QUARTERLY REPORT

For the quarterly period ended:

June 30, 2012

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

June 30, 2012

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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 ‘‘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 "FGI Holding" refers to FGI Holding Company, LLC, (4) the term "FGI Opco" refers to FGI Operating Company, LLC, (5) the term "FGI Finance" refers to FGI Finance Inc., (6) the term ‘‘Remington’’ refers to Remington Arms Company, LLC and its direct and indirect subsidiaries, (7) the term ‘‘EOTAC’’ refers to EOTAC, LLC, (8) the term "Mountain Khakis" refers to Mountain Khakis, LLC, (9) the term "AAC" refers to Advanced Armament Corp., LLC, (10) the term "Barnes" refers to Barnes Bullets, LLC, (11) the term "Mountain Khakis Acquisition" refers to our joint venture of Mountain Khakis, (12) the term "Para" refers to Para USA, LLC, and (13) terms "2020 Notes", "Term Loan B", "New ABL", "PIK Notes," "Opco Notes," and "ABL Revolver" have the respective meanings given to them in the "Notes to Consolidated Financial Statements – Note 7 – Debt."

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 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 our 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 fluctuating 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 commodity option and swap 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 12% and 15% of our total sales for the six months ended June 30, 2012 and fiscal 2011, respectively, and 7% and 14% of our accounts receivable balance as of June 30, 2012 and December 31, 2011, respectively. Wal-Mart, together with another customer, accounted for approximately 15% and 21% of our accounts receivable balance as of June 30, 2012 and December 31, 2011, 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 and cash flows 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

Condensed Consolidated Balance Sheets

(Dollars in Millions, Except Par Value of Stock)

	Unaudited June 30, 2012	December 31, 2011	*Unaudited* June 30, 2011
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 7.9	$ 36.8	$ 38.1
Trade Receivables, net of $1.0, $0.8, and $0.8 allowance for bad debts at June 30, 2012, December 31, 2011, and June 30, 2011, respectively.	195.4	108.6	119.1
Inventories, net	186.3	130.9	139.2
Prepaid Expenses and Miscellaneous Receivables	12.5	11.5	16.6
Deferred Tax Assets	26.8	17.3	12.6
Other Current Assets	14.9	14.0	12.7
Total Current Assets	443.8	319.1	338.3
Property, Plant and Equipment, net	117.3	114.0	115.1
Goodwill	67.7	66.7	68.1
Intangible Assets, net	110.7	111.1	119.7
Other Assets	34.5	33.8	39.3
Total Assets	$ 774.0	$ 644.7	$ 680.5
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' DEFICIT			
Current Liabilities			
Accounts Payable	$ 75.5	$ 49.3	$ 65.3
Book Overdraft	9.0	-	-
Short-Term Borrowings	5.2	2.4	1.8
Current Portion of Product Liability	5.5	4.3	6.5
Accrued Expenses	81.5	71.7	72.2
Total Current Liabilities	176.7	127.7	145.8
Long-Term Debt, net	593.8	491.4	512.0
Retiree Benefits, net	63.5	66.1	52.0
Product Liability, net	12.3	12.3	11.1
Deferred Tax Liabilities	16.3	16.7	20.2
Other Long-Term Liabilities	19.1	22.0	23.2
Total Liabilities	881.7	736.2	764.3
Commitments and Contingencies (Note 13)			
Preferred Stock, Series A, at aggregate liquidation preference	30.4	28.9	27.6
Total Mezzanine Equity	30.4	28.9	27.6
Common Stock: 166,989 shares issued	0.2	0.2	0.2
Less: Treasury Stock	(3.4)	(3.4)	(3.5)
Accumulated Other Comprehensive Loss	(59.5)	(58.9)	(50.0)
Accumulated Deficit	(75.3)	(58.4)	(58.9)
Total Parent's Deficit	(138.0)	(120.5)	(112.2)
Noncontrolling Interest Equity	(0.1)	0.1	0.8
Total Stockholders' Deficit	(138.1)	(120.4)	(111.4)
Total Liabilities, Mezzanine Equity and Stockholders' Equity	$ 774.0	$ 644.7	$ 680.5

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

Freedom Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
(Dollars in Millions, except for Earnings Per Share Data)

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Net Sales	$ 233.8	$ 190.5	$ 439.4	$ 366.6
Cost of Goods Sold	153.7	134.4	289.0	266.2
Gross Profit	80.1	56.1	150.4	100.4
Selling, General and Administrative Expenses	46.0	34.8	84.9	73.8
Research and Development Expenses	3.2	3.0	6.3	5.6
Loss on Extinguishment of Debt	54.3	0.6	54.3	0.6
Other Expense	1.2	1.1	3.3	3.0
Operating Income (Loss)	(24.6)	16.6	1.6	17.4
Interest Expense	11.5	15.6	27.9	31.0
Income (Loss) before Income Taxes and Noncontrolling Interests	(36.1)	1.0	(26.3)	(13.6)
Income Tax Provision (Benefit)	(14.0)	0.2	(10.5)	(4.9)
Net Income (Loss)	(22.1)	0.8	(15.8)	(8.7)
Add: Net Loss Attributable to Noncontrolling Interest	0.2	0.1	0.2	0.2
Net Income (Loss) Attributable to Controlling Interest	$ (21.9)	$ 0.9	$ (15.6)	$ (8.5)
Net Income (Loss) Attributable to Controlling Interest	$ (21.9)	$ 0.9	$ (15.6)	$ (8.5)
Accretion of Preferred Stock	(0.8)	(0.6)	(1.5)	(1.3)
Net Income (Loss) Applicable to Common Stock	$ (22.7)	$ 0.3	$ (17.1)	$ (9.8)
Net Income (Loss) Per Common Share, Basic	$ (139.28)	$ 1.73	$ (104.81)	$ (59.80)
Net Income (Loss) Per Common Share, Diluted	$ (139.28)	$ 1.70	$ (104.81)	$ (59.80)
Weighted Average Number of Shares Outstanding, Basic	162,762	162,525	162,674	163,411
Weighted Average Number of Shares Outstanding, Diluted	162,762	165,789	162,674	163,411

Net Sales are presented net of Federal Excise taxes of $20.2 and $13.9 for the three months ended June 30, 2012 and 2011, respectively, and $35.9 and $27.7 for the six months ended June 30, 2012 and 2011, respectively.

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

Freedom Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Loss (Unaudited)
(Dollars in Millions)

	For the three months ended		For the six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Net Income (Loss)	$ (22.1)	$ 0.8	$ (15.8)	$ (8.7)
Other Comprehensive Loss:				
Net Unrealized Derivative Losses, net	(1.9)	(0.9)	(1.4)	(1.5)
Net Derivative Losses (Gains) Reclassified as Earnings, net	0.3	(0.7)	0.8	(0.8)
Total Other Comprehensive Loss	(1.6)	(1.6)	(0.6)	(2.3)
Comprehensive Loss	(23.7)	(0.8)	(16.4)	(11.0)
Add: Comprehensive Loss Attributable to Noncontrolling Interests	0.2	0.1	0.2	0.2
Total Comprehensive Loss Attributable to Controlling Interests	$ (23.5)	$ (0.7)	$ (16.2)	$ (10.8)

Taxes for net unrealized derivative losses that were recognized in accumulated other comprehensive income were $1.2 and $0.6 for the three months ended June 30, 2012 and 2011, respectively, and $0.9 and $1.0 for the six months ended June 30, 2012 and 2011, respectively.

Taxes for net derivative losses (gains) that were reclassified as earnings were $0.1 and ($0.4) for the three months ended June 30, 2012 and 2011, respectively, and $0.5 and ($0.5) for the six months ended June 30, 2012 and 2011, respectively.

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

Freedom Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Millions)

	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Operating Activities		
Net Loss	$ (15.8)	$ (8.7)
Adjustments:		
Depreciation and Amortization	13.4	14.3
Loss on Extinguishment of Debt	54.3	0.6
Contributions to Retirement Plans	(1.2)	(1.4)
Retirement Plan Expense (Income)	(1.4)	4.1
Deferred Income Taxes	(9.9)	(4.3)
Other Non-Cash Charges	0.5	0.9
Changes in Operating Assets and Liabilities,		
Trade Receivables, net	(86.7)	(16.9)
Inventories, net	(53.1)	(25.1)
Other Current Assets	(1.9)	6.8
Other Noncurrent Assets	0.4	0.5
Accounts Payable	24.0	13.7
Other Liabilities	(18.1)	11.9
Net Cash Used in Operating Activities	(95.5)	(3.6)
Investing Activities		
Purchase of Property, Plant and Equipment	(9.5)	(6.8)
Proceeds from Sale of Property, Plant and Equipment	0.1	0.6
Acquisition of Business, net of Cash Acquired	(4.9)	(1.4)
Net Cash Used in Investing Activities	(14.3)	(7.6)
Financing Activities		
Principal Payments on Debt	(502.4)	(2.2)
Proceeds from Issuance of Debt	576.7	-
Payments on Revolving Credit Facilities	(81.6)	-
Proceeds from Revolving Credit Facilities	101.3	-
Debt Issuance Costs	(22.1)	(0.2)
Acquisition of Preferred and Common Stock	-	(3.0)
Change in Book Overdraft	9.0	-
Net Cash Provided by (Used In) Financing Activities	80.9	(5.4)
Change in Cash and Cash Equivalents	(28.9)	(16.6)
Cash and Cash Equivalents at Beginning of Period	36.8	54.7
Cash and Cash Equivalents at End of Period	$ 7.9	$ 38.1
Supplemental Cash Flow Information:		
Cash Paid During the Period for:		
Interest	$ 68.3	$ 21.1
Income Taxes	5.7	0.4
Accrued Capital Expenditures	0.5	0.3

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

Freedom Group, Inc. and Subsidiaries

Condensed Statement of Stockholders' Equity (Deficit), Mezzanine Equity and Comprehensive Loss (Unaudited)

(Dollars in Millions)

	Common Stock	Treasury Stock	Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Controlling Interest Stockholders' Deficit	Non-Controlling Interest	Total Stockholders' Deficit	Mezzanine Equity Preferred Stockholders
Freedom Group, Inc and Subsidiaries									
Balance, December 31, 2010	$ 0.2	$ (2.3)	$ -	$ (47.7)	$ (47.6)	$ (97.4)	$ 1.0	$ (96.4)	$ 26.3
Net Loss					(8.5)	(8.5)	(0.2)	(8.7)	
Other Comprehensive Loss				(2.3)		(2.3)		(2.3)	
Share-Based Compensation			0.3			0.3		0.3	
Exercise of Stock Options		0.6			(1.8)	(1.2)		(1.2)	
Redemption of Stock		(1.8)				(1.8)		(1.8)	
Accretion of Preferred Stock			(0.3)		(1.0)	(1.3)		(1.3)	1.3
Balance, June 30, 2011	$ 0.2	$ (3.5)	$ -	$ (50.0)	$ (58.9)	$ (112.2)	$ 0.8	$ (111.4)	$ 27.6

	Common Stock	Treasury Stock	Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Controlling Interest Stockholders' Deficit	Non-Controlling Interest	Total Stockholders' Deficit	Mezzanine Equity Preferred Stockholders
Freedom Group, Inc and Subsidiaries									
Balance, December 31, 2011	$ 0.2	$ (3.4)	$ -	$ (58.9)	$ (58.4)	$ (120.5)	$ 0.1	$ (120.4)	$ 28.9
Net Loss					(15.6)	(15.6)	(0.2)	(15.8)	
Other Comprehensive Loss				(0.6)		(0.6)		(0.6)	
Share-Based Compensation			0.2			0.2		0.2	
Accretion of Preferred Stock			(0.2)		(1.3)	(1.5)		(1.5)	1.5
Balance, June 30, 2012	$ 0.2	$ (3.4)	$ -	$ (59.5)	$ (75.3)	$ (138.0)	$ (0.1)	$ (138.1)	$ 30.4

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

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

Note 1 -- Basis of Presentation

The accompanying unaudited interim consolidated financial statements include those of Freedom Group, Inc. ("FGI" or the "Company") and its subsidiaries. FGI owns 100% of FGI Holding Company, LLC ("FGI Holding"), which in turn owns 100% of FGI Operating Company, LLC ("FGI Opco"). FGI Opco includes the financial results of Remington Arms Company, LLC ("Remington"), Barnes Bullets, LLC ("Barnes"), E-RPC, LLC ("E-RPC"), RA Brands, L.L.C. and Outdoor Services, LLC ("Outdoor Services"). Remington, in turn, owns Advanced Armament Corp., LLC ("AAC"), a 75% interest in Mountain Khakis, LLC ("Mountain Khakis"), and an 84% interest in EOTAC, LLC ("EOTAC"). E-RPC owns Para USA, LLC ("Para"). These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of FGI and its subsidiaries as of and for the year ended December 31, 2011. 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. Certain amounts reported in prior periods have been reclassified to conform to the presentation at June 30, 2012.

