......	16,673,920	(234,734)	16,439,186
Purchases (2)...	-	(20,048)	(20,048)
Issuance of new shares and exercised options (3)....	-	104,861	104,861
Shares of Common Stock at September 30, 2010.....	16,673,920	(149,921)	16,523,999

(1) On April 16, 2010, the Company used $150.5 million of the proceeds received from the PIK Notes to acquire 11,456,324 shares of its outstanding Series A Preferred Stock.
(2) In September 2010, the Company purchased 14,426 of restricted common stock from one of its employees at the estimated fair value of approximately $0.2. The employee's remaining 5,622 shares were unvested and forfeited upon his departure from the Company.
(3) In August 2010, the Company granted 94,876 shares of restricted common stock to its new Chairman of the FGI Board, John Blystone. In the same period, one of the Company's employees exercised their vested options and received 9,985 shares of common stock. See Note 8.

Forfeitures of common stock represent unvested shares issued to participants covered by the Plan who failed to meet the Plan's vesting requirements. Under the Plan, unvested shares of common stock are remitted back to the Company and may be included in future awards.

Note 10 – Net Income (Loss) Per Share

Net income (loss) per share is computed under the provisions of FASB ASC 260 "Earnings Per Share". Basic income (loss) per share is computed using net income (loss) and the weighted average number of shares of common stock outstanding. Diluted earnings per share reflect the weighted average number of shares of common stock outstanding plus any potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of shares issuable upon the exercise of vested and nonvested stock options (using the treasury stock method) and restricted shares that are nonvested.

The following table sets forth the computation of basic and diluted net income/loss per share for the periods indicated:

(dollars in millions, except share and per share amounts) – Unaudited

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(unaudited)		(unaudited)	
Numerator:				
Net income (loss) attributable to controllable interest	$ (0.3)	$ 15.1	$ 4.5	$ 48.1
Accretion of Preferred Stock	0.9	5.4	7.9	15.3
Net Income (Loss) Applicable to Common Stock	$ 0.6	$ 9.7	$ (3.4)	$ 32.8
Denominator:				
Weighted average common shares outstanding (basic)	16,408,114	16,324,113	16,386,657	16,329,658
Weighted average common shares outstanding (diluted)	17,192,898	16,811,035	17,098,752	16,662,623
Income (loss) per common share:				
Basic	$ 0.03	$ 0.60	$ (0.21)	$ 2.01
Diluted	$ 0.03	$ 0.58	$ (0.21)	$ 1.97

The Company’s issued and outstanding Series A preferred stock has a redemption feature that is considered outside the control of the Company. Upon liquidation of the Company, the holders of the preferred stock are entitled to receive an amount equal to the sum of $10.53 per outstanding share plus 10% of the liquidation value, compounded annually, pro-rated from the later of the original issue date of the Series A preferred stock or the most recent anniversary of the issue date. The difference between the redemption and recorded value of the Series A preferred stock is accreted periodically to the earliest possible redemption date and excluded in arriving at net income applicable to common stock.

The following table shows the common equivalent shares related to nonvested restricted stock and stock options that were not included in the computation of diluted earnings per share as their effect would have been antidilutive:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(unaudited)		(unaudited)	
Common Share Equivalents of Potentially Dilutive Securities:				
Restricted stock	-	-	207,143	-
Stock options	222,507	170,777	1,485,842	170,777
Total	222,507	170,777	1,692,985	170,777

Note 11 -- Income Taxes

The effective tax rate on continuing operations for the nine months ended September 30, 2010 and 2009 was 36.6% and 35.8%, respectively. The difference between the actual effective tax rate and the federal statutory rate of 35% is principally due to state income taxes, permanent differences, and utilization of available tax credits as of September 30, 2010 and 2009. The increase in the effective tax rate for the nine months ended September 30, 2010 over the effective tax rate for the nine months ended September 30, 2009 includes the impact of the expiration of the federal income tax research and development credit as of December 31, 2009.

(dollars in millions, except share and per share amounts) – Unaudited

Note 12 -- Retiree Benefits

Defined Benefit Pension Plans:

The Company, through Remington, sponsors two defined benefit pension plans (the "DB Plans") and a supplemental defined benefit pension plan (the "SERP") for certain of its employees. For disclosure purposes, the DB Plans and the SERP have been combined and are collectively referred to as the "Plans". Vested employees who retire will receive an annual benefit equal to a specified amount, as defined by the Plans.

The following tables summarize the components of net periodic pension cost for the Plans for the periods indicated:

	Three Months Ended September 30,	
	2010	**2009**
Service Cost	$ -	$ -
Interest Cost	3.1	3.2
Expected Return on Assets	(4.2)	(3.4)
Amortization of Prior Service Cost	-	-
Recognized Net Actuarial Loss	2.2	1.5
Net Periodic Pension Cost	$ 1.1	$ 1.3

	Nine Months Ended September 30,	
	2010	**2009**
Service Cost	$ -	$ -
Interest Cost	9.2	9.6
Expected Return on Assets	(12.5)	(10.3)
Amortization of Prior Service Cost	-	-
Recognized Net Actuarial Loss	6.5	4.4
Net Periodic Pension Cost	$ 3.2	$ 3.7

Anticipated Contributions

The Company expects to make aggregate cash contributions of approximately $0.9 to the Plans during the year ending December 31, 2010 and has contributed $0.7 to the Plans as of September 30, 2010.

The following tables summarize the components of net periodic postretirement cost for the Company's postretirement plans for the periods indicated:

	Three Months Ended September 30,	
	2010	**2009**
Service Cost	$ 0.2	$ 0.1
Interest Cost	0.3	0.3
Net Amortization and Deferral	(0.1)	(0.1)
Net Periodic Postretirement Cost	$ 0.4	$ 0.3

(dollars in millions, except share and per share amounts) – Unaudited

	Nine Months Ended September 30,	
	2010	2009
Service Cost	$ 0.4	$ 0.4
Interest Cost	0.9	0.9
Net Amortization and Deferral	(0.2)	(0.2)
Net Periodic Postretirement Cost	$ 1.1	$ 1.1

Note 13 -- Commitments and Contingencies

Purchase Commitments

The Company has various purchase commitments for services incidental to the ordinary conduct of business, including, among other things, a services contract with its third party warehouse provider. Such commitments are not at prices in excess of current market prices. Included in the purchase commitment amounts are the Company's purchase contracts with certain raw material suppliers, for periods ranging from one to seven years, some of which contain firm commitments to purchase specified minimum quantities. Otherwise, such contracts had no significant impact on the Company's financial condition, results of operations, or cash flows during the reporting periods presented herein.

Contingencies

The Company is subject to various lawsuits and claims with respect to product liabilities, governmental regulations and other matters arising in the normal course of business. Pursuant to an asset purchase agreement (the "Purchase Agreement"), on December 1, 1993, Remington acquired certain assets and assumed certain liabilities (the "Asset Purchase") of the sporting goods business formerly operated by E. I. du Pont de Nemours and Company ("DuPont") and one of DuPont's subsidiaries (together with DuPont, the "1993 Sellers"). Under the Purchase Agreement, the Company generally bears financial responsibility for all product liability cases and claims relating to occurrences after the closing of the Asset Purchase, except for certain costs relating to certain shotguns, for all cases and claims relating to discontinued products and for limited other costs. Because the Company's assumption of financial responsibility for certain product liability cases and claims involving pre-Asset Purchase occurrences was limited to a fixed amount that has now been fully paid, and with the 1993 Sellers retaining liability in excess of that amount and indemnifying the Company in respect of such liabilities, the Company believes that product liability cases and claims involving occurrences arising prior to the Asset Purchase are not likely to have a material adverse effect upon the financial condition, results of operations or cash flows of the Company. Moreover, although it is difficult to forecast the outcome of litigation, the Company does not believe, in light of relevant circumstances (including the current availability of insurance for personal injury and property damage with respect to cases and claims involving occurrences arising after the Asset Purchase, the Company's accruals for the uninsured costs of such cases and claims and the 1993 Sellers' agreement to be responsible for a portion of certain post-Asset Purchase shotgun-related product liability costs, as well as the type of firearms products made by the Company), as well as the passage of time, that the outcome of all pending post-Asset Purchase product liability cases and claims will be likely to have a material adverse effect upon the financial condition, results of operations, or cash flows of the Company. Nonetheless, in part because the nature and extent of manufacturer liability based on the manufacture and/or sale of allegedly defective products (particularly as to firearms and ammunition) is uncertain, there can be no assurance that the Company's resources will be adequate to cover pending and future product liability and other product related occurrences, cases or claims, in the aggregate, or that such a material adverse effect upon the Company's financial condition, results of operations or cash flows will not result therefrom. Because of the nature of its products, the Company anticipates that it will continue to be involved in product liability and product related litigation in the future. As of September 30, 2010, the Company had two class action cases pending relating to breach of warranty claims concerning certain of its firearms products where economic damages were being claimed.

(dollars in millions, except share and per share amounts) – Unaudited

The Company's accruals for losses relating to product liability cases and claims include accruals for all probable losses for which the amount can be reasonably estimated. Based on the relevant circumstances (including the current availability of insurance for personal injury and property damage with respect to cases and claims involving occurrences arising after the Asset Purchase, the Company's accruals for the uninsured costs of such cases and claims and the 1993 Sellers' agreement to be responsible for a portion of certain post-Asset Purchase shotgun-related product liability costs, as well as the type of firearms products made by the Company), the Company does not believe with respect to product liability and product related cases and claims that any reasonably possible loss exceeding amounts already recognized through the Company's accruals has been incurred.

The Marlin Acquisition triggered the Connecticut Transfer Act (the "Act") with respect to the facility located in North Haven, Connecticut. The Act is designed to identify properties contaminated with hazardous wastes and to ensure that such properties are cleaned up to the satisfaction of the Connecticut Department of Environmental Protection ("DEP"). Under the Act, Marlin is required to investigate areas of environmental concern at the North Haven facility and to clean up contamination exceeding state standards to the satisfaction of DEP. The investigation of the North Haven facility is ongoing. Remediation costs may be incurred, but such costs at this time are not expected to be material to operations or cash flows.

Marlin is also conducting remediation of oil-related contamination at a former Marlin facility in New Haven, Connecticut. Costs for the New Haven remediation are not expected to be material.

Note 14 -- Derivatives

The Company purchases copper and lead options contracts to hedge against price fluctuations of anticipated commodity purchases. The options contracts are intended to limit the unfavorable effect that cost increases will have on these metal purchases. In accordance with the provisions of FASB ASC 815 "Derivatives", commodity contracts are designated as cash flow hedges, with the fair value of these financial instruments recorded in prepaid expenses and other current assets and in other noncurrent assets, changes in fair value recorded in accumulated other comprehensive income, and net gains/losses reclassified to cost of sales based upon inventory turnover, indicating consumption and sale of the underlying commodity in the Company's products. Fair values of the Company's outstanding derivative contracts are determined with the assistance of the Company's commodity counterparty.