Note 2 -- Business Combination

On January 30, 2012, the Company acquired certain assets and assumed certain liabilities of Para USA, Inc. (the "Para Acquisition") for approximately $5.0 of cash. Para USA, Inc. manufactures and markets handguns and the Company expects the acquisition will augment both its existing 1911R handgun product line and research and development capabilities.

The Para Acquisition is being accounted for as a business combination using the acquisition method, in accordance with FASB 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. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in accordance with FASB ASC 805. The goodwill generated in the Para Acquisition will be deductible for tax purposes. The preliminary allocation is subject to valuations which are not yet complete.

	Para USA, LLC
Cash	$ 0.1
Accounts Receivable	0.1
Inventory	2.9
Property, Plant and Equipment	1.9
Other Noncurrent Assets	0.2
Intangible Assets	3.1
Goodwill	0.9
Total Assets Acquired	$ 9.2
Accounts Payable	$ 2.0
Other Non-Current Liabilities	2.2
Total Liabilities Assumed	$ 4.2
Total Assets Acquired Less Liabilities Assumed	5.0
Estimated Acquisition Cost	$ 5.0

Pro Forma Financial Information (Unaudited)

The following unaudited pro forma results of operations assume that the Para Acquisition occurred on January 1 of each of the respective years. Income taxes are provided at the estimated statutory rate. This unaudited pro forma information should not be relied upon as necessarily being indicative of historical results that would have been obtained if the acquisitions had actually occurred on that date, nor of the results that may be obtained in the future.

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

For the Periods Ended	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net Sales	$233.8	$193.0	$439.8	$371.6
Operating Income	(24.6)	15.7	1.2	15.6
Net Income (Loss) Attributable to Controlling Interest	(21.9)	0.3	(15.9)	(9.7)

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 use of observable 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 June 30, 2012, December 31, 2011, and June 30, 2011:

	Level 1	Level 2	Level 3	Total
June 30, 2012:				
Assets				
Commodity Contract Derivatives [1, 2]	N/A	$ 0.2	N/A	$ 0.2
Liabilities				
Commodity Contract Derivatives [1, 2]	N/A	$ 1.6	N/A	$ 1.6
December 31, 2011:				
Assets				
Commodity Contract Derivatives [1]	N/A	$ 2.5	N/A	$ 2.5
June 30, 2011:				
Assets				
Commodity Contract Derivatives [1]	N/A	$ 2.0	N/A	$ 2.0

[1] The fair values of commodity option and swap contracts are classified within Level 2 because the contracts are not listed on an exchange, but their measurements are based on observable inputs such as spot and future commodity prices. Refer to Note 14.

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

[2] The fair values of swap contracts expected to settle within the next twelve months are classified as current liabilities and those expected to settle beyond twelve months are classified as noncurrent assets. Refer to Note 14.

Other Fair Value Measurements and Concentrations of Credit Risk

Due to their liquid nature, the carrying values of cash and cash equivalents, trade receivables, accounts payable, book overdrafts, income taxes payable and receivable, and other noncurrent accrued liabilities are considered representative of their fair values. The Company's debt had an estimated fair value of $613.4, $503.2, and $531.0 as of June 30, 2012, December 31, 2011, and June 30, 2011, respectively, and a carrying value of $599.0, $493.8, and $513.8 as of June 30, 2012, December 31, 2011, and June 30, 2011, respectively. The fair value of the Company's fixed rate notes was measured using the active quoted trading price of its notes at June 30, 2012, December 31, 2011, and June 30, 2011 which is considered a Level 1 input. The carrying value of the Term Loan B approximated its fair value since it yields interest based on prevailing variable market rates.

The Company also has concentrations of credit risk with certain customers. Approximately 9.8% and 9.9% of total net sales for the three months ended June 30, 2012 and 2011, respectively, and 11.7% and 10.9% of total net sales for the six months ended June 30, 2012 and 2011, respectively, consisted of sales made to one customer from all reportable business segments.

Note 4 – Inventories, Net

Inventories consist of the following at:

	June 30, 2012	December 31, 2011	June 30, 2011
Raw Materials	$ 72.9	$ 53.5	$ 56.8
Semi-Finished Products	37.4	36.3	36.2
Finished Products	76.0	41.1	46.2
Total	$ 186.3	$ 130.9	$ 139.2

Note 5 -- Goodwill and Other Intangible Assets

The change in the carrying amount of goodwill for the six and twelve months ended June 30, 2012 by reporting segment is as follows:

Goodwill	June 30, 2012	Net Adjustments	Dec. 31, 2011	Net Adjustments	June 30, 2011
Firearms:					
gross carrying value [1, 2]	$ 80.4	$ 1.3	$ 79.1	$ -	$ 79.1
aggregate impairment	(36.8)	-	(36.8)	-	(36.8)
Net	43.6	1.3	42.3	-	42.3
Ammunition:					
gross carrying value	28.7	-	28.7	-	28.7
aggregate impairment	(4.8)	-	(4.8)	-	(4.8)
Net	23.9	-	23.9	-	23.9
All Other and Reconciling Items:					
gross carrying value [2]	11.2	(0.3)	11.5	-	11.5
aggregate impairment [3]	(11.0)	-	(11.0)	(1.4)	(9.6)
Net	0.2	(0.3)	0.5	(1.4)	1.9
Total	$ 67.7	$ 1.0	$ 66.7	$ (1.4)	$ 68.1

[1] As a result of the Para Acquisition, $0.9 of goodwill was recognized.

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

[2] A separate adjustment of approximately $0.3 was made to the Firearms segment's goodwill related to a business combination that occurred in a previous period. The $0.3 adjustment was reclassified from All Other and Reconciling Items.

[3] In October 2011, Mountain Khakis' goodwill was reduced to zero and a $1.4 impairment charge was recognized stemming from the Company's annual impairment testing.

The gross carrying amount and accumulated amortization of the Company's identifiable intangible assets at June 30, 2012, December 31, 2011 and June 30, 2011 are comprised of the following:

	June 30, 2012 Gross Balance	Accumulated Amortization	June 30, 2012 Net Balance	Amortization Period
Goodwill	$ 67.7	N/A	$ 67.7	Indefinite
Identifiable Intangible Assets				
Tradenames/Trademarks	$ 69.9	N/A	$ 69.9	Indefinite
Customer Relationships/Lists	47.8	$ (15.7)	32.1	14.2 Years [1]
License Agreements	8.5	(6.2)	2.3	7.0 Years [1]
Unpatented Technology	14.3	(8.9)	5.4	7.1 Years [1]
Other	4.1	(3.1)	1.0	4.2 Years [1]
Total Intangible Assets	144.6	(33.9)	110.7	11.5 Years [1]
Total Goodwill and Intangibles	$ 212.3	$ (33.9)	$ 178.4	

	December 31, 2011 Gross Balance	Accumulated Amortization	December 31, 2011 Net Balance	Amortization Period
Goodwill	$ 66.7	N/A	$ 66.7	Indefinite
Identifiable Intangible Assets				
Tradenames/Trademarks	$ 67.9	N/A	$ 67.9	Indefinite
Customer Relationships/Lists	47.8	$ (14.2)	33.6	14.5 Years [1]
License Agreements	8.5	(5.5)	3.0	7.0 Years [1]
Unpatented Technology	13.2	(7.9)	5.3	7.3 Years [1]
Other	4.1	(2.8)	1.3	4.2 Years [1]
Total Intangible Assets	141.5	(30.4)	111.1	11.8 Years [1]
Total Goodwill and Intangibles	$ 208.2	$ (30.4)	$ 177.8	

	June 30, 2011 Gross Balance	Accumulated Amortization	June 30, 2011 Net Balance	Amortization Period
Goodwill	$ 68.1	N/A	$ 68.1	Indefinite
Identifiable Intangible Assets				
Tradenames/Trademarks	$ 73.0	N/A	$ 73.0	Indefinite
Customer Relationships/Lists	47.9	$ (12.5)	35.4	14.5 Years [1]
License Agreements	8.5	(5.0)	3.5	7.0 Years [1]
Unpatented Technology	13.2	(6.9)	6.3	7.3 Years [1]
Other	4.1	(2.6)	1.5	4.2 Years [1]
Total Intangible Assets	146.7	(27.0)	119.7	11.8 Years [1]
Total Goodwill and Intangibles	$ 214.8	$ (27.0)	$ 187.8	

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

[1] Represents weighted average amortization period for the capitalized balance of the intangible asset.

Amortization expense related to intangible assets was $1.8 and $3.5 for the three and six months ended June 30, 2012, respectively, and $1.7 and $3.4 for the three and six months ended June 30, 2011, respectively.

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

Year	Amount
2012 (remainder of fiscal year)	$ 3.4
2013	6.6
2014	4.5
2015	3.9
2016	3.1
Thereafter	19.3
Total	$ 40.8

Note 6 -- Accrued Expenses

Accrued Expenses consisted of the following at:

	June 30, 2012	December 31, 2011	June 30, 2011
Marketing	$ 15.8	$ 18.0	$ 12.4
Excise Tax	20.0	18.2	14.2
Interest	7.6	15.4	15.2
Incentive Compensation	9.3	-	2.5
Other	28.8	20.1	27.9
Total	$ 81.5	$ 71.7	$ 72.2

Note 7 -- Debt

Long-term debt consisted of the following at,

	June 30, 2012	December 31, 2011	June 30, 2011
7.875% Senior Secured Notes due 2020 (the “2020 Notes”)	$ 250.0	$ -	$ -
Seven Year Term Loan B (the “Term Loan B”)	326.8	-	-
Revolving Credit Facility (the “New ABL”)	19.7	-	-
10.25% Senior Secured Notes due 2015 (the “Opco Notes”)	-	247.6	275.2
11.25%/11.75% Pay-In-Kind Notes (the “PIK Notes”)	-	241.8	234.5
Mountain Khakis Notes	1.2	1.5	1.5
Short-Term Debt	0.5	1.9	1.4
Capital Lease Obligations	0.8	1.0	1.2
Subtotal	599.0	493.8	513.8
Less: Current Portion	(5.2)	(2.4)	(1.8)
Total	$ 593.8	$ 491.4	$ 512.0

At June 30, 2012, the weighted average interest rate on the New ABL was 3.6% and approximately $123.0 in additional borrowings, including the minimum availability requirement of $22.5, was available. The Company was in compliance with its debt covenants as of June 30, 2012, and outstanding standby letters of credit were approximately $7.0.

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

2012 Debt Refinancing

On April 19, 2012 (the "Issue Date"), the Company's wholly-owned subsidiaries, FGI Opco and FGI Finance Inc. ("FGI Finance" and together with FGI Opco, the "Issuers") issued $250.0 in aggregate principal amount of 7.875% Senior Secured Notes due 2020 (the "2020 Notes"). FGI Finance was formed in April 2012 and is a wholly-owned subsidiary of FGI Opco. FGI Finance exists solely to act as a co-issuer of the 2020 Notes. FGI Opco also contemporaneously entered into a seven year $330.0 senior secured Term Loan B Facility (the "Term Loan B") and a five year $150.0 Asset-Based Revolving Credit Facility (the "New ABL", together with the Term Loan B, the "Credit Facilities"). The Company capitalized $22.1 of costs directly related to the 2020 Notes, Term Loan B, and New ABL. The issuance of the 2020 Notes, the borrowings under the Credit Facilities and the related repayments of outstanding indebtedness are referred to collectively as the "2012 Refinancings". The Company used the proceeds of the 2020 Notes, Term Loan B and borrowings under the New ABL to redeem the outstanding Opco Notes and PIK Notes and to repay amounts outstanding under the old ABL. The 2012 Refinancings resulted in a $54.3 loss that was recognized in earnings.

7.875% Senior Secured Notes due 2020

The 2020 Notes are guaranteed by FGI, FGI Holding and each of FGI Opco's wholly-owned domestic restricted subsidiaries that are borrowers or guarantors under the New ABL and Term Loan B (collectively, the "Guarantors"). Interest is payable on the 2020 Notes semi-annually on May 1 and November 1, commencing on November 1, 2012.

The Issuers may redeem some or all of the 2020 Notes at any time prior to May 1, 2015 at a price equal to 100% of the principal amount thereof plus the make-whole premium. The make-whole premium is the greater of (1) 1.0% of the then outstanding principal amount of the 2020 Notes or (2) the excess of the present value of the redemption price of the 2020 Notes on May 1, 2015 plus all required interest payments due on the 2020 Notes through May 1, 2015 (excluding accrued but unpaid interest), computed using the discount rate as of such redemption date plus 50 basis points over the then outstanding principal amount of the 2020 Notes. Thereafter, the 2020 Notes will be redeemable in whole or in part at the redemption prices set forth below beginning on May 1 of each of the noted years:

Period Redemption Price	
2015	105.906%
2016	103.938%
2017	101.969%
2018 and thereafter	100.000%

The Issuers may also redeem up to 35% of the outstanding 2020 Notes on or prior to May 1, 2015 with the proceeds of certain equity offerings at the redemption price of 107.875%.

The 2020 Notes and guarantees, with the exception of FGI's guarantee which is unsecured, are secured by a third-priority lien on substantially all existing and future assets of FGI Holding, the Issuers and the subsidiary guarantors that secure the New ABL and the Term Loan B, other than real property which is only secured by the Term Loan B. The collateral consists of substantially all of the Guarantors' (other than FGI's) tangible and intangible assets, other than real property and certain other exceptions. The indenture governing the 2020 Notes contains covenants which include, among others, limitations on restricted payments; incurrence of indebtedness; issuance of disqualified stock and preferred stock; merger, consolidation or sale of all or substantially all assets; transactions with affiliates; and dividend and other payments. The 2020 Notes also include customary events of default.

Term Loan B

The Term Loan B agreement was entered into by FGI Opco as the borrower and is guaranteed by FGI Holding and each of FGI Opco's wholly-owned direct and indirect domestic subsidiaries, excluding Outdoor Services. FGI Opco may designate, at its discretion, from time to time, certain subsidiaries that are not guarantors.

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

The Term Loan B has a first priority lien on all of FGI Opco and the Guarantors' tangible and intangible assets, including 100% of the subsidiaries' capital stock, but excluding accounts receivable, inventory and certain general intangibles, including intellectual property (the "ABL Priority Collateral"). The Term Loan B will have a second priority lien on all ABL Priority Collateral.

Borrowings under the Term Loan B bear interest at an annual rate of either (a) the LIBOR rate (with a floor of 1.25%) plus a spread or (b) the base rate (with a floor of 2.25%) plus a spread. The Term Loan B will have annual amortization payments due each year in an amount equal to 1% of the original principal balance thereof, with the balance due at maturity. The Borrower may at any time after the first anniversary of the Issue Date, without premium or penalty, voluntarily prepay the Term Loan in whole or in part, and prior to the first anniversary of the Issue Date, voluntarily prepay the Term Loan B in whole or in part subject, in certain circumstances to a payment of a 1% premium of the amount prepaid. The Term Loan B also had an accordion feature that was subsequently exercised.

New ABL

The New ABL is a five year $150.0 Asset-Based Revolving Credit Facility, including sub-limits for letters of credit and swingline loans. Subject to certain terms and conditions, the borrowing limit under the New ABL may be increased to $255.0. FGI Holding and FGI Opco's existing wholly-owned direct and indirect domestic subsidiaries other than Outdoor Services are either a borrower or guarantor under the New ABL. FGI Opco may designate, at its discretion, from time to time, certain subsidiaries that are not borrowers or guarantors. The New ABL has a first lien claim on the ABL Priority Collateral, in addition to a second lien claim on the Term Loan B collateral other than real property.

Borrowings under the New ABL bear interest at an annual rate of either (a) the LIBOR rate plus a spread or (b) the base rate plus a spread. The LIBOR and base rate spreads fluctuate based on the amount of available borrowing capacity under the New ABL as provided in the New ABL. The New ABL includes an unused line fee of 0.375% that will be charged at an annual rate to be paid monthly in arrears. FGI Opco will pay a fee on letters of credit equal to the applicable LIBOR margin and a fronting fee equal to 0.125% per annum, in each case to be paid monthly in arrears.

The Credit Facilities contain customary covenants applicable to FGI Opco and its subsidiaries, other than certain unrestricted subsidiaries. The Credit Facilities contain certain covenants, as well as restrictions on, among other things, the ability of FGI Opco and its subsidiaries to: incur debt; incur liens; declare or make distributions to stockholders; make loans and investments; repay debt; enter into mergers, acquisitions and other business combinations; engage in asset sales; amend or modify governing documents; engage in businesses other than business as currently conducted; and enter into transactions with affiliates. The Credit Facilities include customary events of default, including cross-defaults to the 2020 Notes and other indebtedness.

Note 8 -- Stock Compensation

Restricted Stock/Restricted Units

A summary of the restricted common unit/share activity for the six months ended June 30, 2012 is as follows:

	Restricted Common Units/Shares Outstanding	Weighted Average Grant Date Fair Value	Units/Shares Vested
Balance January 1, 2012	1,990	$ 623.61	1,278
Granted	-	-	
Forfeited	475	1,164.00	
Balance June 30, 2012	1,515	$ 445.38	1,515

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

Compensation expense was approximately zero and $0.1 for the three and six months ended June 30, 2012, respectively. With the forfeiture of the 475 non-vested shares during the period, all shares of restricted stock are vested and the Company will not recognize any additional compensation costs until future awards are granted.

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 (the "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 efforts for the success of FGI and its subsidiaries.

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 24,247 shares, including approximately 1,234 shares which are restricted shares and not stock options, subject to certain adjustments as set forth in the Plan.

Also 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.

The vesting of the options occurs at various times through March 2013. For the three and six months ended June 30, 2012, the Company recognized less than $0.1 and $0.1, respectively, in expense related to these options. In addition, the Company expects to recognize approximately $0.1 in remaining compensation cost for the non-vested stock options through 2013.

A summary of the stock option activity for the Plan for the six months ended June 30, 2012 is as follows:

	Number of Awards	Weighted Average Exercise Price
Awards outstanding, January 1, 2012	5,664	$419.08
Granted	-	-
Forfeited	219	1,164.00
Awards outstanding, June 30, 2012	5,445	$389.05
Awards vested, June 30, 2012	5,164	$346.89
Shares available for grant, June 30, 2012	13,047	

Note 9 -- Mezzanine and Stockholders' Equity

The Company is authorized to issue 200,000 shares of $0.01 par value preferred stock as approved by the FGI Board. As of June 30, 2012, there were 190,000 shares of preferred stock approved for issuance as Series A with no other approved classes of preferred stock issued or outstanding. The Company is also authorized to issue 200,000 shares of $0.01 par value common stock. Activity for the Series A preferred stock and common stock is summarized below:

	Issued	Held in Treasury	Outstanding
Shares of Preferred Stock at June 30, 2011	186,977	(168,327)	18,650
Shares of Preferred Stock at December 31, 2011	186,977	(168,327)	18,650
Shares of Preferred Stock at June 30, 2012	186,977	(168,327)	18,650

	Issued	Held in Treasury	Outstanding
Shares of Common Stock at June 30, 2011	166,989	(3,651)	163,338
Purchases and Stock Option Exercises	-	(101)	(101)
Shares of Common Stock at December 31, 2011	166,989	(3,752)	163,237
Forfeitures of Restricted Common Stock [1]	-	(475)	(475)
Shares of Common Stock at June 30, 2012	166,989	(4,227)	162,762

[1] Refer to Note 8.

Note 10 – Net Income (Loss) Per Share

The following table sets forth the computation of basic and diluted net income/loss per share for the periods indicated (in millions, except share and per share amounts):

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Numerator:				
Net Income (Loss) Attributable to Controllable Interest	$ (21.9)	$ 0.9	$ (15.6)	$ (8.5)
Accretion of Preferred Stock	(0.8)	(0.6)	(1.5)	(1.3)
Net Income (Loss) Applicable to Common Stock	$ (22.7)	$ 0.3	$ (17.1)	$ (9.8)
Denominator:				
Weighted Average Common Shares Outstanding (Basic)	162,762	162,525	162,674	163,411
Weighted Average Common Shares Outstanding (Diluted)	162,762	165,789	162,674	163,411
Income (Loss) Per Common Share:				
Basic	$ (139.28)	$ 1.73	$ (104.81)	$ (59.80)
Diluted	$ (139.28)	$ 1.70	$ (104.81)	$ (59.80)
Common Share Equivalents of Potentially Dilutive Securities:				
Restricted Stock	-	-	-	949
Stock Options	5,445	-	5,445	6,308
Total	5,445	-	5,445	7,257

Note 11 -- Income Taxes

The effective tax rate on continuing operations for the six months ended June 30, 2012 and 2011 was 39.9% and 36.0%, 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 June 30, 2012 and 2011.

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

Note 12 -- Retiree Benefits

Defined Benefit Pension Plans:

The Company sponsors two defined benefit pension plans and a supplemental defined benefit pension plan for certain of its employees. For disclosure purposes, the three defined benefit plans 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 per month per year of credited service, 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 June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Service Cost	$ —	$ 0.1	$ 0.1	$ 0.1
Interest Cost	2.8	3.1	5.5	6.1
Expected Return on Assets	(4.3)	(4.4)	(8.6)	(8.7)
Amortization of Loss	0.7	2.9	1.3	5.8
Total Cost / (Income)	$ (0.8)	$ 1.7	$ (1.7)	$ 3.3

Anticipated Contributions

The Company expects to make aggregate cash contributions of approximately $4.2 to the Plans during the year ending December 31, 2012 and has contributed approximately $1.0 to the Plans as of June 30, 2012.

Other Post-Employment Benefit Plans:

The following tables summarize the components of net periodic post-retirement cost for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Service Cost	$—	$—	$—	$—
Interest Cost	0.1	0.1	0.3	0.2
Amortization of Prior Service Cost	—	—	—	—
Recognized Net Loss	—	—	—	—
Total Cost	$0.1	$0.1	$0.3	$0.2

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 three 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) and 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 June 30, 2012, the Company had five class action cases pending relating to breach of warranty claims concerning certain of its firearms products where economic damages were being claimed.

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. At June 30, 2012, December 31, 2011, and June 30, 2011, the Company's accrual for product liability cases and claims was $17.8, $16.6, and $17.6, respectively.