At September 30, 2010, the fair value of the Company's outstanding derivative contracts (aggregate notional amount of 16.0 million pounds of copper and lead) up to eight months from such date was \$2.2. At December 31, 2009, the fair value of the Company's outstanding derivative contracts (aggregate notional amount of 25.6 million pounds of copper and lead) up to twelve months from such date was \$11.1. At September 30, 2009, the fair value of the Company's outstanding derivative contracts (aggregate notional amount of 28.4 million pounds of copper and lead) up to fifteen months from such date was \$11.1 as determined with the assistance of the Company's commodity counterparties.

	Fair Values of Derivatives Instruments as of					
	September 30, 2010		December 31, 2009		September 30, 2009	
Derivatives designated as hedging instruments under FASB ASC 815	**Balance Sheet**	**Fair Value**	**Balance Sheet**	**Fair Value**	**Balance Sheet**	**Fair Value**
Commodity Contracts	Prepaid and Other Current Assets	$ 2.2	Prepaid and Other Current Assets	$ 11.1	Prepaid and Other Current Assets	$ 10.7
	Other Noncurrent Assets	-	Other Noncurrent Assets	-	Other Noncurrent Assets	$ 0.4

(dollars in millions, except share and per share amounts) – Unaudited

	Amt of Gain (Loss) (net of tax) Recognized in OCI on Derivative (Effective Portion) and recorded in Prepaid Expenses and Other Current Assets at Fair Value for the three months ended		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) for the three months ended		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (net of tax) or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) for the three months ended	
	September 30, 2010	September 30, 2009		September 30, 2010	September 30, 2009		September 30, 2010	September 30, 2009
Commodity Contracts	$0.6	$ 3.2	Cost of Sales	$0.1	($1.4)	N/A	N/A	N/A

Derivatives in FASB ASC 815 Net Investment Hedging Relationships	Amt of Gain (Loss) (net of tax) Recognized in OCI on Derivative (Effective Portion) and recorded in Prepaid Expenses and Other Current Assets at Fair Value for the nine months ended		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) for the nine months ended		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (net of tax) or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) for the nine months ended	
	September 30, 2010	September 30, 2009		September 30, 2010	September 30, 2009		September 30, 2010	September 30, 2009
Commodity Contracts	($2.8)	$ 5.5	Cost of Sales	$4.1	($3.7)	N/A	N/A	N/A

Based on current market prices, approximately $0.8 (net of income taxes) of the loss included in the balance of accumulated other comprehensive income is expected to transfer into earnings within the next twelve months. Hedging contracts are expected to mature by May 2011.

Note 15 -- Segment Information

The Company identifies its reportable segments in accordance with FASB ASC 280 “Segment Reporting”. Based upon FASB ASC 280 “Criteria and Thresholds for Disclosures of Segment Reporting”, the Company’s business is classified into two reportable segments: Firearms, which designs, manufactures, imports and markets primarily sporting shotguns, rifles and modular firearms; and Ammunition, which designs, manufactures and markets sporting ammunition and ammunition reloading components. The remaining operating segments, which include accessories and other gun-related products, the manufacture and marketing of clay targets and powder metal products, licensed products, technology products and apparel are combined into our All Other reporting segment. Other reconciling items include corporate, other assets not allocated to the individual segments and discontinued operations. The chief operating decision makers are a group of executive officers.

Although the Company reports its financial results in accordance with U.S. GAAP, the Company primarily evaluates the performance of its segments and allocates resources to them based on the non-GAAP financial measure "Adjusted EBITDA," which is unaudited. Adjusted EBITDA differs from the term "EBITDA" as it is commonly used, and is based on the definition in the indenture governing the Opco Notes. In addition to adjusting net income (loss) to exclude income taxes, interest expense, and depreciation and amortization, Adjusted EBITDA also adjusts net income (loss) by excluding items or expenses not typically excluded in the calculation of "EBITDA", such as noncash items, gain or loss on asset sales or write-offs, extraordinary, unusual or nonrecurring items.

(dollars in millions, except share and per share amounts) – Unaudited

In managing the Company's business, the Company utilizes Adjusted EBITDA to evaluate performance of the Company's business segments and allocate resources to those business segments. The Company believes that Adjusted EBITDA provides useful supplemental information to investors and enables investors to analyze the results of operations in a similar way as management.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Net Sales:				
Firearms	$ 104.6	$ 133.2	$ 292.6	$ 403.5
Ammunition	95.3	97.7	250.2	245.5
All Other	7.7	4.8	18.2	14.0
Consolidated Net Sales	$ 207.6	$ 235.7	$ 561.0	$ 663.0

	September 30, 2010	**December 31, 2009**	**September 30, 2009**
Assets:			
Firearms	$ 321.0	$ 277.0	$ 303.0
Ammunition	214.7	186.5	185.3
All Other	51.9	38.5	26.2
Other Reconciling Items	168.4	184.9	120.6
Consolidated Assets	$ 756.0	$ 686.9	$ 635.1

	Unaudited			
	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2010	**2009**	**2010**	**2009**
Adjusted EBITDA:				
Firearms	$ 17.2	$ 28.6	$ 41.7	$ 85.0
Ammunition	18.3	25.8	54.7	68.8
All Other	2.3	-	3.2	1.0
Other Reconciling Items	(5.2)	(2.3)	(8.1)	(6.4)
Consolidated Adjusted EBITDA	$ 32.6	$ 52.1	$ 91.5	$ 148.4

(dollars in millions, except share and per share amounts) – Unaudited

The following table illustrates the calculation of Adjusted EBITDA, by reconciling Net Income to Adjusted EBITDA:

	Unaudited			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net Income (Loss) Attributable to Controllable Interest	$ (0.3)	$ 15.1	$ 4.5	$ 48.1
Adjustments:				
Equity in Losses of Unconsolidated JV	0.1	(0.1)	0.3	-
Depreciation Expense	4.2	3.9	13.3	12.2
Interest Expense (A)	15.6	8.1	38.5	22.7
Intangibles Amortization	2.1	1.6	6.6	5.2
Product Safety Warning/Recall	0.4	-	0.4	6.6
Other Noncash Charges (B)	2.2	5.1	6.9	12.6
Nonrecurring Charges (C)	8.6	10.3	18.4	14.2
Income Tax (Benefit) Expense	(0.3)	8.1	2.6	26.8
Management EBITDA	$ 32.6	$ 52.1	$ 91.5	$ 148.4

(A) Interest Expense for the three and nine months ended September 30, 2010 includes amortization expense of deferred financing costs of $1.6 and $4.2, respectively, as well as $0.1 and $0.2, respectively, associated with amortization of the premium and discounts recorded on the PIK and Opco Notes. Interest Expense for the three and nine months ended September 30, 2010 also includes interest on the PIK notes of $6.7 and $12.8. Interest Expense for the three and nine months ended September 30, 2009 includes amortization expense of deferred financing costs of $0.9 and $1.7, respectively, offset by $0.1 and $0.6, respectively, associated with amortization of the premium recorded on the terminated 2011 Notes.

(B) The following table illustrates the significant components of Other Noncash Charges for the periods indicated:

	Unaudited			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Other Noncash Charges:				
Retiree Benefits	$ 1.3	$ 1.6	$ 4.1	$ 5.0
Stock Compensation Expense	0.2	0.2	0.5	0.5
Disposal of Assets	0.2	0.1	0.6	0.4
Loss on Extinguishment of Debt	-	2.1	-	2.1
Other	0.5	1.1	1.7	4.6
Total Noncash Charges	$ 2.2	$ 5.1	$ 6.9	$ 12.6

(dollars in millions, except share and per share amounts) – Unaudited

(C) The following table illustrates the significant components of Nonrecurring Charges for the periods indicated:

	Unaudited			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Nonrecurring Charges:				
Restructuring and Integration Expenses	$ 5.3	$ 0.5	$ 8.6	$ 1.6
Purchase Accounting	0.2	-	1.7	-
Employee Related Costs	0.1	4.7	0.3	6.1
Other Fees and Transaction Costs	3.0	5.1	7.8	6.5
Total Nonrecurring Charges	$ 8.6	$ 10.3	$ 18.4	$ 14.2

Note 16 – Recent Accounting Pronouncements

In December 2009, the FASB issued FASB Accounting Standards Update ("ASU") 2010-06 "Improving Disclosures about Fair Value Measurements". The ASU requires the disclosure of transfers in and out of Level 1 and 2 fair value measurements. Purchases, sales, issuances, and settlements on the reconciliation of Level 3 inputs should also be disclosed on a gross basis. Fair value measurement disclosures are also required for each class of assets and liabilities on the statement of financial position, and additional disclosures regarding the inputs and valuation techniques of Level 2 and 3 measurements. The clarification of existing disclosures was effective for interim and annual periods beginning after December 15, 2009, except for the disclosures of the rollforward of Level 3 inputs, which is effective for interim and annual periods beginning after December 15, 2010. The adoption of FASB ASU 2010-06 did not have a significant impact on the Company's results of operations, financial condition, or equity.

Note 17 – Restructuring and Impairment Charges

On March 25, 2010, the Company announced a strategic rationalization decision that will result in the closure of its manufacturing facility in North Haven, Connecticut (the "Rationalization Decision"). The closure is scheduled to be completed by the end of June 2011 and is expected to improve efficiencies that may result in lower costs to customers. During the three and nine months ended September 30, 2010, the Company disbursed $4.5 and $5.0, respectively, and recorded restructuring charges of $4.8 and $6.3, respectively. These charges are within the Selling, General, and Administrative Expenses caption on the Company's Statement of Operations.

The Company's current estimate of cash payments for each major type of cost associated with the Rationalization Decision is as follows:

Severance and other employee benefits	$ 4.7
Transfer of equipment, site preparation, and site carrying costs	3.1
Capital expenditures	1.9
Other operating costs	1.7
Total	$ 11.4

The cumulative costs incurred and those in the three months ended September 30, 2010 for each major type is as follows:

	Three months ended September 30, 2010	**Cumulative costs incurred as of September 30, 2010**
Severance and other employee benefits	$ 1.5	$ 2.6
Transfer of equipment, site preparation, and site carrying costs	1.8	2.2
Capital expenditures	0.8	0.8
Other operating costs	0.7	0.7
Total	$ 4.8	$ 6.3

(dollars in millions, except share and per share amounts) – Unaudited

The following table represents a reconciliation of the Company's restructuring activities for the periods indicated:

	Severance and Employee Costs	Equipment Transfer and Site Preparation Costs	Total
Balance as of December 31, 2009	$ -	$ -	$ -
Restructuring charges	2.6	2.2	4.8
Cash payments	(1.3)	(2.2)	(3.5)
Balance as of September 30, 2010	$ 1.3	$ -	$ 1.3

In October 2009, the Company sold its targets business and ceased its manufacturing operations at its facilities in Ada, Oklahoma and Findlay, Ohio. During the three months ended March 31, 2010, the Company concluded that the assets were no longer in use and classified the fair value of those remaining assets in the Assets Held for Sale category on the consolidated balance sheet. The original carrying value of the assets was approximately $1.0 and consisted of property, plant, and equipment. The Company recognized a $0.4 non-cash impairment charge to earnings related to the impairment of these assets. The remaining assets held for sale for the targets business of $0.6 are still classified on a separate caption on the consolidated balance sheet.

During the three months ended June 30, 2010, the Company recognized a $0.4 non-cash impairment charge to earnings related to equipment at our ammunition manufacturing facility in Lonoke, Arkansas based upon a purchase offer from an external party. The original carrying value of the assets was approximately $0.7.

During the three months ended September 30, 2010, the Company recognized a $0.6 non-cash impairment charge to earnings related to property, plant and equipment at its firearms manufacturing facility in Gardner, Massachusetts. The carrying value of the building and equipment prior to the impairment charge was $1.9. In September 2010, the Company sold the property, plant and equipment in return for a $1.5 note receivable. The note receivable is from an external party that accrues 6.0% interest during the first five years of the note's term, and increases 0.5% each year thereafter until the end of the note's ten-year term.

Note 18 – Comprehensive Income and Changes in Equity

The following table illustrates the significant components of total comprehensive income for the periods indicated:

	Unaudited			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income (loss)	$ (0.4)	$ 15.0	$ 4.2	$ 47.8
Minimum pension liability, net of taxes	-	0.1	-	0.1
Net unrealized gains (losses) on derivatives, net of taxes	(0.6)	3.2	(2.8)	5.5
Reclassification adjustment for derivative losses (gains) included in earnings, net of taxes	(0.1)	1.4	(4.1)	3.7
Comprehensive income (loss)	(1.1)	19.7	(2.7)	57.1
Comprehensive losses attributable to noncontrolling interests	0.1	0.1	0.3	0.3
Comprehensive income (losses) attributable to controlling interests	$ (1.0)	$ 19.8	$ (2.4)	$ 57.4

(dollars in millions, except share and per share amounts) – Unaudited

The following tables display the changes in total equity, equity attributable to noncontrolling interests, and equity attributable to the Company's stockholders:

		Attributable to the Stockholders of Freedom Group, Inc.					
	Total	Common Stock	Treasury Stock	Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	**Non-controlling Interests**
Stockholders' Equity at December 31, 2009	$ (71.3)	$ 0.2	$ (0.6)	$ -	$ (38.3)	$ (32.3)	$ (0.3)
Comprehensive Income (Loss)	(2.7)	-	-	-	(6.9)	4.5	(0.3)
Share-Based Compensation	0.4	-	-	0.4	-	-	-
Distributions to Existing Noncontrolling Interests	(0.1)	-	-	-	-	(0.3)	0.2
Distributions to Noncontrolling Interests Associated with the Formation of Joint Ventures	2.0	-	-	-	-	-	2.0
Acquisition of Common Stock	(0.2)	-	(0.2)	-	-	-	-
Effects of Stock Option Plans	0.1	-	0.1	(0.1)	-	-	-
Accretion of Preferred Stock	(7.9)	-	-	(0.3)	-	(7.6)	-
Stockholders' Equity at September 30, 2010	$ (79.8)	$ 0.2	$ (0.7)	$ -	$ (45.2)	$ (35.7)	$ 1.6

		Attributable to the Stockholders of Freedom Group, Inc.					
	Total	Common Stock	Treasury Stock	Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	**Non-controlling Interests**
Stockholders' Equity at December 31, 2008	$(106.8)	$ 0.2	$ -	$ -	$ (41.6)	$ (65.4)	$ -
Comprehensive Income (Loss)	57.1	-	-	-	9.3	48.1	(0.3)
Share-Based Compensation	0.4	-	-	0.4	-	-	-
Redemption of Stock	(1.1)	-	(0.6)	(0.1)	-	(0.4)	-
Accretion of Preferred Stock	(15.9)	-	-	(0.3)	-	(15.6)	-
Stockholders' Equity at September 30, 2009	$ (66.3)	$ 0.2	$ (0.6)	$ -	$ (32.3)	$ (33.3)	$ (0.3)

Note 19 – Subsequent Events

Subsequent to September 30, 2010, the Company has announced product safety recall notice directed towards the public and its consumers concerning the Adaptive Combat Rifle, five lot numbers of its 22 Hornet 45 Gr PSP ammunition and the Versamax shotgun. The Company has accrued approximately $0.4 associated with these as of and for the three months ended September 30, 2010 as a preliminary estimate. Actual costs related to these product safety recall notifications will depend on several factors, including the number of customers and consumers who respond to the notifications and the costs of administration of the notifications.

Subsequent events have been evaluated through November 15, 2010, which is the date the financial statements were available to be issued.

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

The following discussion and analysis should be read in conjunction with the accompanying unaudited interim consolidated financial statements and related notes of Freedom Group, Inc. ("FGI" or "the Company"), which owns 100% of FGI Holding Company, Inc. ("FGI Holding"), which in turn owns 100% of FGI Operating Company, Inc. ("FGI Opco"). FGI Opco includes the financial results of Remington Arms Company, Inc. ("Remington"), Bushmaster Firearms International, LLC ("BFI" or "Bushmaster") and its subsidiary, DPMS Firearms, LLC ("DPMS"), Barnes Bullets, Inc. ("Barnes") and E-RPC, LLC ("E-RPC"). Remington, in turn, owns The Marlin Firearms Company ("Marlin") and its subsidiary, H&R 1871, LLC ("H&R"), Advanced Armament, LLC ("AAC"), and a 75% interest in Mountain Khakis, LLC ("Mountain Khakis").

Management's Discussion and Analysis of Financial Condition and Results of Operations is separated into the following sections:

- Company Overview
- Current Sales Demand
- Recent Developments
- Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Policies and Estimates
- Recent Accounting Pronouncements
- Environmental Matters
- Regulatory Developments

Company Overview

We are one of the leading firearms, ammunition and related products companies in the world, with #1 commercial market positions across all of our major product categories in the United States, the largest firearms and ammunition market globally. With our *Remington* brand dating back to 1816, we are America's oldest and largest manufacturer of firearms and ammunition. We are the only major U.S. manufacturer of both firearms and ammunition, which we believe is a significant competitive advantage and supports our market leadership position. We believe this leadership position across all of our major product categories is evidenced by our #1 U.S. commercial market shares in shotguns, rifles and ammunition.

We have made significant progress in our transition to a customer-focused sales and marketing organization, successfully creating a single customer facing platform with the ability to leverage our flexible manufacturing capability across our end-markets to quickly respond to changes in customer preferences and demands. Our 11 manufacturing facilities and approximately 2,900 employees represent the largest domestic manufacturing presence in the industry, enabling us to deliver our products throughout the United States and internationally to approximately 80 countries. In addition, our product leadership and innovation is supported by our freestanding research and development facility.

We continue to look for opportunities to improve our quality and efficiencies in our manufacturing facilities as we strive to be a customer focused company in an increasingly demanding global marketplace. Accordingly, we have undertaken an effort to accelerate existing initiatives in the area of lean manufacturing, six sigma, facility consolidations and other continuous improvement projects focused on inventory management, cost reductions and productivity.

In addition, we are committed to enhancing our core businesses and positioning ourselves to take advantage of opportunities to strategically grow and improve our business by identifying and pursuing add-on strategic acquisitions or investments that expand and enhance our brand, product and intellectual property portfolio. We seek to acquire highly complementary products, brands or external capabilities to fill gaps in our portfolio or extend our brands and channel relationships.

One of our core strategies is to consistently introduce new and innovative products. These efforts resulted in the introduction or planned launch of the Remington *1911R1* pistol, Remington *M887 Nitro Remington Mag* shotgun, the *.30 R-15*, *R-15*, *R-25*, Remington version *Adaptive Combat Rifle for the Military*, *Marlin 338 MXLR/MX*, Remington *M597 VTR*, and *.308 DPMS* firearms, and a variety of new ammunition products including the patented Hypersonic Steel for Waterfowlers. We are also engaged in selective efforts to promote certain of our products through marketing and promotional activities, including ammunition and firearms customer and end-user rebates.

Management's strategy in light of the current economic and political environment has been to continue to introduce new products, enhance our sales and marketing efforts and improve overall performance in working capital and operating productivity. We continue to pursue growth initiatives in our government, military, and law enforcement divisions along with broadening our brand awareness with selective licensing arrangements.

These developments, in addition to new consumers from the recent increase in demand, represent a significant installed base that generates a recurring revenue stream for ammunition, parts and accessory sales. Over the long term, we believe that the surge in firearms demand will have sustained benefits for our industry, including increasing the overall user base of firearms, expanding the popularity of shooting sport categories, as well as providing an opportunity to cultivate new, and renew existing, long-term customer relationships across our portfolio of products and brands.

Current Sales Demand

Beginning at the end of 2008, our industry experienced a significant increase in demand, resulting in 2009 growth in certain consumer long guns, certain pistol and revolver ammunition and modern sporting rifles of 17%, 34% and 31% respectively. We believe this increase was due in part to increased consumer uncertainty relating to new and potentially more restrictive legislation, the increase of home defense spending in light of the global economic downturn, and a general increase in users. We believe the surge in demand for modern sporting rifles and certain consumer long guns ended in the third quarter of 2009 and has softened for certain pistol and revolver ammunition in 2010, resulting in declines in industry sales. During the three month period ended September 30, 2010, sales in our ammunition and firearms segments have declined from the levels experienced in 2009. However, we believe that demand continues to be above 2008 levels.

At present, we are addressing some shifts in the business created by changes in the overall economic environment. For instance, customer order patterns seem to indicate that the retailers and distributors are managing their inventories tightly and continue to expect "just in time" type deliveries. In particular, we believe that this has prompted a shift in timing of certain firearm sales. We also note that consumers are currently focused on products with lower average selling prices. Our key account managers are monitoring channel inventories and certain point of sale information closely which enables us to plan better with our customers. We believe we are effectively managing through the softening and are adjusting our infrastructure to ensure that we return to appropriate profitability levels as we return to a more historical sales environment.

Recent Developments

Government Contract

On September 20, 2010, we were informed that Remington had been awarded a contract from the United States Army's Joint Munitions and Lethality Contracting Center for the upgrade of up to 3,600 M24 Sniper Weapon Systems. The contract is for a 5-year period and has a potential value of up to $28.2 million with shipping expected to begin later this year.

Management and Directorship Changes

On August 11, 2010, the board of directors of FGI (the "FGI Board") approved the formation of an Office of the Chairman and appointed John B. Blystone as Chairman of the Board. In connection with Mr. Blystone's appointment, the FGI Board appointed Walter McLallen, the current Chairman of the Board, to serve as Vice-Chairman of the Board.

On September 10, 2010, Theodore H. Torbeck announced his intention to terminate his employment with the Company, effective September 24, 2010, and resign from his board positions with Remington and Freedom Group.

On September 17, 2010, Madhu Satyanarayana resigned from the FGI Board and Robert L. Nardelli was appointed as a director of the FGI Board, effective immediately. Also on September 17, 2010, the FGI Board approved the formation of an Office of the Chief Executive Officer in order to facilitate its providing strategic direction to the senior management of the Company pending appointment of a new Chief Executive Officer. The Office of the Chief Executive Officer is being chaired by Mr. Nardelli. Mr. Nardelli is joined in the Office of the Chief Executive Officer by Stephen P. Jackson, Jr., our Chief Financial Officer and Treasurer, E. Scott Blackwell, our Chief Sales Officer, and Joseph B. Gross, our Chief Operating Officer.

Business Formation

On May 28, 2010, we created a joint venture, Mountain Khakis (the "Mountain Khakis Venture"), with Mountain Khakis, which designs and markets specialty outdoor apparel. We purchased a 75% interest in the venture for a total of approximately $6.0 million, the final $0.9 million of which is to be paid within the next 12 months. We believe the investment allows us to augment our existing apparel products and increase the availability of durable, comfortable, high-quality apparel to outdoorsmen.