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

Note 14 -- Derivatives

The Company enters into copper and lead hedging contracts to hedge against price fluctuations of anticipated commodity purchases. Historically, the Company has purchased copper and lead options contracts for its hedging activities. In 2011, however, other hedging vehicles were used when copper and lead prices began to decline toward the end of 2011. The Company began entering into commodity swap contracts, whereby future copper and lead are purchased at a fixed price without making premium payments at the contract's commencement date. Beginning in the fourth quarter of 2011, the Company sold all of its lead and copper options contracts as it began entering into the commodity swap contracts. Although its hedging vehicles have changed, the Company's hedging strategy to limit the unfavorable effect that cost increases will have on its metal purchases remains the same. The volatility in commodity costs has affected the Company's results of operations for the periods ending June 30, 2012 and 2011. Continued significant changes in commodity costs could have a future material impact on the consolidated financial position, results of operations and cash flows of the Company.

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

Under current accounting guidelines, both commodity options and swap contracts are designated as cash flow hedges. The fair values of these financial instruments are recognized in the following applicable line items in FGI's condensed consolidated balance sheet: prepaid expenses and miscellaneous receivables, other assets, and accounts payable. Changes in the outstanding contracts' fair value are realized in other comprehensive income ("OCI"). Net gains/losses are then reclassified from accumulated other comprehensive income ("AOCI") to cost of sales based upon inventory turnover, indicating consumption and sale of the underlying commodity in the Company's products. Cash flows associated with the purchase and settlement of commodity contracts are classified as cash flows from operating activities on FGI's condensed consolidated statement of cash flows.

Commodity Options

As of June 30, 2012, the Company no longer maintained any outstanding options contracts. At December 31, 2011, the fair value of the Company's outstanding options contracts relating to firm commitments and anticipated consumption (aggregate notional amount of 17.7 million pounds of copper and lead) up to the year ended from such date was $2.3. At June 30, 2011, the fair value of the Company's outstanding derivative contracts relating to firm commitments and anticipated consumption (aggregate notional amount of 20.2 million pounds of copper and lead) up to nine months from such date was $2.0.

As previously stated, the Company sold some of its outstanding options contracts prior to their settlement date. The sale of these options resulted in a loss which was recognized in AOCI and will be recognized in earnings three months beyond their original settlement dates when the previously hedged notional volume was expected to be recognized as cost of sales. Approximately $1.9 of this realized, net of tax, loss is recognized in AOCI and is expected to be fully recognized into earnings by March 2013.

Commodity Swaps

At June 30, 2012, the fair value of the Company's outstanding swap contracts relating to firm commitments and anticipated consumption (aggregate notional amount of 48.3 million pounds of copper and lead) up to eighteen months from such date resulted in an unrecognized loss of $1.4. At December 31, 2011, the fair value of the Company's outstanding swap contracts relating to firm commitments and anticipated consumption (aggregate notional amount of 13.5 million pounds of copper and lead) up to nine months from such date resulted in an unrecognized gain of $0.2.

Based on current market prices, approximately $3.4 (net of income taxes) of the total loss included in accumulated other comprehensive income is expected to be recognized in earnings within the next twelve months. All hedged contracts are expected to be settled by December 2013.

	Fair Values of Derivatives Instruments as of:					
	June 30, 2012		December 31, 2011		June 30, 2011	
Derivatives Designated as Hedging Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity Options	N/A	N/A	Prepaid Expenses and Misc. Rec.	$ 2.3	Prepaid Expenses and Misc. Rec.	$ 3.1
Commodity Swaps	Other Assets	$ 0.2	Prepaid Expenses and Misc. Rec.	$ 0.2	N/A	N/A
Commodity Swaps	Accounts Payable	$ 1.6	-	-	-	-

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

The following table presents the changes in fair value derivatives designated as hedging instruments had on earnings and AOCI for the indicated periods.

Derivatives Designated as Cash Flow Hedges	Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Three Months Ended June 30, 2012:				
Commodity Options	$ (0.6)	Cost of Sales	$ (0.3)	N/A
Commodity Swaps	$ (1.3)	Cost of Sales	$ -	N/A
Three Months Ended June 30, 2011:				
Commodity Options	$ (0.9)	Cost of Sales	$ 0.7	N/A
Six Months Ended June 30, 2012:				
Commodity Options	$ (0.8)	Cost of Sales	$ (0.8)	N/A
Commodity Swaps	$ (0.6)	Cost of Sales	$ -	N/A
Six Months Ended June 30, 2011:				
Commodity Options	$ (1.5)	Cost of Sales	$ 0.8	N/A

Note 15 -- Segment Information

The Company's business is classified into two reportable segments: Firearms, which designs, manufactures, imports and markets primarily sporting shotguns, rifles, handguns 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 and the manufacture and marketing of powder metal products, licensed products and apparel are combined into the All Other caption. Other reconciling items, which include corporate and other assets not allocated to the individual segments, are included in the All Other caption as well.

As the result of changes in senior management in 2012, the Company now uses gross profit to evaluate performance for its reporting segments. Prior to the recent changes in management, the Company's previous chief operating decision makers used Adjusted EBITDA as their measure of reporting segment profit. The new chief operating decision maker changed the measure of segment profitability and did not change or reclassify any of the entities that comprise the Company's two reporting segments into different segments. The change in segment measure of profitability has been applied retrospectively, and all prior period segment information presented has been adjusted accordingly.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
Net sales from external customers:				
Firearms	$ 145.8	$ 108.6	$ 273.2	$ 203.5
Ammunition	79.6	73.8	148.8	147.3
All Other	8.4	8.1	17.4	15.8
Total net sales from external customers	$ 233.8	$ 190.5	$ 439.4	$ 366.6
Net sales between segments:				
Firearms	$ 0.1	$ -	$ 0.1	$ -
Ammunition	-	-	-	-
All Other	0.3	-	0.5	0.2
Eliminations	(0.4)	-	(0.6)	(0.2)
Total net sales between segments	$ -	$ -	$ -	$ -

	Three Months Ended June 30,		Six Months Ended June 30,	
Gross profit:	2012	2011	2012	2011
Firearms	$ 49.7	$ 33.1	$ 91.7	$ 54.6
Ammunition	28.8	19.3	49.8	38.6
All Other	1.6	3.7	8.9	7.2
Consolidated gross profit	$ 80.1	$ 56.1	$ 150.4	$ 100.4
Operating expenses	50.4	38.9	94.5	82.4
Loss on Extinguishment of Debt	54.3	0.6	54.3	0.6
Interest expense	11.5	15.6	27.9	31.0
Income (loss) before income taxes and noncontrolling interests	$ (36.1)	$ 1.0	$ (26.3)	$ (13.6)

	June 30, 2012	Dec. 31, 2011	June 30, 2011
Assets:			
Firearms	$ 451.5	$ 408.9	$ 370.3
Ammunition	253.6	191.1	213.4
All Other	68.9	44.7	96.8
Consolidated assets	$ 774.0	$ 644.7	$ 680.5

Note 16 – Recent Accounting Pronouncements

The Company adopted the following accounting pronouncements on January 1, 2012:

Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The new update clarifies the concepts of *highest and best use* and *valuation premise* and eliminates their applicability to financial assets. Use of premiums and discounts in fair value measurements are also clarified in the new update. Additionally, the new guidance allows an option to measure financial instruments with offsetting positions on a net basis if certain criteria are met. The new fair value disclosures will include quantitative and qualitative information for Level 3 inputs, descriptions of the valuation processes utilizing Level 3 inputs and the level of fair value hierarchy for assets and liabilities that are not measured at fair value but whose fair value are required to be disclosed. FASB ASU 2011-04 became effective for interim and annual periods beginning after December 15, 2011. Since the new guidance offers interpretation on current guidance and requires additional disclosures, adoption did not impact the Company's results of operations, financial condition or equity.

FASB ASU 2011-05 "Presentation of Comprehensive Income." The new standard eliminates the option to present other comprehensive income and its components in the statement of changes in equity. Presentation of net income, other comprehensive income, and their components may be made in one continuous statement or in two separate, but consecutive, statements. The items constituting net income and other comprehensive income, the computation of earnings per share and determination of when an item of other comprehensive income should be reclassified to net income will not change as a result of the new guidance. FASB ASU 2011-05 also requires reclassification of items coming out of accumulated comprehensive income to be shown on the face of the financial statements. In December 2011, the FASB issued FASB ASU 2011-12 which deferred this reclassification requirement. Both standards became effective for interim and annual periods beginning after December 15, 2011 and were applied retrospectively to all periods presented in the interim report. Adoption of the new standards affected the presentation of comprehensive income and did not impact the Company's results of operations, financial condition or equity.

Note 17 –Restructuring Initiatives

During the first quarter of 2011, the Company realigned its corporate organizational structure to expand its focus on product quality and delivery. Costs for the realignment were primarily for severance and employee benefits and estimated to be $3.2, which were incurred during 2011. Disbursements of $1.0 were made during the six months ended June 30, 2012 to complete the realignment, and no additional disbursements are expected to be made in future periods.

In order to utilize excess production capacity and reduce shared expenses, FGI initiated several strategic restructuring decisions in 2010 that resulted in the closures of its manufacturing facilities in North Haven, Connecticut and Windham, Maine. Operations at both facilities ceased and were transferred to existing firearms manufacturing facilities by March 31, 2011. No costs or disbursements were incurred or made related to the restructuring activities during the six months ended June 30, 2012. The Company expects to make nominal expenditures for related healthcare benefits over the next several periods and has established a $0.3 reserve for such claims. However, the amounts and timing for those benefits are expected to be insignificant and may not be realized during the current year.

Note 18 – Subsequent Events

On July 20, 2012, the Company entered into an interest rate swap agreement with Bank of America, N.A. with a $275.0 notional amount, settling on the 19th of each month commencing on April 19, 2013, and a maturity date of April 19, 2018. The risk being hedged is the variability of cash flows (interest expense payments) due to changes in the LIBOR benchmark interest rate. The Company entered into the interest rate swap agreement in order to eliminate the variability of cash interest expense payments due to changes in the LIBOR benchmark interest rate on the first $275.0 of the $330.0 Term Loan B variable rate debt subject to an amortization schedule.

On August 2, 2012, FGI Opco utilized the accordion feature of its Term Loan B and entered into a $75.0 term loan (the “Incremental Term Loan”) to its existing Term Loan B originally entered into on April 19, 2012. The terms of the Incremental Term Loan are the same as the existing Term Loan B. FGI Opco entered into the Incremental Term Loan in order to repurchase FGI’s remaining preferred equity, repay borrowings outstanding under the New ABL, to enhance liquidity for general corporate purposes and to continue to reinvest in the business.

Subsequent events have been evaluated through August 16, 2012, 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, LLC ("FGI Holding"), which in turn owns 100% of FGI Operating Company, LLC ("FGI Opco"). FGI Opco includes the financial results of Remington Arms Company, LLC ("Remington"), Barnes Bullets, LLC ("Barnes"), E-RPC, LLC ("E-RPC"), RA Brands, L.L.C. and Outdoor Services LLC. FGI Opco also owns 100% of FGI Finance Inc. ("FGI Finance"). Remington, in turn, owns Advanced Armament Corp., LLC ("AAC"), a 75% interest in Mountain Khakis, LLC ("Mountain Khakis"), and an 84% interest in EOTAC, LLC ("EOTAC"). E-RPC owns Para USA, LLC ("Para").

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

- Company Overview
- Current Sales Demand
- Recent Company Developments
- EBITDA Measurements
- 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. We have the #1 commercial market position across all of our major firearms categories in the United States and the #2 commercial market position for ammunition in the United States, the largest firearms and ammunition market in the world. 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 provides a significant competitive advantage and supports our market leadership position. This leadership position across all of our major product categories is evidenced by our #1 U.S. commercial market shares in shotguns and rifles and our #2 U.S. commercial market share in ammunition.