Rationalization Decision

On March 25, 2010, we announced a strategic rationalization decision that will result in the closure of our manufacturing facility in North Haven, Connecticut (the "Rationalization Decision"). The Rationalization Decision is expected to provide efficiencies and ultimately result in lower costs to customers and end users. We expect the closure to be completed by the end of June 2011. We will be relocating the production of the North Haven products to Ilion, New York, Mayfield, Kentucky, and Lexington, Missouri. We estimate that the total cost associated with the closure will be approximately $11.4 million.

2010 Financing

On April 7, 2010, FGI's direct subsidiary, FGI Holding, issued $225.0 million aggregate principal amount of 11.25%/11.75% Senior Pay-in-Kind Notes (the "PIK Notes") due 2015. The PIK Notes were priced at 98.0% of their face amount. FGI Holding used the net proceeds of the PIK Notes issuance to pay a dividend in the amount of the $220.5 million net proceeds to FGI, which FGI will use to repurchase a significant portion of preferred stock. On April 16, 2010, FGI repurchased preferred stock for an approximate amount of $150.5 million. See Note 7 under "Item 1 – Financial Statements (Unaudited)."

Results of Operations

Three and Nine Month Periods Ended September 30, 2010 as Compared to the Three and Nine Month Periods Ended September 30, 2009

Net Sales

The following table compares net sales by reporting segment for each of the periods presented:

	Three Months Ended September 30,					
	2010	**Percentage of Total**	**2009**	**Percentage of Total**	**Increase (Decrease)**	**Percentage Change**
			(dollars in millions)			
Firearms	$ 104.6	50.4%	$ 133.2	56.5%	$ (28.6)	(21.5)%
Ammunition	95.3	45.9	97.7	41.5	(2.4)	(2.5)
All Other	7.7	3.7	4.8	2.0	2.9	60.4
Total	$ 207.6	100.0%	$ 235.7	100.0%	$ (28.1)	(11.9)%

	Nine Months Ended September 30,					
	2010	**Percentage of Total**	**2009**	**Percentage of Total**	**Increase (Decrease)**	**Percentage Change**
			(dollars in millions)			
Firearms	$ 292.6	52.2%	$ 403.5	60.9%	$ (110.9)	(27.5)%
Ammunition	250.2	44.6	245.5	37.0	4.7	1.9
All Other	18.2	3.2	14.0	2.1	4.2	33.0
Total	$ 561.0	100.0%	$ 663.0	100.0%	$ (102.0)	(15.4)%

Firearms

Net sales for the three months ended September 30, 2010 were $104.6 million, a decrease of $28.6 million, or 21.5%, as compared to the three months ended September 30, 2009. Centerfire rifle sales decreased by $31.2 million, or 36.3%, as compared to the prior-year period, primarily due to reduced sales demand for modern sporting products. Rimfire rifle sales decreased by $0.9 million, or 13.5%, as compared to the prior-year period. Shotgun sales increased by $2.4 million, or 6.5%, as compared to the prior-year period.

Net sales for the nine months ended September 30, 2010 were $292.6 million, a decrease of $110.9 million, or 27.5%, as compared to the nine months ended September 30, 2009. Centerfire rifle sales decreased by $103.8 million, or 36.8%, as compared to the prior-year period, primarily due to reduced sales demand for modern sporting products. Shotgun sales decreased by $6.0 million, or 6.6%, as compared to the prior-year period. Rimfire rifle sales decreased by $3.4 million, or 15.5%, as compared to the prior-year period.

Ammunition

Net sales for the three months ended September 30, 2010 were $95.3 million, a decrease of $2.4 million, or 2.5%, as compared to the three months ended September 30, 2009, primarily due to decreased sales volumes of shotshell ammunition of $4.8 million, or 14.2%, as well as decreased sales volumes of rimfire ammunition of $0.9 million, or 11.0%. Sales of sourced products and components also decreased by $1.4 million compared to the prior-year period. These decreases were offset in part due to the impact of the acquired Barnes operations, as well as increased sales volumes of centerfire ammunition of $1.5 million, or 3.0%, as compared to the prior-year period. The increase in sales volumes of centerfire ammunition is attributable mainly to strong market demand for certain handgun ammunition.

Net sales for the nine months ended September 30, 2010 were $250.2 million, an increase of $4.7 million, or 1.9%, as compared to the nine months ended September 30, 2009, due primarily to the acquired Barnes operations. Excluding the impact of the acquired Barnes operations, sales volumes of centerfire ammunition increased by $8.8 million, or 6.6%, as compared to the prior-year period. The increase in sales volumes of centerfire ammunition is attributable mainly to strong market demand for certain handgun ammunition. Sales volumes of rimfire ammunition increased by $0.2 million, or 0.7%, as compared to the prior-year period, primarily due to increased sales demand within this product category. Sales volumes of shotshell ammunition decreased by $11.1 million, or 15.8%, as compared to the comparable prior-year period.

All Other

Net sales were $7.7 million in all other businesses for the three months ended September 30, 2010, an increase of $2.9 million as compared to the prior-year period. Primary changes within the all other businesses consisted of an increase of $3.3 million in our various accessories businesses, an increase of $1.0 million in our apparel businesses, offset by a decrease of $1.1 million in the targets business, which we ceased operations in and sold in 2009.

Net sales were $18.2 million in all other businesses for the nine months ended September 30, 2010, an increase of $4.2 million as compared to the prior-year period. Primary changes within the all other businesses consisted of an increase of $6.5 million in our various accessories businesses, an increase of $1.2 million in our apparel businesses, offset by a decrease of $2.0 million in the powdered metal product business and a decrease of $1.5 million in the targets business, which we ceased operations in and sold in 2009.

Cost of Goods Sold and Gross Profit

The Company's cost of goods sold includes all costs of material, labor, and overhead associated with product manufacturing, except for transfer costs from our plants to our distribution center which are included in selling, general, and administrative expense. The transfer costs totaled $0.3 million and $0.9 million for the three and nine months ended September 30, 2010, respectively, and $0.3 million and $0.8 million for the three and nine months ended September 30, 2009, respectively. Accordingly, our gross margins may not be comparable to those of other entities. The table below compares cost of goods sold and gross profit by reporting segment for each of the periods presented:

	Three Months Ended September 30,					
	2010	Percentage of Net Sales	2009	Percentage of Net Sales	Increase (Decrease)	Percentage Change
	(dollars in millions)					
Cost of Goods Sold						
Firearms	$ 74.9	71.6%	$ 89.0	66.8%	$ (14.1)	(15.8)%
Ammunition	67.1	70.4	61.5	62.9	5.6	9.1
All Other	4.9	63.6	4.1	85.4	0.8	19.5
Total	$ 146.9	70.8%	$ 154.6	65.6%	$ (7.7)	(5.0)%
Gross Profit						
Firearms	$ 29.7	28.4%	$ 44.2	33.2%	$ (14.5)	(32.8)%
Ammunition	28.2	29.6	36.2	37.1	(8.0)	(22.1)
All Other	2.8	36.4	0.7	14.6	2.1	300.0
Total	$ 60.7	29.2%	$ 81.1	34.4%	$ (20.4)	(25.2)%

	Nine Months Ended September 30,					
	2010	Percentage of Net Sales	2009	Percentage of Net Sales	Increase (Decrease)	Percentage Change
	(dollars in millions)					
Cost of Goods Sold						
Firearms	$ 204.2	69.8%	$ 277.9	68.9%	$ (73.7)	(26.5)%
Ammunition	166.7	66.6	149.0	60.7	17.7	11.9
All Other	11.3	62.1	10.1	72.1	1.2	11.9
Total	$ 382.2	68.1%	$ 437.0	65.9%	$ (54.8)	(12.5)%

	Nine Months Ended September 30,					
	2010	Percentage of Net Sales	2009	Percentage of Net Sales	Increase (Decrease)	Percentage Change
	(dollars in millions)					
Gross Profit						
Firearms	$ 88.4	30.2%	$ 125.6	31.1%	$ (37.2)	(29.6)%
Ammunition	83.5	33.4	96.5	39.3	(13.0)	(13.5)
All Other	6.9	37.9	3.9	27.9	3.0	76.9
Total	$ 178.8	31.9%	$ 226.0	34.1%	$ (47.2)	(20.9)%

Firearms

Gross profit for the three months ended September 30, 2010 was $29.7 million, a decrease of $14.5 million, or 32.8%, as compared to the prior-year period, primarily due to lower sales volumes. Gross margin was 28.4% for the three months ended September 30, 2010 and 33.2% for the three months ended September 30, 2009, primarily due to reduced sales demand in the higher margin modern sporting products, as well as unfavorable pricing and the impact of the accrual for the ACR product safety recall notice.

Gross profit for the nine months ended September 30, 2010 was $88.4 million, a decrease of $37.2 million, or 29.6%, as compared to the prior-year period, primarily due to lower sales volumes. Gross margin was 30.2% for the nine months ended September 30, 2010 and 31.1% for the nine months ended September 30, 2009, primarily due to reduced sales demand in the higher margin modern sporting products, as well as unfavorable pricing and the impact of the accrual for the ACR product safety recall notice.

Ammunition

Gross profit for the three months ended September 30, 2010 was $28.2 million, a decrease of $8.0 million, or 22.1%, as compared to the prior-year period. Gross margin was 29.6% for the three months ended September 30, 2010, and 37.1% for the three months ended September 30, 2009. The decrease in gross profit was primarily related to unfavorable pricing of $2.2 million; higher material and other costs, net of favorable hedging gains, of $4.6 million; and unfavorable sales volumes of $1.3 million.

Gross profit for the nine months ended September 30, 2010 was $83.5 million, a decrease of $13.0 million, or 13.5%, as compared to the prior-year period. Gross margin was 33.4% for the nine months ended September 30, 2010, and 39.3% for the nine months ended September 30, 2009. The decrease in gross profit was primarily related to unfavorable pricing of $5.9 million; higher material and other costs, net of favorable hedging gains, of $9.5 million; offset by higher sales volumes of $2.4 million, primarily due to the impact of the acquired Barnes operations.

All Other

Gross profit for the three months ended September 30, 2010 was $2.8 million, an increase of $2.1 million, or 300.0%, as compared to the prior-year period and was primarily related to higher sales volumes in our various accessories and apparel businesses, offset by reduced sales volumes in our targets businesses.

Gross profit for the nine months ended September 30, 2010 was $6.9 million, an increase of $3.0 million, or 76.9%, as compared to the prior-year period and was primarily related to higher sales volumes in our various accessories and apparel businesses, offset by reduced sales volumes in our powdered metal product and targets businesses.

Operating Expenses

Operating expenses consist of selling, general and administrative expenses, research and development expenses and other (income) expenses. The following table sets forth certain information regarding operating expenses for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,			
	2010	**2009**	**Increase (Decrease)**	**Percentage Change**
	(dollars in millions)			
Selling, general and administrative expenses	$ 39.3	$ 44.3	$ (5.0)	(11.3)%
Research and development expenses	3.6	2.8	0.8	28.6
Other (income) expense	2.8	2.9	(0.1)	(3.4)
Total	$ 45.7	$ 50.0	$ (4.3)	(8.6)%

	Nine Months Ended September 30,			
	2010	**2009**	**Increase (Decrease)**	**Percentage Change**
	(dollars in millions)			
Selling, general and administrative expenses	$ 112.6	$ 119.5	$ (6.9)	(5.8)%
Research and development expenses	12.7	8.2	4.5	54.9
Other (income) expense	7.9	1.0	6.9	*
Total	$ 133.2	$ 128.7	$ 4.5	3.5%

*Not Meaningful

Total operating expenses for the three months ended September 30, 2010 were $45.7 million, a decrease of $4.3 million, or 8.6%, as compared to the prior-year period. Selling, general and administrative expenses decreased $5.0 million, or 11.3%, primarily due to a decrease in salaries and benefits, incentive compensation and travel expense of $6.2 million, a decrease in professional fees of $2.7 million, partially offset by an increase in selling and marketing expenses of $2.6 million as a result of a continued focus on sales and marketing development. Research and development expenses increased $0.8 million, or 28.6%, as compared to the prior-year period, reflecting development costs associated with current initiatives to compete for opportunities primarily within the defense markets and to a lesser extent to implement continuous improvement processes. Other expense decreased $0.1 million as compared to the prior-year period, primarily due to transaction fees which occurred in the three months ended September 30, 2009, related to the Refinancings, including the loss on early extinguishment of debt, which did not recur in the three months ended September 30, 2010. These amounts were nearly offset by increased amortization on definite-lived intangible assets of $0.5 million, impairment charges related to valuing assets held for sale and the retirement of certain trademarks of $0.7 million and lower licensing income of $0.5 million, which occurred in the three months ended September 30, 2010.

Total operating expenses for the nine months ended September 30, 2010 were $133.2 million, an increase of $4.5 million, or 3.5%, as compared to the prior-year period. Selling, general and administrative expenses decreased $6.9 million, or 5.8%, primarily due to a $6.6 million nonrecurring charge to reflect the estimated cost of the 17HMR ammunition and rifle replacement safety notice that occurred in the nine months ended September 30, 2009 that did not recur in the nine months ended September 30, 2010, as well as a decrease in salaries, benefits, incentive compensation and travel expense of $7.8 million, partially offset by increases in selling and marketing expenses of $4.8 million as a result of a continued focus on sales and marketing development, increased contributions of $1.8 million and increased commission expense of $0.9 million. Research and development expenses increased $4.5 million, or 54.9%, as compared to the prior-year period, reflecting development costs associated with current initiatives to compete for opportunities primarily within the defense markets and to a lesser extent to implement continuous improvement processes. Other expense increased by $6.9 million, as compared to the prior-year period, due in part to additional amortization on definite-lived intangible assets of $1.9 million, impairment charges of $1.7 million related to valuing assets held for sale and the retirement of certain trademarks and lower licensing income of $0.7 million. Additionally, in the nine months ended September 30, 2009, the Company reduced an estimated liability associated with a federal excise tax audit by $2.0 million which did not recur in the nine months ended September 30, 2010. These increases were partially offset by transaction fees which occurred in the nine months ended September 30, 2009, related to the Refinancings, including the loss on early extinguishment of debt, which did not recur in the nine months ended September 30, 2010.

Adjusted EBITDA

The following tables compare Adjusted EBITDA by reporting segment for each of the periods presented:

	Unaudited			
	Three Months Ended September 30,			
	2010	2009	Increase (Decrease)	Percentage Change
	(dollars in millions)			
Adjusted EBITDA				
Firearms	$ 17.2	$ 28.6	$ (11.4)	(39.9)%
Ammunition	18.3	25.8	(7.5)	(29.1)
All Other	2.3	-	2.3	100.0
Other Reconciling Items	(5.2)	(2.3)	(2.9)	126.1
Total	$ 32.6	$ 52.1	$ (19.5)	(37.4)%

	Unaudited			
	Nine Months Ended September 30,			
	2010	2009	Increase (Decrease)	Percentage Change
	(dollars in millions)			
Adjusted EBITDA				
Firearms	$ 41.7	$ 85.0	$ (43.3)	(50.9)%
Ammunition	54.7	68.8	(14.1)	(20.5)
All Other	3.2	1.0	2.2	220.0
Other Reconciling Items	(8.1)	(6.4)	(1.7)	26.6
Total	$ 91.5	$ 148.4	$ (56.9)	(38.3)%

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*Not Meaningful

Firearms

Adjusted EBITDA in our firearms segment decreased $11.4 million, or 39.9%, for the three months ended September 30, 2010, primarily due to the decline in centerfire rifles sales, primarily due to reduced sales demand for modern sporting products. Adjusted EBITDA in our firearms segment decreased $43.3 million, or 50.9%, for the nine months ended September 30, 2010, primarily due to the decline in centerfire rifles sales, primarily due to reduced sales demand for modern sporting products.

Ammunition

Adjusted EBITDA in our ammunition segment decreased $7.5 million, or 29.1%, for the three months ended September 30, 2010, primarily due to higher material and other costs. Adjusted EBITDA in our ammunition segment decreased $14.1 million, or 20.5%, for the nine months ended September 30, 2010, primarily due to higher material and other costs.

All Other

Adjusted EBITDA in all other businesses increased $2.3 million for the three months ended September 30, 2010, primarily due to the favorable gross profit impact of $2.1 million, primarily due to increased sales in our various accessories businesses. Adjusted EBITDA in all other businesses increased $2.2 million for the nine months ended September 30, 2010, primarily due to the favorable gross profit impact of $3.0 million, primarily due to increased sales in our various accessories businesses, offset by impairment charges relating to valuing of assets held for sale in the targets business of $0.4 million.

Changes in Reconciling Items:

The following table illustrates the calculation of Adjusted EBITDA by reconciling Net Income to Adjusted EBITDA:

	Unaudited			
	Three Months Ended September 30,			
	2010	**2009**	**Increase (Decrease)**	**Percentage Change**
Net Income Attributable to Controllable Interest	$ (0.3)	$ 15.1	$ (15.4)	(102.0)%
Adjustments:				
Equity in Loss of Unconsolidated JV	0.1	(0.1)	0.2	(200.0)
Depreciation	4.2	3.9	0.3	7.7
Interest	15.6	8.1	7.5	92.6
Income tax (benefit) expense	(0.3)	8.1	(8.4)	(103.7)
Amortization of Intangibles	2.1	1.6	0.5	31.3
Other non-cash charges	2.2	5.1	(2.9)	(56.9)
Product Safety Warning/Recall	0.4	-	0.4	100.0
Nonrecurring charges	8.6	10.3	(1.7)	(16.5)
Adjusted EBITDA	$ 32.6	$ 52.1	$ (19.5)	(37.4)%

	Unaudited			
	Nine Months Ended September 30,			
	2010	**2009**	**Increase (Decrease)**	**Percentage Change**
Net Income Attributable to Controllable Interest	$ 4.5	$ 48.1	$ (43.6)	(90.6)%
Adjustments:				
Equity in Loss of Unconsolidated JV	0.3	-	0.3	100.0
Depreciation	13.3	12.2	1.1	9.0
Interest	38.5	22.7	15.8	69.6
Income tax expense	2.6	26.8	(24.2)	(90.3)
Amortization of Intangibles	6.6	5.2	1.4	26.9
Other non-cash charges	6.9	12.6	(5.7)	(45.2)
Product Safety Warning/Recall	0.4	6.6	(6.2)	(93.9)
Nonrecurring charges	18.4	14.2	4.2	29.6
Adjusted EBITDA	$ 91.5	$ 148.4	$ (56.9)	(38.3)%

Other non-cash charges decreased $2.9 million for the three months ended September 30, 2010, primarily due to a loss on extinguishment of debt due to the Refinancings as well as a write off of inventory that occurred in the three months ended September 30, 2009, but did not recur in the three months ended September 30, 2010.

Other non-cash charges decreased $5.7 million for the nine months ended September 30, 2010, primarily due to a loss on extinguishment of debt due to the Refinancings as well as a write off of inventory that occurred in the nine months ended September 30, 2009, but did not recur in the nine months ended September 30, 2010, as well as lower retiree benefits expense.

Nonrecurring charges decreased $1.7 million for the three months ended September 30, 2010, primarily due to $4.6 million in lower employee related costs and a $2.1 million decrease in Other Fees and Transaction costs, offset by $4.8 million in greater restructuring expenses and $0.2 million in purchase accounting adjustments. The decrease in Other Fees and Transaction costs is due primarily to $2.2 million in acquisition fees and transaction costs that occurred in the three months ended September 30, 2009 that did not recur in the three months ended September 30, 2010.

Nonrecurring charges increased $4.2 million for the nine months ended September 30, 2010, primarily due to $7.0 million in greater restructuring expenses, $1.7 million in purchase accounting adjustments and an increase of $1.3 million in Other Fees and Transaction Costs, offset by $5.8 million in lower employee related costs. The increase in Other Fees and Transaction Costs is due primarily to higher bank fees of $1.1 million.

Interest Expense

Interest expense was $15.6 million and $8.1 million for the three months ended September 30, 2010 and September 30, 2009, respectively. The $7.5 million increase in interest expense over the prior-year period was primarily due to $6.7 million of interest expense related to the PIK Notes, $3.4 million of interest expense related to the Opco Notes, and $1.0 million in debt acquisition costs and amortization expense related to the Refinancings, offset by $3.5 million of interest expense in the three months ended September 30, 2009 related to the debt paid off as a result of the Refinancings that did not recur in the three months ended September 30, 2010.

Interest expense was $38.5 million and $22.7 million for the nine months ended September 30, 2010 and September 30, 2009, respectively. The $15.8 million increase in interest expense over the prior-year period was primarily due to $12.8 million of interest expense related to the PIK Notes, $17.4 million of interest expense related to the Opco Notes, and $3.8 million in debt acquisition costs and amortization expense related to the Refinancings, offset by $18.1 million of interest expense in the nine months ended September 30, 2009 related to the debt paid off as a result of the Refinancings that did not recur in the nine months ended September 30, 2010.

Income Tax Provision

Our effective tax rate on continuing operations for the nine months ended September 30, 2010 and 2009 was 36.6% and 35.8%, respectively. The difference between the actual effective tax rate and the federal statutory rate of 35% is principally due to state income taxes, permanent differences, and utilization of available tax credits as of September 30, 2010 and 2009. The increase in the effective tax rate for the nine months ended September 30, 2010 over the effective tax rate for the nine months ended September 30, 2009 includes the impact of the expiration of the federal income tax research and development credit as of December 31, 2009.

We are subject to ongoing audits by federal and various state tax authorities. Depending on the outcome of these audits, we may be required to pay additional taxes. However, we do not believe that any additional taxes and related interest or penalties would have a material impact on our financial position, results of operations, or cash flows.