We employ a customer-focused sales and marketing organization, successfully creating a single customer facing platform, and we continue to focus on flexible manufacturing capability across our end-markets that allows us to quickly respond to changes in customer preferences and demands. Our nine manufacturing facilities and approximately 3,000 employees represent the largest domestic manufacturing presence in the firearms related industry. This scale enables us to deliver our products throughout the United States and internationally to approximately 66 countries.

We have a strong management team that is aligned to capture market share, execute against strategic opportunities, and focus on product innovation, manufacturing and quality. 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 continued our efforts to improve the production, sales and inventory process, the margin optimization process, and increase throughput and capacity at our plants 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 strategic add-on 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 of the Marlin XT Pro-Fire Trigger, the Remington patented Versa-max Semi Automatic Shotgun, the 1911 R1 pistol, the Bushmaster Adaptive Combat Rifle, the Remington version Adaptive Combat Rifle for the military, and a variety of new ammunition products and accessories including the patented HyperSonic Steel for Waterfowlers, the Barnes VOR-TX and the 300 AAC Blackout cartridge. In addition, in early 2012, we introduced the Model 700 SPS Tactical 300 Blackout rifle. We are also engaged in selective efforts to promote certain products through marketing and promotional activities.

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. Our capital position remains strong and we are in a good position to continue to execute strategic plans that we believe will enhance our position both in the outdoor sporting goods market as well as in the military and law enforcement channels. We continue to pursue growth initiatives in our government, military, and law enforcement divisions along with broadening our brand awareness with selective licensing arrangements.

Current Sales Demand

Our industry is currently experiencing a considerable increase in firearms and ammunition demand. Accordingly, our company is experiencing strong demand for modern sporting firearms and handguns, as well as above capacity demand levels for more traditional hunting and target shooting platforms. These increases have resulted in sales growth of approximately 34% in our firearms segment during both the three months and six months ended June 30, 2012 versus the three and six months ended June 30, 2011. Demand for our ammunition is also strong; however, our revenues are not truly reflective of this increase in ammunition demand due in part to our decision to rationalize unprofitable SKUs.

We believe the continued economic uncertainty and the 2012 presidential election is likely to continue to spur both firearms and ammunition sales. Additionally, returning military are likely to purchase firearms for recreational use and to maintain training. We believe the industry is also experiencing trends toward increased recreational and shooting sports and home defense, in addition to the traditional hunting market. Further, we believe the adoption of the modern sporting rifle has led to increased long-term growth in the long gun market while attracting a younger generation of shooters. We anticipate a renewed interest in the outdoors driving increased participation in hunting and target shooting.

We have a significant installed customer base that generates a recurring revenue stream for ammunition, parts and accessories sales, which we believe will be augmented by the trends discussed above. Over the long term, we believe that the increase 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.

Recent Company Developments

M-4 Rifle Contract

On April 20, 2012, we were awarded an $83.0 million indefinite delivery/indefinite quantity contract for the procurement of a maximum of 120,000 M4/M4A1 carbines by the U.S. Army Contracting Command in Warren, Michigan. The M4 and M4A1 carbines are the U.S. Army's primary individual combat weapons and will be produced by us to meet the U.S. Army's M4 technical data package. The U.S. Army has initially ordered 24,000 M4A1 carbines from us and we anticipate deliveries will start in September 2013. The contract is scheduled to continue through April 2017. As is common in these types of awards, the incumbent manufacturer has filed a protest with the U.S. Government Accountability Office, a portion of which was recently upheld. We are currently awaiting further information from the U.S. Army regarding this protest.

Debt Refinancings

On April 19, 2012 (the "Issue Date"), our wholly-owned subsidiaries, FGI Opco and FGI Finance (collectively, the "Issuers") issued $250.0 million in aggregrate principal amount of 7.875% Senior Secured Notes due 2020 (the "2020 Notes"). FGI Finance was formed on April 4, 2012 as a wholly-owned subsidiary of FGI Opco and exists solely to act as a co-issuer of the 2020 Notes. FGI Opco also contemporaneously entered into a seven year $330.0 million senior secured Term Loan B Facility (the "Term Loan B") and a five year $150.0 million Asset-Based Revolving Credit Facility (the "New ABL", together with the Term Loan B, the "Credit Facilities") with Bank of America, N.A. serving as the Administrative Agent on the Credit Facilities. The issuance of the 2020 Notes, the borrowings under the Credit Facilities and the related repayments of outstanding indebtedness are referred to collectively as the "2012 Refinancings". We used the proceeds of the 2020 Notes, the Term Loan B and borrowings under the New ABL to repay amounts outstanding under our old ABL and to repurchase the Opco Notes and the PIK Notes tendered in the tender offers for such notes and to call for redemption any such notes that were not tendered in the tender offers.

Additionally, on August 2, 2012, FGI Opco utilized the accordion feature of its Term Loan B and entered into a $75.0 million term loan (the "Incremental Term Loan"), which was added to the terms of the existing Term Loan B. The terms of the $75.0 million Incremental Term Loan are identical to the Term Loan B. FGI Opco entered into the $75.0 million Incremental Term Loan in order to repurchase FGI's remaining preferred equity, repay current borrowings under the New ABL, to enhance liquidity for general corporate purposes and to continue to reinvest in the business.

7.875% Senior Secured Notes due 2020

The 2020 Notes are guaranteed by FGI, FGI Holding and each of FGI Opco's wholly-owned domestic restricted subsidiaries that are borrowers or guarantors under the New ABL and the Term Loan B (collectively, the "Guarantors"). Interest is payable on the 2020 Notes semi-annually on May 1 and November 1, commencing on November 1, 2012.

The Issuers may redeem some or all of the 2020 Notes at any time prior to May 1, 2015 at a price equal to 100% of the principal amount thereof plus the make-whole premium. The make-whole premium is the greater of (1) 1.0% of the then outstanding principal amount of the 2020 Notes or (2) the excess of the present value of the redemption price of the 2020 Notes on May 1, 2015 plus all required interest payments due on the 2020 Notes through May 1, 2015 (excluding accrued but unpaid interest), computed using the discount rate as of such redemption date plus 50 basis points over the then outstanding principal amount of the 2020 Notes. Thereafter, the 2020 Notes will be redeemable in whole or in part at the redemption prices set forth below beginning on May 1 of each of the noted years:

Period	Redemption Price
2015	105.906%
2016	103.938%
2017	101.969%
2018 and thereafter	100.000%

The Issuers may also redeem up to 35% of the outstanding 2020 Notes on or prior to May 1, 2015 with the proceeds of certain equity offerings at the redemption price of 107.875%.

The 2020 Notes and guarantees, with the exception of FGI's guarantee which is unsecured, are secured by a third-priority lien on substantially all existing and future assets of FGI Holding, the Issuers and the subsidiary guarantors that secure the New ABL and the Term Loan B, other than real property which is only secured by the Term Loan B. The collateral consists of substantially all of the Guarantors' (other than FGI's) tangible and intangible assets, other than real property and certain other exceptions.

The indenture governing the 2020 Notes contains covenants which include, among others, limitations on restricted payments; incurrence of indebtedness; issuance of disqualified stock and preferred stock; merger, consolidation or sale of all or substantially all assets; transactions with affiliates; and dividend and other payments. The indenture also contains customary events of default.

Term Loan B

The Term Loan B is held by FGI Opco (the "Borrower") and is guaranteed by FGI Holding and each of the existing wholly-owned direct and indirect domestic subsidiaries of the Borrower and future wholly-owned direct and indirect domestic subsidiaries of the Borrower. FGI Opco may designate, at its discretion, from time to time, certain subsidiaries that are not guarantors. The Term Loan B has a first priority lien on all tangible and intangible assets of the Borrower and Guarantors, including 100% of the capital stock of direct subsidiaries and 65% of any foreign subsidiaries, but excluding accounts receivable, inventory and certain general intangibles, including intellectual property (the "ABL Priority Collateral"). The Term Loan B will have a second priority lien on all ABL Priority Collateral.

Borrowings under the Term Loan B bear interest at an annual rate of either (a) the LIBOR rate (with a floor of 1.25%) plus a spread or (b) the base rate (with a floor of 2.25%) plus a spread. The Term Loan B will have annual amortization payments due each year in an amount equal to 1% of the original principal balance thereof, with the balance due at maturity. The Term Loan B matures in April 2019. The Borrower may at any time after the first anniversary of the Issue Date, without premium or penalty, voluntarily prepay the Term Loan in whole or in part, and prior to the first anniversary of the Issue Date, voluntarily prepay the Term Loan B in whole or in part, subject in certain circumstances to a payment of a 1% premium of the amount prepaid, in each case, with appropriate notice as outlined in the agreement. The Term Loan B provides an accordion feature that permits additional borrowings under the Term Loan B under certain circumstances, which was utilized for the Incremental Term Loan.

New ABL

The New ABL is a five year $150.0 million Asset-Based Revolving Credit Facility, including sub-limits for letters of credit and swingline loans. Subject to certain terms and conditions, the borrowing limit under the New ABL may be increased to $255.0 million. FGI Holding and FGI Opco's existing wholly-owned direct and indirect domestic subsidiaries other than Outdoor Services, LLC are either a borrower or a guarantor under the New ABL. FGI Opco may designate, at its discretion, from time to time, certain subsidiaries that are not borrowers or guarantors. The New ABL has a first lien claim on the ABL Collateral, in addition to a second lien claim on the Term Loan B collateral other than real property.

Borrowings under the New ABL bear interest at an annual rate of either (a) the LIBOR rate plus a spread or (b) the base rate plus a spread. The LIBOR and base rate spreads fluctuate based on the amount of available borrowing capacity under the New ABL as provided in the New ABL. The New ABL includes an unused line fee of 0.375% that will be charged at an annual rate to be paid monthly in arrears. FGI Opco will pay a fee on letters of credit equal to the applicable LIBOR margin and a fronting fee equal to 0.125% per annum, in each case to be paid monthly in arrears.

The Credit Facilities contain customary covenants applicable to FGI Opco and its subsidiaries, other than certain unrestricted subsidiaries. The Credit Facilities contain certain covenants, as well as restrictions on, among other things, the ability of FGI Opco and its subsidiaries to: incur debt; incur liens; declare or make distributions to stockholders; make loans and investments; repay debt; enter into mergers, acquisitions and other business combinations; engage in asset sales; amend or modify governing documents; engage in businesses other than our business as currently conducted; and enter into transactions with affiliates. The Credit Facilities include customary events of default, including cross-defaults to the 2020 Notes and other indebtedness.

In addition, consistent with our old ABL, if the capacity under the New ABL is less than a specified amount for a certain period of time, funds deposited into any of FGI Opco's or certain of its subsidiaries' deposit accounts used for collections will be transferred on a daily basis into a blocked account with the administrative agent and applied to prepay loans under the New ABL and to cash collateralize letters of credit issued under the New ABL.

Para USA, Inc. Acquisition

On January 30, 2012, we acquired certain assets and assumed certain liabilities of Para USA, Inc. for approximately $5.0 million (the “Para Acquisition”), including cash, fees, debt repayments and escrow payments. Founded in 1985, Para USA, Inc. has a reputation for innovation in 1911 style handguns. Para USA, Inc.’s high capacity frame and light double action (LDA™) trigger systems are part of the innovation that Para USA, Inc. has brought to the well-known 1911 design. We believe the Para Acquisition is another step toward strengthening our competitive position, enhancing our research and development capabilities and growing our business.

Appointment of New Officers

On January 5, 2012, the Board of Directors of Freedom Group (the “Board”) named Ronald Kolka to serve as Acting Chief Financial Officer. On March 9, 2012, the Board appointed George Kollitides II to serve as Chairman of the Board and Acting Chief Executive Officer, and subsequently, on April 20, 2012, the Board appointed George Kollitides II to serve as the permanent Chief Executive Officer. Also, on April 20, 2012, the Board elected James P. Campbell to serve as Lead Director on the Board. On July 12, 2012, the Board appointed Kevin Miniard to serve as our Chief Operating Officer. On August 7, 2012, Jonathan K. Sprole was appointed to serve as our General Counsel, effective August 20, 2012. Finally, on August 14, 2012, Scott Blackwell, our Chief Sales and Marketing Officer, was appointed President of Freedom Group.