Liquidity and Capital Resources

Cash Flows and Working Capital

Net cash used in operating activities was $18.5 million for the nine months ended September 30, 2010 compared to net cash provided by operating activities of $87.2 million for the nine months ended September 30, 2009. The $105.7 million decrease in cash provided by operating activities for the nine months ended September 30, 2010 compared to the prior-year period resulted primarily from:

- the recognition of net income of $4.2 million for the nine months ended September 30, 2010 compared to $47.8 million for the nine months ended September 30, 2009, a reduction of $43.6 million year over year;
- inventory increasing by $31.7 million over the nine months ended September 30, 2010 compared to a decrease of $0.7 million over the nine months ended September 30, 2009, primarily due to higher sales volumes in the first nine months of 2009 over concerns of increased firearms and ammunition regulation resulting from the 2008 presidential election, which resulted in lower levels of inventory in September 2009. In 2010, we witnessed a decline in sales from those in 2009 and believe the increase in our inventory levels is a return to a normal cycle with inventory for our selling seasons;
- other liabilities decreasing by $5.7 million over the nine months ended September 30, 2010 compared to an increase of $23.6 million over the nine months ended September 30, 2009, primarily due to disbursements for interest on the Opco Notes and incentive compensation. Interest of $34.9 million was paid over the nine months ended September 30, 2010 compared to $18.7 million in the nine months ended September 30, 2009 and there were $13.6 million of incentive compensation disbursements in the nine months ended September 30, 2010 compared to $6.2 million over the nine months ended September 30, 2009.

Net cash used in investing activities of $19.9 million for the nine months ended September 30, 2010 was primarily related to the purchase of property, plant and equipment of $15.5 million, as well as $5.1 million contributed to the Mountain Khakis Venture. Net cash used in investing activities was $14.3 million for the nine months ended September 30, 2009 and was primarily related to the purchase of property, plant and equipment of $7.5 million, as well as $5.6 million paid for both Dakota and S&K.

Net cash provided by financing activities for the nine months ended September 30, 2010 was $58.1 million compared to net cash used in by financing activities of $144.7 million during the nine months ended September 30, 2009. During the nine months ended September 30, 2010, the Company received $220.5 million in proceeds from the PIK Notes issuance, and paid $150.5 million for the repurchase of preferred stock and $12.6 million in debt issuance costs. During the nine months ended September 30, 2009, the Company issued the first of two issuances of its 10.25% Senior Notes and received $195.7 million in proceeds. The Company used those proceeds, $51.9 million of proceeds from borrowings under the ABL Revolver, and cash on-hand to repay the $321.6 million of previously issued and outstanding notes and credit facilities prior to the refinancings.

Sources and Uses of Liquidity

We generally expect to fund expenditures for operations, administrative expenses, capital expenditures, debt service obligations and dividend payments with internally generated funds from operations, and satisfy working capital needs from time to time with borrowings under the ABL Revolver. We believe that we will be able to meet our debt service obligations, fund our short-term and long-term operating requirements, and make permissible dividend payments in compliance with our various debt instruments in the future with cash flow from operations and borrowings under the ABL Revolver, although no assurance can be given in this regard. We continue to focus on working capital management by monitoring key metrics associated with inventory, accounts receivable and accounts payable.

Debt

As of September 30, 2010, we had outstanding indebtedness of approximately $499.0, which consisted of the following:

- $275.3 million of outstanding 10.25% Senior Notes due 2015
- $220.8 million of outstanding 11.25%/11.75% Senior PIK Notes due 2015;
- $1.6 million of outstanding Mountain Khakis Notes; and

- $1.3 million of capital lease obligations and other debt.

As of September 30, 2010, there was no indebtedness outstanding under the ABL Revolver and approximately $124.4 million in borrowings were available including the $30.0 million minimum availability condition. Standby letters of credit outstanding as of September 30, 2010 were $6.8 million.

Capital and Operating Leases and Other Long-Term Obligations

We maintain capital leases mainly for computer and mail room equipment. We have several operating leases, including a lease for our Memphis warehouse that expires in September 2016, our Madison annex office that expires in August 2014, leases for several of our BFI manufacturing facilities that expire on various dates between 2010 and 2012, a lease for our Barnes manufacturing facility that expires in December 2014, a lease for our AAC manufacturing facility that expires in December 2010, a lease for our Lexington, Missouri manufacturing facility that expires in September 2014, and a lease for our Dakota manufacturing facility that expires in September 2011. We also maintain contracts including, among other things, a services contract with our third party warehouse provider. We also have various pension plan obligations, although we do not expect substantial future contributions at this time.

Capital Expenditures

Gross capital expenditures for the nine months ended September 30, 2010 and 2009 were $15.5 million and $7.1 million, respectively, consisting primarily of capital expenditures both for new equipment related to the manufacture of firearms and ammunition, as well as capital maintenance of existing facilities. We expect total capital expenditures for 2010 to be in the range of $22.0 million to $27.0 million, of which approximately $9.0 million is expected to be related to capital maintenance projects and the remainder related to capital expenditures for new assets.

Off-Balance Sheet Arrangements

Off balance sheet arrangements consist of our obligations with respect to standby letters of credit.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition, results of operations, and cash flows are based upon our unaudited interim and audited annual consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to inventories, supplies, accounts receivable, warranties, long-lived assets, product liability, revenue recognition (inclusive of cash discounts, rebates, and sales returns), advertising and promotional costs, self-insurance, pension and post-retirement benefits, deferred tax assets, and goodwill. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. As noted below, in some cases, our estimates are also based in part with the assistance of independent advisors. Actual results may differ from these estimates under different assumptions or conditions.

Management has addressed and reviewed our critical accounting policies and considers them appropriate. We believe the following critical policies utilize significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

Sales, net of an estimate for discounts, returns and allowances, and related cost of sales are recorded at which time risk of loss and title transfer to the customer. We continually evaluate our sales terms against criteria outlined in SEC Staff Accounting Bulletin 104, *Revenue Recognition.* We follow the industry practice of selling select firearms pursuant to a “dating” plan, allowing the customer to purchase these products commencing in December (the start of our dating plan year) and to pay for them on extended terms. Historically, use of the dating plan has had the effect of shifting some firearms sales from the second and third quarters to the first and fourth quarters. As a competitive measure, we offer extended terms on select ammunition purchases. However, use of the dating plans also results in deferral of collection of accounts receivable until the latter part of the year. Customers do not have the right to return unsold product. Management uses historical trend information as well as other economic data to estimate future discounts, returns, rebates and allowances.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful receivables for estimated losses resulting from the inability of our trade customers to make required payments. We provide an allowance for specific customer accounts where collection is doubtful and also provide an allowance for customer deductions based on historical collection and write-off experience. Additional allowances would be required if the financial conditions of our customers deteriorated.

Inventories

Our inventories are valued at the lower of cost or market. We evaluate the quantities of inventory held against past and future demand and market conditions to determine excess or slow moving inventory. For those product classes of inventory identified, we estimate their market value based on current and projected selling prices. If the projected market value is less than cost, we provide an allowance to reflect the lower value of that inventory. This methodology recognizes projected inventory losses at the time such losses are evident rather than at the time goods are actually sold.

As part of the Marlin Acquisition, we now account for a portion of our inventory, the North Haven manufactured firearms, under the Last-In First-Out ("LIFO") method using the double extension method. As of September 30, 2010 and 2009, approximately 9.2% and 8.2%, respectively, of our total inventory excluding the LIFO adjustment was accounted for under the LIFO method. Under the First-In First-Out method, inventories would have been lower by $1.0 million and $1.3 million at September 30, 2010 and 2009, respectively.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is determined on a straight-line basis over the estimated useful lives of the individual asset by major asset class as follows:

Buildings	20 to 43 years
Building and leasehold improvements	1 to 15 years
Machinery and equipment	7 to 15 years
Furniture and fixtures	7 to 10 years
Trailers and automotive equipment	3 to 5 years
Computer equipment	1 to 3 years

In accordance with FASB ASC 360 "Property, Plant, and Equipment", management assesses property, plant and equipment for impairment whenever facts and circumstances indicate that the carrying amount may not be fully recoverable.

Maintenance and repairs are charged to operations; replacements and betterments are capitalized. Computer hardware and software, lighting and postage equipment under capital leases are amortized over the term of the lease. The cost and related accumulated depreciation applicable to assets sold or retired are removed from the accounts and the gain or loss on disposition is recognized in operations, included in the other income and expenses.

Interest is capitalized in connection with the construction of major projects. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's useful life.

Goodwill, Goodwill Impairment and Intangible Assets

We adopted the provisions of FASB ASC 350 "Intangibles-Goodwill and Other", for goodwill and intangible assets pursuant to FASB ASC 350. As of October 1 each year, we test for impairment of goodwill according to a two-step approach. In the first step, we estimate the fair values of our reporting units using a combination of the present value of future cash flows approach, market approach and a transactional approach, all equally weighted, subject to a comparison for reasonableness to our market capitalization at the date of valuation. In addition, goodwill of a reporting unit is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. For other intangible assets, the impairment test consists of a comparison of the fair value of the intangible assets to their respective carrying amount.

Reserves for Product Liability

We provide for estimated defense and settlement costs related to product liabilities when it becomes probable that a liability has been incurred and reasonable estimates of such costs are available. Estimates for accruals for product liability matters are based on historical patterns of the number of occurrences, costs incurred and a range of potential outcomes. We also utilize the assistance of independent advisors to assist in analyzing the adequacy of such reserves. Due to the inherently unpredictable nature of litigation, actual results will likely differ from estimates and those differences could be material.

Employee Benefit Plans

We have defined benefit plans that cover a significant portion of our salaried and hourly paid employees. As a result of amendments to our defined benefit plans, future accrued benefits for all employees were frozen as of January 1, 2008. We derive pension benefit expense from an actuarial calculation based on the defined benefit plans' provisions and management's assumptions regarding discount rate and expected long-term rate of return on assets. Management determines the expected long-term rate of return on plan assets based upon historical actual asset returns and the expectations of asset returns over the expected period to fund participant benefits based on the current investment mix of our plans. Management sets the discount rate based on the yield of high quality fixed income investments expected to be available in the future when cash flows are paid. In addition, management also consults with independent actuaries in determining these assumptions.

Reserves for Workers' Compensation Liability

We provide for estimated medical and indemnity compensation costs related to workers' compensation liabilities when it becomes probable that a liability has been incurred and reasonable estimates of such costs are available. Estimates for accruals for workers compensation liability matters are based on historical patterns of the number of occurrences, costs incurred and a range of potential outcomes. We also utilize the assistance of independent advisors to assist in analyzing the adequacy of such reserves.

Income Taxes

For interim periods, we account for income taxes in accordance with ASC 740-270, using an estimated annual effective tax rate to determine income tax expense in the quarterly financial statements. Additionally, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded when it is more likely than not that the deferred tax asset will not be recognized.

We file our income taxes in a consolidated tax return. Current and deferred tax expense is allocated to the members based on an adjusted separate return methodology.

Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

Fair Value Measurements

We adopted FASB ASC 820 “Fair Value Measurements and Disclosures” and amendments to FASB ASC 825 “Recognition of the Fair Value Option for Financial Instruments” on January 1, 2008. FASB ASC 820 (1) creates a single definition of fair value, (2) establishes a framework for measuring fair value, and (3) expands disclosure requirements about items measured at fair value. FASB ASC 820 applies both to items recognized and reported at fair value in the financial statements and items disclosed at fair value in the notes to the financial statements. FASB ASC 820 does not change existing accounting rules governing what can or what must be recognized and reported at fair value in the financial statements, or disclosed at fair value in the notes to the financial statements. Additionally, FASB ASC 820 does not eliminate practicability exceptions that exist in accounting pronouncements amended by FASB ASC 820 when measuring fair value. As a result, we will not be required to recognize any new assets or liabilities at fair value.

Prior to FASB ASC 820, certain measurements of fair value were based on the price that would be paid to acquire an asset, or received to assume a liability (an entry price). FASB ASC 820 clarifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date (that is, an exit price). The exit price is based on the amount that the holder of the asset or liability would receive or need to pay in an actual transaction (or in a hypothetical transaction if an actual transaction does not exist) at the measurement date. In some circumstances, the entry and exit price may be the same; however, they are conceptually different.

Fair value is generally determined based on quoted market prices in active markets for identical assets or liabilities. If quoted market prices are not available, we use valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. In measuring fair value, we may make adjustments for risks and uncertainties, if a market participant would include such an adjustment in its pricing.

FASB ASC 820 establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and our assumptions (unobservable inputs). Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either level 1 or level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of three broad levels as follows:

Level 1 — Quoted market prices in active markets for identical assets or liabilities;

Level 2 — Observable inputs other than quoted prices within Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These include certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs:

	Recurring Fair value measurements as of September 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Commodity Contract Derivatives	N/A	$ 2.2	N/A	$ 2.2
Life Insurance Policies	N/A	$ 0.1	N/A	$ 0.1

As shown above, commodity contract derivatives valued by using quoted prices are classified within level 2 of the fair value hierarchy; life insurance policies valued by using cash surrender values, net of related policy loans, are classified within level 2 of the fair value hierarchy. We value the interest rate swap using the Income Approach valuation technique. This method uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. We evaluate our hierarchy disclosures each quarter based on various factors, and it is possible that an asset or liability may be classified differently from quarter to quarter. However, we expect that changes in classifications between different levels will be rare.

Most derivative contracts are not listed on an exchange and require the use of valuation models. Consistent with FASB ASC 820 "Fair Value Measurements and Disclosures", we attempt to maximize the use of observable market inputs in our models. When observable inputs are not available, we default to unobservable inputs. Derivatives valued based on models with significant unobservable inputs and that are not actively traded, or trade activity is one way, are classified within level 3 of the fair value hierarchy.

Recent Accounting Pronouncements

See Note 16 under "Item 1 – Financial Statements (Unaudited)" for disclosure of recent accounting pronouncements.

Environmental Matters

Our operations are subject to a variety of federal, state and local environmental laws and regulations which govern, among other things, the discharge of hazardous materials into the air and water, handling, treatment, storage and disposal of such materials, as well as remediation of contaminated soil and groundwater. We have in place programs that monitor compliance with these requirements and believe our operations are in material compliance with them. In the normal course of our manufacturing operations, we are subject to occasional governmental proceedings and orders pertaining to waste disposal, air emissions and water discharges into the environment. We believe that we are in compliance with applicable environmental regulations in all material respects, and that the outcome of any such proceedings and orders will not have a material adverse effect on our business.

Under the terms of a legacy asset purchase agreement from 1993 ("Purchase Agreement") with E.I. DuPont Nemours & Company ("DuPont") relating to the Remington business ("Asset Purchase"), DuPont agreed to retain responsibility for certain pre-closing environmental liabilities. Remington also entered into an agreement with DuPont with respect to cooperation and responsibility for specified environmental matters. There are various pending proceedings associated with environmental liability naming us for which DuPont and its affiliates have accepted liability. Our obligations in these cases are not expected to be material.

Based on information known to us, we do not expect current environmental regulations or environmental proceedings and claims to have a material adverse effect on our results of operations, financial condition or cash flows. However, it is not possible to predict with certainty the impact of future environmental compliance requirements or of the cost of resolution of any future environmental proceedings and claims, in part because the scope of the remedies that may be required is not certain, liability under some federal environmental laws is under certain circumstances joint and several in nature, and environmental laws and regulations are subject to modification and changes in interpretation. There can be no assurance that environmental regulation will not become more burdensome in the future or that unknown conditions will not be discovered and that any such development would not have a material adverse effect on our business. We do not anticipate incurring any material capital expenditures for environmental control facilities for 2010.

The Marlin Firearms Acquisition triggered the Connecticut Transfer Act (the "CTA") with respect to the facility located in North Haven, Connecticut. The CTA is designed to identify properties contaminated with hazardous wastes and to ensure that such properties are cleaned up to the satisfaction of the Connecticut Department of Environmental Protection ("DEP"). Under the CTA, Marlin is required to investigate areas of environmental concern at the North Haven facility and to clean up contamination exceeding state standards to the satisfaction of the

DEP. The investigation of the North Haven facility is ongoing. Remediation costs may be incurred, but such costs at this time are not expected to be material to operations or cash flows.

Marlin has also conducted other remediation activities at its idled Gardner, Massachusetts facility and a former facility in New Haven, Connecticut. Costs for remediation at both of these locations are not expected to be material.

Regulatory Developments

The manufacture, sale, purchase, possession and use of firearms are subject to extensive federal, state and local governmental regulations. The primary federal laws are the National Firearms Act of 1934 ("NFA"), the Gun Control Act of 1968 ("GCA"), the Arms Export Control Act of 1976 ("AECA") and the Firearms and Ammunition Excise Tax ("FAET"), which have been amended from time to time. The NFA, GCA and imports under the AECA are administered and enforced by the Bureau of Alcohol, Tobacco, Firearms and Explosives through the Department of Justice; exports under the AECA are administered and enforced by the Directorate of Defense Trade Controls through the Department of State and by the Bureau of Industry and Security through the Department of Commerce; and the FAET is administered and enforced by the Alcohol and Tobacco Tax and Trade Bureau through the Department of Treasury. We maintain valid federal licenses and registrations at our locations as required by these agencies for the Company to import, manufacture and sell firearms and ammunition. The NFA places various restrictions on certain firearms defined in that regulation including fully automatic firearms, short barreled rifles, short barreled shotguns, silencers and destructive devices. We do manufacture or import limited products regulated under the NFA primarily for official government and law enforcement end users. The GCA places certain restrictions on the interstate sale of firearms, among other things. The AECA requires approved licenses to be in place prior to the import or export of certain firearms, ammunition and explosives. The FAET imposes a federal tax on the sale of or use by the manufacturer, producer or importer of firearms and ammunition. There is no assurance that the administrative branches responsible for approving import and export licenses or transfers of NFA firearms or other firearms to our customers will do so in all cases, and failure to obtain such approvals could adversely affect our business. In addition changes in the tax laws or rates could adversely affect our business.

In September 2004, the United States Congress declined to renew the Federal Assault Weapons Ban of 1994 ("AWB") which generally prohibited the manufacture of certain firearms defined under that statute as "assault weapons" as well as the sale or possession of "assault weapons" except for those that, prior to the law's enactment, were legally in the owner's possession. Various states and local jurisdictions have adopted their own version of the AWB and some of those apply to Bushmaster, DPMS and certain Remington sporting firearms products. We cannot guarantee that an "assault weapons" ban similar to the AWB, or another version thereof, will not be re-enacted. Legislation of this type, if enacted, could have a material adverse effect on our business.

At the federal level, bills have been introduced in Congress to establish, and to consider the feasibility of establishing, a nationwide database recording so-called "ballistic images" of ammunition fired from new firearms. Should such a mandatory database be established, the cost to the Company and its customers could be significant, depending on the type of firearms and ballistic information included in the database. Other bills have been introduced in Congress in the past several years that would restrict or prohibit the manufacture, transfer, importation or sale of certain calibers of handgun ammunition, impose a tax and import controls on bullets designed to penetrate bullet-proof vests, impose a special occupational tax and registration requirements on manufacturers of handgun ammunition, and increase the tax on handgun ammunition in certain calibers. In addition to federal requirements, state and local laws and regulations may place additional restrictions on firearms and ammunition manufacture, sale, purchase, possession and use. For example, two states have established regulations requiring "ballistic imaging" registries of ammunition fired from new handguns; one has established regulations requiring ammunition "microstamping" capabilities for all new introductions of handgun models to be transferred for sale into that state; several others ban the sale, possession and use of firearms altogether; and several others require firearms to be sold with internal or external locking mechanisms. At least four states have current bills proposing requirements for "bullet serialization" for ammunition or "microstamping" capabilities for certain firearms. Some of these bills would apply to ammunition and firearms of the kind we produce. Generally, there are numerous other bills proposed at both the state and local levels that could restrict or otherwise prohibit the manufacture, sale, purchase, possession or use of firearms and ammunition. In summary, there can be no assurance that the regulation of firearms and ammunition will not become more restrictive in the future, and more restrictive legislation could have a material adverse effect on the business of the Company.

Some states and other governmental entities have recently enacted, and others are considering, legislation restricting or prohibiting the ownership, use or sale of certain categories of firearms and/or ammunition. Although numerous jurisdictions presently have mandatory waiting periods for the sale of handguns (and some for the sale of long guns as well), there are currently few restrictive state or municipal regulations applicable to handgun ammunition. Our firearms are covered under several recently enacted state regulations requiring guns to be sold with internal or external locking mechanisms. Some states are considering mandating certain design features on safety grounds, most of which would be applicable only to handguns. We believe that hunter safety issues may affect sales of firearms, ammunition and other shooting-related products. There can be no assurance that the regulation of firearms and ammunition will not become more restrictive in the future, and more restrictive legislation in this area could have a material adverse effect on the business of the Company.

We are no longer a defendant in any lawsuits brought by municipalities against participants in the firearms industry. In addition, legislation has been enacted in approximately 34 states precluding such actions. Similar federal legislation, entitled “The Protection of Lawful Commerce in Arms Act” was signed into law by President Bush on October 26, 2005, after being passed by the U.S. Senate in August 2005 and by the House of Representatives in October 2005. However, the applicability of the law to various types of governmental and private lawsuits has been challenged. Any court decision restricting the applicability of the law could adversely impact the business of the Company.

We believe that existing federal and state regulation regarding firearms and ammunition has not had a material adverse effect on our sales of these products to date. However, there can be no assurance that federal, state, local or foreign regulation of firearms and/or ammunition will not become more restrictive in the future and that any such development would not have a material adverse effect on our business either directly or by placing additional burdens on those who distribute and sell our products or those consumers who purchase our products.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk in the normal course of our business operations due to our purchases of certain commodities and our ongoing investing and financing activities. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. We have established policies and procedures governing our management of market risks and the use of financial instruments to manage exposure to such risks.

Certain of our financial instruments are subject to interest rate risk. As of September 30, 2010 and 2009, we had long-term borrowings of $498.3 million and $205.2 million, respectively, excluding $0.7 million for both periods, classified as the current portion of long-term debt, of which zero and $8.7 million, respectively, was issued at variable rates. Assuming no changes in the monthly average variable-rate debt levels of $1.7 million and $100.4 million for the twelve months ended September 30, 2010 and 2009, respectively, we estimate that a hypothetical change of 100 basis points in the LIBOR and Alternate Base Rate interest rates would impact interest expense at September 30, 2010 and 2009 by zero and $1.0 million, respectively, on an annualized pretax basis.