Completion of Recent Restructuring and Realignment Activities

In 2011, we realigned our corporate structure to enhance our focus on product quality and delivery. We estimated that we would incur $3.2 million of expense to complete the realignment. We did not incur any additional expense in the six months ended June 30, 2012; however, we disbursed approximately $1.0 million for severance and benefits during the six months ended June 30, 2012. We do not anticipate incurring any additional costs for the realignment.

In 2010, we began consolidating our firearms manufacturing facilities, which resulted in the closure of our facilities in North Haven, Connecticut and Windham, Maine. These restructuring activities of our firearms manufacturing facilities were completed by March 2011. We maintain a $0.3 million reserve for previously covered healthcare benefits on former employees affected by the restructure. We have not incurred any additional costs during the six months ended June 30, 2012, but have made nominal healthcare payments during this period. Based on the benefits offered, we believe some claims may be remitted in subsequent periods; however, we do not expect future disbursements to be significant.

EBITDA Measurements

We use the term Adjusted EBITDA throughout this MD&A. Adjusted EBITDA is not a measure of performance defined in accordance with GAAP. We use Adjusted EBITDA as a supplement to our GAAP results in evaluating certain aspects of our business, as described below. We believe that Adjusted EBITDA is useful to investors in evaluating our performance because such measures are commonly used financial metrics for measuring and comparing the operating performance of companies in our industry. We believe that the disclosure of Adjusted EBITDA offers additional financial metrics that, when coupled with the GAAP results and the reconciliation to GAAP results, provide a more complete understanding of our results of operations and the factors and trends affecting our business.

Adjusted EBITDA should not be considered as an alternative to net income (loss), as an indicator of our performance, as an alternative to net cash provided by operating activities, as a measure of liquidity, or as an alternative to any other measure prescribed by GAAP. We believe that Adjusted EBITDA may make an evaluation of our operating performance more consistent because such measures remove items that do not reflect our core operations. There are, however, limitations to using non-GAAP measures such as:

(i) other companies in our industry may define Adjusted EBITDA differently than we do and, as a result, such measures may not be comparable to similarly titled measures used by other companies in our industry; and

(ii) such measures exclude financial information that some may consider important in evaluating our performance.

We compensate for these limitations by providing disclosure of the differences between our EBITDA calculations and GAAP results, including providing a reconciliation of GAAP results to Adjusted EBITDA, to enable investors to perform their own analysis of our operating results. See "–Results of Operations–Adjusted EBITDA" for a reconciliation of Net Income (Loss) Attributable to Controlling Interest to Adjusted EBITDA.

Because of these limitations, the Adjusted EBITDA calculation should not be considered as a measure of the income generated by our business or discretionary cash available to us to invest in the growth of our business. Our management compensates for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA as a supplemental financial metric for evaluation of our operating performance. See our consolidated statements of operations and consolidated statements of cash flows in our consolidated financial statements included elsewhere in this interim report.

Results of Operations

Three and Six Month Periods Ended June 30, 2012 as Compared to the Three and Six Month Periods Ended June 30, 2011

Net Sales

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

	Three Months Ended June 30,					
	2012	Percentage of Total	2011	Percentage of Total	Increase (Decrease)	Percentage Change
			(dollars in millions)			
Firearms	$145.8	62.4%	$108.6	57.0%	$37.2	34.3%
Ammunition	79.6	34.0	73.8	38.7	5.8	7.9
All Other	8.4	3.6	8.1	4.3	0.3	3.7
Total	$233.8	100.0%	$190.5	100.0%	$43.3	22.7%

	Six Months Ended June 30,					
	2012	Percentage of Total	2011	Percentage of Total	Increase (Decrease)	Percentage Change
			(dollars in millions)			
Firearms	$273.2	62.2%	$203.5	55.5%	$69.7	34.3%
Ammunition	148.8	33.8	147.3	40.2	1.5	1.0
All Other	17.4	4.0	15.8	4.3	1.6	10.1
Total	$439.4	100.0%	$366.6	100.0%	$72.8	19.9%

Firearms

Net sales for the three months ended June 30, 2012 were $145.8 million, an increase of $37.2 million, or 34.3%, as compared to the three months ended June 30, 2011. Centerfire rifle sales increased $22.8 million, while handgun sales increased $6.1 million. In addition, shotgun sales increased $6.4 million and rimfire rifle sales increased $1.7 million, while sales of other firearms and firearm products increased $0.2 million. These increases were primarily the result of strong market demand for modern sporting rifles, new product introductions and product line extensions.

Net sales for the six months ended June 30, 2012 were $273.2 million, an increase of $69.7 million, or 34.3%, as compared to the six months ended June 30, 2011. Centerfire rifle sales increased $47.2 million, while handgun sales increased $8.0 million. In addition, shotgun sales increased $7.6 million and rimfire rifle sales increased $4.8 million, while sales of other firearms and firearm products increased $2.1 million. These increases were primarily the result of increased demand in the market place for modern sporting products, as well as volumes associated with our handgun introduction and new shotgun product offerings.

Ammunition

Net sales for the three months ended June 30, 2012 were $79.6 million, an increase of $5.8 million, or 7.9%, as compared to the three months ended June 30, 2011. Sales of centerfire ammunition increased $7.3 million, while sales of rimfire ammunition increased $1.7 million resulting from increased market demand and factory production. These increases were partially offset by decreased sales of shotshell ammunition of $2.0 million and decreased sales of components and other ammunition products of $1.2 million, as the Company continued its initiative to rationalize unprofitable SKUs.

Net sales for the six months ended June 30, 2012 were $148.8 million, an increase of $1.5 million, or 1.0%, as compared to the six months ended June 30, 2011. Sales of centerfire ammunition increased $6.9 million, while sales of rimfire ammunition increased $2.6 million resulting from increased market demand and factory production. These increases were partially offset by decreased sales of shotshell ammunition of $5.8 million and decreased sales of components and other ammunition products of $2.2 million, as the Company continued its initiative to rationalize unprofitable SKUs.

All Other

Net sales were $8.4 million in all other businesses for the three months ended June 30, 2012, an increase of $0.3 million, or 3.7%, as compared to the prior year period due to higher sales volumes in our various accessories and apparel businesses.

Net sales were $17.4 million in all other businesses for the six months ended June 30, 2012, an increase of $1.6 million, or 10.1%, as compared to the prior year period due to higher sales volumes in our various accessories and apparel businesses.

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 approximately $0.4 million and $0.6 million for the three and six months ended June 30, 2012, respectively, and $0.3 million and $0.5 million for the three and six months ended June 30, 2011, respectively. Accordingly, our gross margins may not be comparable to those of other companies. The table below compares cost of goods sold and gross profit by reporting segment for each of the periods presented:

	Three Months Ended June 30,					
	2012	Percentage of Net Sales	2011	Percentage of Net Sales	Increase (Decrease)	Percentage Change
	(dollars in millions)					
Cost of Goods Sold						
Firearms	$96.1	65.9%	$75.5	69.5%	$20.6	27.3%
Ammunition	50.8	63.8	54.5	73.8	(3.7)	(6.8)
All Other	6.8	81.0	4.4	54.3	2.4	54.5
Total	$153.7	65.7%	$134.4	70.6%	$19.3	14.4%
Gross Profit						
Firearms	$49.7	34.1%	$33.1	30.5%	$16.6	50.2%
Ammunition	28.8	36.2	19.3	26.2	9.5	49.2
All Other	1.6	19.0	3.7	45.7	(2.1)	(56.8)
Total	$80.1	34.3%	$56.1	29.4%	$24.0	42.8%

	Six Months Ended June 30,					
	2012	Percentage of Net Sales	2011	Percentage of Net Sales	Increase (Decrease)	Percentage Change
			(dollars in millions)			
Cost of Goods Sold						
Firearms	$181.5	66.4%	$148.9	73.2%	$32.6	21.9%
Ammunition	99.0	66.5	108.7	73.8	(9.7)	(8.9)
All Other	8.5	48.9	8.6	54.4	(0.1)	(1.2)
Total	$289.0	65.8%	$266.2	72.6%	$22.8	8.6%
Gross Profit						
Firearms	$91.7	33.6%	$54.6	26.8%	$37.1	67.9%
Ammunition	49.8	33.5	38.6	26.2	11.2	29.0
All Other	8.9	51.1	7.2	45.6	1.7	23.6
Total	$150.4	34.2%	$100.4	27.4%	$50.0	49.8%

Firearms

Gross profit for the three months ended June 30, 2012 was $49.7 million, an increase of $16.6 million, or 50.2%, as compared to the prior-year period. Gross margin was 34.1% for the three months ended June 30, 2012 and 30.5% for the three months ended June 30, 2011. The increase in gross profit was primarily due to higher sales volumes and favorable sales mix in certain product lines of $12.2 million, favorable pricing of $2.9 million, and lower other costs of $3.1 million, primarily resulting from costs associated with transitioning and restructuring that existed in the prior year but did not recur in the current year, partially offset by higher consumer discounts of $1.6 million.

Gross profit for the six months ended June 30, 2012 was $91.7 million, an increase of $37.1 million, or 67.9%, as compared to the prior-year period. Gross margin was 33.6% for the six months ended June 30, 2012 and 26.8% for the six months ended June 30, 2011. The increase in gross profit was primarily due to higher sales volumes and favorable sales mix in certain product lines of $26.9 million, favorable pricing of $5.4 million, and lower other costs of $5.7 million, primarily resulting from costs associated with transitioning and restructuring that existed in the prior year but did not recur in the current year, partially offset by higher consumer discounts of $0.9 million.

Ammunition

Gross profit for the three months ended June 30, 2012 was $28.8 million, an increase of $9.5 million, or 49.2%, as compared to the prior-year period. Gross margin was 36.2% for the three months ended June 30, 2012 and 26.2% for the three months ended June 30, 2011. The increase in gross profit was primarily due to higher sales volumes of $0.6 million, favorable sales mix in certain product lines of $1.9 million, favorable pricing of $4.5 million, and lower other costs of $4.4 million. These increases were partially offset by lower hedging gains of $1.3 million and higher consumer discounts of $0.6 million.

Gross profit for the six months ended June 30, 2012 was $49.8 million, an increase of $11.2 million, or 29.0%, as compared to the prior-year period. Gross margin was 33.5% for the six months ended June 30, 2012 and 26.2% for the six months ended June 30, 2011. The increase in gross profit was primarily related to favorable pricing of $8.5 million, lower other costs of $5.0 million, a favorable mix in certain products lines of $2.4 million, and lower consumer discounts of $0.3 million. These increases were partially offset by lower sales volumes in certain product lines of $2.5 million and lower hedging gains of $2.5 million.

All Other

Gross profit for the three months ended June 30, 2012 was $1.6 million, a decrease of $2.1 million as compared to the prior-year period gross profit of $3.7 million. The $2.1 million decrease in gross profit was primarily related to a $0.4 million decrease in our revenue generating operating segments, which include accessories and apparel, as well as $1.6 million in other expenses that are no longer allocated to our revenue generating segments, but are captured in our All Other caption.

Gross profit for the six months ended June 30, 2012 was $8.9 million, an increase of $1.7 million as compared to the prior-year period gross profit of $7.2 million. The $1.7 million increase in gross profit was primarily related to a $0.5 million increase in our revenue generating operating segments, which include accessories and apparel, as well as $1.2 million in other income that is no longer allocated to our revenue generating segments, but are captured in our All Other caption.

Operating Expenses

Operating expenses consist of selling, general and administrative expenses, research and development expenses, loss on early extinguishment of debt, and other expenses.

The following table sets forth certain information regarding operating expenses for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,			
	2012	**2011**	**Increase (Decrease)**	**Percentage Change**
	(dollars in millions)			
Selling, general and administrative expenses	$46.0	$34.8	$11.2	32.2%
Research and development expenses	3.2	3.0	0.2	6.7
Loss on early extinguishment of debt	54.3	0.6	53.7	*
Other expense	1.2	1.1	0.1	9.1
Total	$104.7	$39.5	$65.2	165.1%

	Six Months Ended June 30,			
	2012	**2011**	**Increase (Decrease)**	**Percentage Change**
	(dollars in millions)			
Selling, general and administrative expenses	$84.9	$73.8	$11.1	15.0%
Research and development expenses	6.3	5.6	0.7	12.5
Loss on early extinguishment of debt	54.3	0.6	53.7	*
Other expense	3.3	3.0	0.3	10.0
Total	$148.8	$83.0	$65.8	79.3%

* Not meaningful

Total operating expenses for the three months ended June 30, 2012 were $104.7 million, an increase of $65.2 million, or 165.1%, as compared to the prior-year period. Selling, general and administrative expenses increased $11.2 million, or 32.2%. The primary components comprising this $11.2 million increase included increased incentive compensation expense of $4.7 million, increased charitable contributions of $1.2 million, increased legal expense of $1.1 million, increased salaries and benefits expense of $0.8 million, increased professional and management fees of $1.3 million, increased variable selling expenses of $0.9 million and increased travel expense of $0.4 million. Research and development expenses increased $0.2 million, or 6.7%, as compared to the prior-year period, primarily due to increased prototype work. Loss on early extinguishment of debt increased $53.7 million as compared to the prior-year period, primarily due to a $54.3 million loss on extinguishment of debt as a result of the 2012 Refinancings, compared to a $0.6 million loss on extinguishment of debt in the prior-year period resulting from the refinancing of our old ABL. Other expense increased $0.1 million and consisted primarily of $1.8 million of amortization on definite-lived intangible assets, partially offset by $0.6 million of licensing income.

Total operating expenses for the six months ended June 30, 2012 were $148.8 million, an increase of $65.8 million, or 79.3%, as compared to the prior-year period. Selling, general and administrative expenses increased $11.1 million, or 15.0%. The primary components comprising this $11.1 million increase included increased incentive compensation expense of $6.8 million, increased legal expense of $2.2 million, increased charitable contributions of $1.2 million, increased variable sales expenses of $1.7 million, increased travel expense of $0.7 million, and increased professional and management fees of $0.9 million, partially offset by decreased salaries and benefits expense of $2.5 million. Research and development expenses increased $0.7 million, or 12.5%, as compared to the prior-year period, primarily due to increased prototype work. Loss on early extinguishment of debt increased $53.7 million as compared to the prior-year period, primarily due to a $54.3 million loss on extinguishment of debt as a result of the 2012 Refinancings, compared to a $0.6 million loss on extinguishment of debt in the prior-year period resulting from the refinancing of our old ABL. Other expense increased $0.3 million primarily due to $0.2 million in lower licensing income and $0.1 million in higher amortization expense.

Adjusted EBITDA

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

	Unaudited			
	Three Months Ended June 30,			
	2012	**2011**	**Increase (Decrease)**	**Percentage Change**
	(dollars in millions)			
Net Income (Loss) Attributable to Controlling Interest	$ (21.9)	$ 0.9	$ (22.8)	*
Adjustments:				
Depreciation	3.8	4.1	(0.3)	(7.3)%
Interest	11.5	15.6	(4.1)	(26.3)
Loss on early extinguishment of debt	54.3	0.6	53.7	*
Income tax expense	(14.0)	0.2	(14.2)	*
Amortization of Intangibles	1.8	1.7	0.1	5.9
Other non-cash charges (income)	(0.8)	2.2	(3.0)	(136.4)
Nonrecurring charges	4.8	4.0	0.8	20.0
Adjusted EBITDA	$ 39.5	$ 29.3	$ 10.2	34.8%

* Not Meaningful

Other non-cash charges (income) for the three months ended June 30, 2012, consisted of $(0.8) million of retiree benefit expense (income). Other non-cash charges for the three months ended June 30, 2011, consisted of $1.7 million of retiree benefit expense, $0.1 million of stock compensation expense, and $0.4 million in other non-cash charges. Retiree benefit expense resulted in income for the three months ended June 30, 2012, due to changing our policy to amortize actuarial gains and losses over the participants' average remaining life expectancy and employ the corridor approach for all of our retirement plans.

Nonrecurring charges of $4.8 million for the three months ended June 30, 2012, consisted of $1.5 million of project fees, $0.8 million of restructuring and integration charges, $0.7 million of management fees, $0.5 million of employee related expense, $0.4 million for the military products division ramp up costs, $0.4 million of relocation fees, $0.2 million of bank fees, and $0.3 million of other nonrecurring charges. Nonrecurring charges of $4.0 million for the three months ended June 30, 2011, consisted of $2.2 million in restructuring and integration charges, $1.1 million for the military products division ramp up costs, $0.3 million of bank fees, and $0.4 million of other nonrecurring charges. Restructuring and integration charges include costs of factory and office integration, equipment transportation expenses, consulting fees, employee severance and other employee inducements.

	Unaudited			
	Six Months Ended June 30,			
	2012	**2011**	**Increase (Decrease)**	**Percentage Change**
	(dollars in millions)			
Net Loss Attributable to Controlling Interest	$ (15.6)	$ (8.5)	$ (7.1)	(83.5)%
Adjustments:				
Depreciation	7.6	8.2	(0.6)	(7.3)
Interest	27.9	31.0	(3.1)	(10.0)
Loss on early extinguishment of debt	54.3	0.6	53.7	*
Income tax expense	(10.5)	(4.9)	(5.6)	(114.3)
Amortization of Intangibles	3.5	3.4	0.1	2.9
Other non-cash charges (income)	(1.2)	5.0	(6.2)	(124.0)
Nonrecurring charges	9.3	15.9	(6.6)	(41.5)
Adjusted EBITDA	$ 75.3	$ 50.7	$ 24.6	48.5%

* Not Meaningful

Other non-cash charges (income) of $(1.2) million for the six months ended June 30, 2012, consisted of $(1.4) million of retiree benefit expense (income) and $0.2 million of stock compensation expense. Other non-cash charges of $5.0 million for the six months ended June 30, 2011, consisted of $3.5 million of retiree benefit expense, $0.3 million of stock compensation expense, a $0.3 million loss on disposal of assets, and $0.9 million in other non-cash charges. Retiree benefit expense resulted in income for the six months ended June 30, 2012, due to changing our policy to amortize actuarial gains and losses over the participants' average remaining life expectancy and employ the corridor approach for all of our retirement plans.

Nonrecurring charges of $9.3 million for the six months ended June 30, 2012, consisted of $2.6 million of project fees, $1.4 million of restructuring and integration charges, $0.9 million for the military products division ramp up costs, $0.8 million of employee related expenses, $0.7 million of management fees, $0.6 million of relocation fees, $0.4 million of bank fees and $1.9 million of other nonrecurring charges. Nonrecurring charges of $15.9 million for the six months ended June 30, 2011, consisted of $13.4 million of restructuring and integration charges, $1.4 million for the military products division ramp up costs, $0.7 million of bank fees, and $0.4 million of other nonrecurring charges. Restructuring and integration charges include costs of factory and office integration, equipment transportation expenses, consulting fees, employee severance and other employee inducements.

Interest Expense

Interest expense was $11.5 million and $15.6 million for the three months ended June 30, 2012 and 2011, respectively. The $4.1 million decrease in interest expense over the prior year period was primarily due to a $5.7 million decrease of interest expense for the Opco Notes and a $5.6 million decrease of interest for the PIK Notes, as a result of the repurchase of the Opco Notes and the PIK Notes due to the 2012 Refinancings, as well as lower other interest expense of $0.3 million. These decreases were partially offset by $3.9 million of interest expense for the 2020 Notes and $3.6 million of interest expense for the Term Loan B.

Interest expense was $27.9 million and $31.0 million for the six months ended June 30, 2012 and 2011, respectively. The $3.1 million decrease in interest expense over the prior year period was primarily due to a $6.5 million decrease of interest expense for the Opco Notes and a $4.0 million decrease of interest for the PIK Notes, as a result of the repurchase of the Opco Notes and the PIK Notes in the 2012 Refinancings, as well as lower other interest expense of $0.1 million. These decreases were partially offset by $3.9 million of interest expense for the 2020 Notes, $3.6 million of interest expense for the Term Loan B and $0.3 million of interest expense for the New ABL.

Income Tax Provision

Our effective tax rate on continuing operations for the six months ended June 30, 2012 and 2011 was 39.9% and 36.0%, 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 June 30, 2012 and 2011.

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

Cash Flows from Operating Activities

Net cash used in operating activities was $95.5 million for the six months ended June 30, 2012 compared to net cash used in operating activities of $3.6 million for the six months ended June 30, 2011. The significant changes comprising the $91.9 million increase in net cash used in operating activities for six months ended June 30, 2012 compared to the prior-year period resulted primarily from:

- the recognition of a $15.8 million net loss for the six months ended June 30, 2012 compared to an $8.7 million net loss for the six months ended June 30, 2011 or a net increase in cash used of $7.1 million. The $15.8 million net loss during the six months ended June 30, 2012 was primarily due to a $54.3 million loss we recognized as a result of our 2012 Refinancings;
- trade receivables increasing $86.7 million over the six months ended June 30, 2012 compared to an increase of $16.9 million over the six months ended June 30, 2011, or a net increase in cash used of $69.8 million due primarily to our increased sales and the Company selectively increasing certain sales terms in the first two quarters of 2012, thereby increasing our accounts receivable balance. The Company's third quarter 2012 sales terms are expected to revert to more historical levels;
- inventory increasing by $53.1 million over the six months ended June 30, 2012 compared to an increase of $25.1 million over the six months ended June 30, 2011, or a net increase in cash used of $28.0 million. Inventories have increased due to the Company ramping up production and increasing safety stock of raw materials in order to ensure enough raw materials to meet the increased production levels and sufficient finished product to meet the current demand for firearms and ammunition sales;
- other liabilities decreasing by $18.1 million over the six months ended June 30, 2012 compared to an increase of $11.9 million over the six months ended June 30, 2011, or a net increase in cash used of $30.0 million. This was primarily due to approximately $38.5 million of additional interest disbursements related to the 2012 Refinancings. The $38.5 million of additional interest included two and a half months of accrued interest on our Opco Notes and PIK Notes of $6.9 million, the discounts and premium on our Opco Notes and PIK Notes of $4.2 million, and the accumulated pay-in-kind interest on our PIK Notes of $27.4 million. The additional disbursements for interest expense were offset by increases in our incentive compensation and excise tax accruals during the current period. During the six months ended June 30, 2012, our accrued incentive compensation increased $7.1 million and our accrued excise taxes increased $2.6 million when compared to their activity during the six months ended June 30, 2011.

Cash Flows from Investing Activities

Net cash used in investing activities of $14.3 million for the six months ended June 30, 2012 was related to the purchase of property, plant and equipment of $9.5 million and the acquisition of Para USA, Inc. for $4.9 million, net of cash received. Net cash used in investing activities of $7.6 million for the six months ended June 30, 2011 was related to the purchase of property, plant and equipment of $6.8 million, as well as $1.4 million paid for the final payment on the acquisition of Mountain Khakis.