We purchase copper and lead options contracts to hedge against price fluctuations of anticipated commodity purchases. Lead and copper prices have experienced significant volatility over the past five years and have increased during the past year primarily due to increased demand (including increased demand from India and China).

The amounts of premiums paid for commodity contracts outstanding at September 30, 2010 were $2.1 million, which was $2.6 million lower than the same date in 2009, as fewer contracts were entered into in the last twelve months. At September 30, 2010 and 2009, the market value of our outstanding contracts relating to firm commitments and anticipated purchases up to eight months from the respective date was $2.2 million and $11.1 million, respectively, as determined with the assistance of the Company’s counterparty. Assuming a hypothetical 10% increase in lead and copper commodity prices which are currently hedged at September 30, 2010 and 2009, we would experience an approximate $2.1 million and $3.6 million, respectively, increase in our cost of related inventory purchased on an annualized pre-tax basis, which would be partially offset by an approximate $1.6 million and $3.2 million, respectively, increase in the value of related hedging instruments.

We also purchase steel supplies for use in the manufacture of certain firearms, ammunition, and accessory products. Assuming a hypothetical 10% increase in steel prices at September 30, 2010 and 2009, we would experience an approximate $0.9 and $0.8 million increase, respectively, in our cost of related inventory purchased on an annualized pre-tax basis.

We do not believe that we have a material exposure to fluctuations in foreign currencies. We do not hold or issue financial instruments for speculative purposes.

Item 4. Legal Proceedings

Under the terms of the Purchase Agreement, DuPont and its affiliates retained liability for, and are required to indemnify us against, with respect to Remington:

- liability in excess of our limited financial responsibility for environmental claims and disclosed product liability claims relating to pre-closing occurrences;
- liability for product liability litigation related to discontinued products; and
- certain tax liabilities, and employee and retiree compensation and benefit liabilities and intercompany accounts payable which do not represent trade accounts payable.

These indemnification obligations of DuPont and its affiliates are not subject to any survival period limitation. We have no current information on the extent, if any, to which DuPont and its affiliates have insured these indemnification obligations. Except for certain cases and claims relating to shotguns as described below, and except for all cases and claims relating to products discontinued prior to the Asset Purchase, we generally bear financial responsibility for the costs of product liability cases and claims relating to occurrences after the Asset Purchase and are required to indemnify DuPont and its affiliates against such cases and claims. See "—Certain Indemnities."

There are no current DPMS or Bushmaster legal proceedings; however, we are voluntarily developing and submitting a stewardship plan for the Maine DEP for certain sites Bushmaster leased for firearms testing. Costs for the stewardship efforts at these sites are not expected to be material.

The main types of legal proceedings to which we are subject include:

- product liability litigation filed by individuals;
- product liability litigation filed by municipalities; and
- environmental litigation.

Product Related Litigation

We maintain insurance coverage for product liability claims subject to certain self-insured retentions on a per-occurrence basis for personal injury or property damage with respect to Remington (relating to occurrences arising after the Asset Purchase), Marlin, Bushmaster, DPMS and our other brands and products. We believe that our current product liability insurance coverage for personal injury and property damage is adequate for our needs. Our current product liability insurance policy provides for certain self-insured retention amounts per occurrence. The policy excludes from coverage any pollution-related liability. Based in part on the nature of our products, there can be no assurance that we will be able to obtain adequate product liability insurance coverage upon the expiration of the current policy. Our current product liability insurance policy expires December 1, 2010.

As of September 30, 2010, Bushmaster and DPMS did not have any bodily injury cases or claims pending relating to their firearms.

As a result of contractual arrangements, we manage the joint defense of product liability litigation involving *Remington* brand firearms and our ammunition products for both Remington and DuPont and its affiliates. As of September 30, 2010, approximately 17 individual bodily injury cases and claims were pending relating to firearms and our ammunitions products, primarily alleging defective product design, defective manufacture and/or failure to provide adequate warnings; some of these cases seek punitive as well as compensatory damages. We have previously disposed of a number of other cases involving post-Asset Purchase occurrences involving *Remington* brand firearms and our ammunition products by settlement. The 17 pending cases involve pre and post-Asset Purchase occurrences for which we or DuPont bear responsibility under the Purchase Agreement. In addition, we have two class action cases pending relating to breach of warranty claims concerning certain of our firearms products where economic damages are being claimed.

The relief sought in individual cases includes compensatory and, sometimes, punitive damages. Certain of the claims and cases seek unspecified compensatory and/or punitive damages. In others, compensatory damages sought may range from less than $50,000 to in excess of $1 million and punitive damages sought may exceed $1 million. Of the individual post-Asset Purchase bodily injury cases and claims pending as of September 30, 2010, plaintiffs and claimants seek either compensatory and/or punitive damages in unspecified amounts or in amounts within these general ranges. In our experience, initial demands do not generally bear a reasonable relationship to the facts and circumstances of a particular matter, and in any event, are typically reduced significantly as a case proceeds. We believe that our accruals for product liability cases and claims, as described below, are a better quantitative measure of the cost of product liability cases and claims.

At September 30, 2010, our accrual for product liability and other product related cases and claims was approximately $14.1 million. The amount of our accrual for these liability cases and claims is based upon estimates developed as follows. We establish reserves for anticipated defense and disposition costs to us of those pending cases and claims for which we are financially responsible. Based on those estimates and an actuarial analysis of actual defense and disposition costs incurred by us with respect to product liability cases and claims in recent years, we determine the estimated defense and disposition costs for unasserted product liability cases and claims. We combine the estimated defense and disposition costs for both pending and unasserted cases and claims to determine the amount of our accrual for product liability and product related cases and claims. It is reasonably possible additional experience could result in further increases or decreases in the period in which such information is made available. We believe that our accruals for losses relating to such cases and claims are adequate. Our accruals for losses relating to product liability and product related cases and claims include accruals for all probable losses the amount of which can be reasonably estimated. Based on the relevant circumstances (including, with respect to Remington-based claims, the current availability of insurance for personal injury and property damage with respect to cases and claims involving occurrences arising after the Asset Purchase, our accruals for the uninsured costs of such cases and claims and DuPont’s agreement to be responsible for a portion of certain post-Asset Purchase product liability costs, as well as the type of firearms products that we make), we do not believe with respect to product liability and product related cases and claims that any probable loss exceeding amounts already recognized through our accruals has been incurred.

Because our assumption of financial responsibility for certain Remington product liability cases and claims involving pre-Asset Purchase occurrences was limited to an amount that has now been fully paid, with DuPont and its affiliates retaining liability in excess of that amount and indemnifying us in respect of such liabilities, and because of our accruals with respect to such cases and claims, we believe that Remington product liability cases and claims involving occurrences arising prior to the Asset Purchase are not likely to have a material adverse effect upon our financial condition, results of operations or cash flows, nor do we believe at this time that there is an estimated range of reasonably possible additional losses. Moreover, although it is difficult to forecast the outcome of litigation, we do not believe, in light of relevant circumstances (including with respect to Remington based claims, the current availability of insurance for personal injury and property damage with respect to cases and claims involving occurrences arising after the Asset Purchase, our accruals for the uninsured costs of such cases and claims and the agreement of DuPont and its affiliates to be responsible for a portion of certain post-Asset Purchase product liability costs, as well as the type of firearms products that we make), that the outcome of all pending product liability cases and claims will be likely to have a material adverse effect upon our financial condition, results of operations or cash flows. Nonetheless, in part because the nature and extent of liability based on the manufacture and/or sale of allegedly defective products (particularly as to firearms and ammunition) is uncertain, there can be no assurance that our resources will be adequate to cover pending and future product liability occurrences, cases or claims, in the aggregate, or that a material adverse effect upon our financial condition, results of operations or cash flows will not result therefrom. However, it is reasonably possible that a significant shift in the litigation environment or deterioration in our loss development experience could result in an additional estimated expense of up to $4.4 million. Because of the nature of our products, we anticipate that we will continue to be involved in product liability and product related litigation in the future. Because of the potential nature of injuries relating to firearms and ammunition, certain public perceptions of our products, and recent efforts to expand liability of manufacturers of firearms and ammunition, product liability cases and claims, and insurance costs associated with such cases and claims, may cause us to incur material costs.

Municipal Litigation

In addition to these individual cases, as a manufacturer of shotguns and rifles, we have been named previously in several actions brought by various municipalities, primarily against manufacturers, distributors and sellers of handguns. However, we are not a defendant in any pending municipal litigation, nor have we been a defendant in such a matter in the last several years.

A majority of states have enacted some limitation on the ability of local governments to file such lawsuits against firearms manufacturers. However, the applicability of the laws to various types of governmental and private lawsuits has been challenged in both state and federal courts. Any court decision restricting the applicability of these laws could adversely impact our business.

Litigation Outlook

We are involved in lawsuits, claims, investigations and proceedings, including commercial, environmental, trade mark, trade dress and employment matters, which arise in the ordinary course of business. We do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our financial position, results of operations or cash flows.

Certain Indemnities

As of the closing of the Asset Purchase in December 1993 under the Purchase Agreement, Remington assumed:

- a number of specified liabilities, including certain trade payables and contractual obligations of DuPont and its affiliates;
- limited financial responsibility for specified product liability claims relating to disclosed occurrences arising prior to the Asset Purchase;
- limited financial responsibility for environmental claims relating to the operation of the Remington business prior to the Asset Purchase; and
- liabilities for product liability claims relating to occurrences after the Asset Purchase, except for claims involving products discontinued at the time of closing.

All other liabilities relating to or arising out of the operation of the Remington business prior to the Asset Purchase from DuPont are excluded liabilities ("Excluded Liabilities"), which DuPont and its affiliates retained. DuPont and its affiliates are required to indemnify us in respect of the Excluded Liabilities, which include, among other liabilities:

- liability in excess of our limited financial responsibility for environmental claims and disclosed product liability claims relating to pre-closing occurrences;
- liability for product liability litigation related to discontinued products; and
- certain tax liabilities, and employee and retiree compensation and benefit liabilities and intercompany accounts payable which do not represent trade accounts payable.

DuPont and its affiliates' overall liability in respect of their representations, covenants and the Excluded Liabilities under the Purchase Agreement, excluding environmental liabilities and product liability matters relating to events occurring prior to the purchase but not disclosed, or relating to discontinued products, is limited to $324.8 million. With a few exceptions, DuPont and its affiliates' representations under the Purchase Agreement have expired. We made claims for indemnification involving product liability issues prior to such expiration. See "—Product Related Litigation."

In addition, DuPont and its affiliates agreed in 1996 to indemnify Remington against a portion of certain product liability costs involving various shotguns manufactured prior to 1995 and arising from occurrences on or prior to November 30, 1999. These indemnification obligations of DuPont and its affiliates relating to product liability and environmental matters (subject to a limited exception) are not subject to any survival period limitation, deductible or other dollar threshold or cap. We and DuPont and its affiliates are also party to separate agreements setting forth agreed procedures for the management and disposition of environmental and product liability claims and proceedings relating to the operation or ownership of the Remington business prior to the Asset Purchase, and are currently engaged in the joint defense of certain product liability claims and proceedings. See "—Product Related Litigation."

Additionally as part of our recent acquisitions, the Company has received customary product liability, environmental, and legal indemnifications.