Cash Flows from Financing Activities

Net cash provided by financing activities was $80.9 million for the six months ended June 30, 2012 and was primarily related to the 2012 Refinancings. We received $576.7 million in proceeds from the issuance of the 2020 Notes and borrowings under the Term Loan B: $250.0 million from the issuance of the 2020 Notes and a net $326.7 million from borrowings under the Term Loan B. The $330.0 million Term Loan B contained a provision that required us to pay the lenders a closing fee in the amount of 1% of the loan's principal amount on the loan's issuance date. The 1% closing fee, or $3.3 million, was withheld by the lenders from the proceeds we received. We also paid approximately $22.1 million in costs and other fees that were directly related to the 2012 Refinancings, which were capitalized and will be amortized over the applicable debt instrument's maturity.

The $576.7 million proceeds we received from the 2020 Notes and Term Loan B were used to redeem the Opco Notes and the PIK Notes. We paid $500.6 million toward the Opco Notes and PIK Notes' principal and redemption premium and $38.5 million toward accrued interest. The remaining $37.6 million of the proceeds, along with $8.5 million of immediate borrowings from the New ABL, was used to terminate the outstanding balance under the old ABL.

The accrued interest payment on the Opco Notes and PIK Notes of $38.5 million includes $27.4 million of accumulated interest from our PIK Notes. During the two years our PIK Notes were outstanding, we elected to pay half of the semi-annual interest payments in cash and increase the PIK Notes' face value for the other half. These elections increased the PIK Notes' carrying value on our balance sheet; however, they are not considered a repayment of borrowings in our statement of cash flows. The $38.5 million of interest paid is included in the Change of Operating Assets and Liabilities and is treated as a cash outflow from operating activities in our statement of cash flows. We also paid $1.6 million toward other outstanding debt along with the $500.6 million paid to redeem the Opco Notes and the PIK Notes.

Net cash used in financing activities of $5.4 million for the six months ended June 30, 2011 was related to the repurchase of restricted stock and stock options of $3.0 million, $2.2 million in payments on unsubordinated, unsecured debt, and $0.2 million in disbursements for debt issuance costs related to the refinancing of our old ABL.

Sources and Uses of Liquidity

We generally expect to fund expenditures for operations, administrative expenses, capital expenditures and debt service obligations with internally generated funds from operations, and to satisfy working capital needs from time to time with borrowings under our New ABL. We believe that we will be able to meet our debt service obligations and fund our short-term and long-term operating requirements in the future with cash flow from operations and borrowings under the New ABL, although no assurance can be given in this regard.

We continue to focus on managing our working capital by monitoring inventory, accounts receivable and accounts payable key performance indicators while recognizing that changes to our sales volumes and timing can impact our working capital strategies. Rather than issue stock, we have typically used debt financing as a means of raising capital and we use our debt financing to either meet noncurrent obligations or to lower our cost of capital.

In April 2012, we refinanced our existing debt with the issuance of the 2020 Notes, the Term Loan B, and the New ABL, as discussed under "—Recent Company Developments". We believe the 2012 Refinancings will serve to materially improve our cost of capital and interest expense profile, which was originally put in place in July 2009 and consisted of the 10.25% Senior Secured Notes and the 11.25%/11.75% Senior PIK Notes. We believe the Term Loan B will provide us with an avenue to efficiently pay down debt and delever over time. Our historical all-bond structure limited our ability to cost effectively pay down debt.

In August 2012, FGI Opco entered into an Incremental Term Loan and borrowed an additional $75.0 million under the Term Loan B, as discussed under "—Recent Company Developments". The additional borrowing will be used to repurchase FGI's remaining preferred equity, repay borrowings outstanding under the New ABL, enhance liquidity for general corporate purposes and to continue to reinvest in the business.

In addition to the 2012 Refinancings, we believe the cash we generate internally from our operating activities provides us with an adequate financial pool that allows us to meet our short-term and strategic goals. Based on these factors, we believe our liquidity position is adequate to meet our financial commitments and manage our business.

Debt

As of June 30, 2012, we had outstanding indebtedness of approximately $599.0 million, which consisted of the following:

- $250.0 million of outstanding 7.875% Senior Secured Notes due 2020;
- $326.8 million outstanding on our Term Loan B;
- $19.7 million of outstanding borrowings on the New ABL;
- $0.5 million of unsecured, fixed interest financing for insurance premiums;
- $1.2 million of outstanding notes issued by Mountain Khakis that we assumed as part of the Mountain Khakis Acquisition; and
- $0.8 million of capital lease obligations.

In addition, in August 2012 we borrowed an additional $75.0 million under the Incremental Term Loan.

At June 30, 2012, we believe we were in compliance with all financial covenants.

Capital and Operating Leases and Other Long-Term Obligations

We maintain capital leases mainly for computer and mailroom equipment. We have several operating leases, including a lease for our Memphis warehouse that expires in June 2016, our Madison annex office that expires in August 2014, and leases for several of our manufacturing facilities that expire on various dates through 2015. We maintain various 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.

As a result of our restructuring activities, we notified the Pension Benefit Guaranty Corporation (“PBGC”) that the closure of the manufacturing facility in North Haven, Connecticut may be considered a cessation of operations event under ERISA Section 4062(e). We are currently in the process of reviewing this matter with the PBGC to determine if additional funding, security or collateral may be required and over what time period. The PBGC has determined that our 4062(e) unfunded liability is approximately $10.1 million, which amount is determined on a different basis of accounting than that reflected in our financial statements. Our recorded liability under generally accepted accounting principles was approximately $8.4 million at June 30, 2012. At this time, we do not know the amount, if any, or any arrangements for any payments related to this matter; however, we do not believe the impact of any settlement with the PBGC will have a material impact on our liquidity, financial position or results of operations.

Capital Expenditures

Gross capital expenditures for the six months ended June 30, 2012 and 2011 were $9.5 million and $6.8 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 2012 to be in the range of $20.0 million to $35.0 million (including the $9.5 million spent through June 30, 2012), 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 and site improvements related to our restructuring activities.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements consist of our obligations with respect to standby letters of credit of $7.0 million.

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 calculated 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 when 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 a limited amount of 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 and 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.

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 life 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. On October 1 of each year, we test for impairment of goodwill by reporting unit. Beginning in 2011, we performed a qualitative assessment on some of our reporting units to determine whether it was more likely than not that their fair values were less than their carrying values. If their fair value was determined to be less than their carrying value, we proceeded to use a two-step approach, which was also used to test goodwill impairment for those reporting units where a qualitative assessment was not performed. In the first step of the two-step approach, 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 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 and post-retirement benefit plans that cover certain 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. As of January 1, 2011, future accrued benefits for eligible participants in our other postemployment benefit ("OPEB") plans were also frozen.

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. The discount rate is 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. Our OPEB plans are unfunded but their discount rates are computed in a similar manner as those for our pension plans. The Marlin pension plan amortizes actuarial gains and losses that exceed 10% of either the projected benefit obligation or the market-related value of plan assets, whichever is greater as of the beginning of the year (the "corridor approach"), over the plan participants' average remaining life expectancy. The Marlin OPEB plan amortizes gains and losses over the plan participants' average remaining life expectancy and utilizes the corridor approach. Gains and losses in the Remington pension, Remington supplemental retirement and Remington OPEB plans are amortized over five years without using the corridor approach.

As discussed in our "Recent Company Developments", we initiated several restructuring activities during the past two years. Although the manufacturing integration is complete, we continue to streamline and move toward uniform functions and processes. Having similar assumptions for our two defined benefit pension and two post retirement plans is another step toward providing congruent policies. Due to these factors, we changed our policy to amortize actuarial gains and losses over the participants' average remaining life expectancy and employ the corridor approach for all of our retirement plans. We believe that implementing the corridor approach and amortizing actuarial gains and losses over the participants' average remaining life expectancy is preferable to our current practice because recognition of gains and losses will occur over the same period that the average benefit obligations are satisfied, gains and losses will be treated similarly as other components of pension costs and our assumptions will be uniform as all of our retirement plans have similar participant populations and attributes. The change in assumptions resulted in a change in estimate affected by a change in accounting principle and was made on a prospective basis as of January 1, 2012.

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 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 to both items recognized and reported at fair value in the financial statements and to 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.

	Fair value measurements at June 30, 2012 using:			
	Level 1	Level 2	Level 3	Total
Assets:				
Commodity Derivatives	Not applicable	$ 0.2 million	Not applicable	$ 0.2 million
Liabilities:				
Commodity Derivatives	Not applicable	$ 1.6 million	Not applicable	$ 1.6 million

Our commodity contract derivatives are valued by using either quoted prices or mathematical models that use observable market inputs such as spot prices and future commodity prices and are classified as Level 2 inputs on the fair value hierarchy.

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.

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 and remediation of contaminated soil and groundwater. We have programs in place that monitor compliance with these requirements and we 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. See "Item 4 – Legal Proceedings" and "Item 4 – Legal Proceedings—Certain Indemnities." To date, Remington has honored its responsibilities under the Purchase Agreement, but no assurance can be given that they will continue to do so in the future.

There are various pending proceedings associated with environmental liability for which DuPont and its affiliates have accepted liability. Our obligations in these cases are not expected to be material.

The Company has also conducted other remediation activities at former Marlin facilities. Costs for remediation 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 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 2012.

Regulatory Developments

The manufacture, sale, purchase, possession, import, export 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 Internal Revenue Code provisions applicable to the Firearms and Ammunition Excise Tax ("FAET"), which have been amended from time to time. The NFA, GCA, and permanent imports under these laws and the AECA, are administered and enforced by the Bureau of Alcohol, Tobacco, Firearms and Explosives through the Department of Justice; permanent and temporary 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, export, manufacture and sell firearms and ammunition. The NFA places various additional restrictions on certain firearms defined in that law and its regulations 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 or other authorizations to be in place prior to the import or export of certain defense articles, 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, authorizations 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 Assault Weapons Ban (“AWB”), which generally prohibited the manufacture of certain firearms defined under that statute as “assault weapons” and the sale or possession of “assault weapons” except for those that were manufactured prior to the law’s enactment. 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. California passed handgun microstamping legislation that it intended to go into effect on January 1, 2010; however, implementation of that law is still on hold. Several other states ban the sale, possession and use of firearms altogether, and several others require firearms to be sold with internal or external locking mechanisms. Within the past few years, at least four states introduced, or currently have, 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 enacting 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 on 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 June 30, 2012 and 2011, we had long-term borrowings of $593.8 million and $512.0 million, respectively, excluding $5.2 million and $1.8 million, respectively, classified as short-term debt and the current portion of long-term debt. However, interest on borrowings from our Term Loan B and New ABL Revolver are measured using LIBOR and Alternate Base Rate interest rates. Assuming no changes in the monthly average variable-rate debt levels of $16.3 million and $1.2 million for the twelve months ended June 30, 2012 and 2011, 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 June 30, 2012 and 2011 by $0.2 million and less than $0.1 million, respectively, on an annualized pretax basis.

We purchase copper and lead option and swap contracts to hedge against price fluctuations of anticipated commodity purchases. Lead and copper prices have experienced significant volatility in the current year as China has reduced its purchases and concerns of a weakening global economy have led to softer demand.

At June 30, 2012 and 2011, the market value of our outstanding swap contracts relating to firm commitments and anticipated purchases up to eighteen and nine months, respectively, was $1.4 million and $2.0 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 June 30, 2012 and 2011, we would experience an approximate $7.7 million and $7.0 million, respectively, increase in our cost of related inventory purchased on an annualized pretax basis, which would be partially offset by an approximate $5.4 million and $2.0 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 June 30, 2012 and 2011, we would experience an approximate $0.4 million increase in our cost of related inventory purchased for both of the six months ended June 30, 2012 and 2011 on a 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.

Part II – Other Information

Item 1. 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."

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, 2012.

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 June 30, 2012, approximately 48 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 48 pending cases and claims involve pre- and post-Asset Purchase occurrences for which we or DuPont bear responsibility under the Purchase Agreement. In addition, we have five 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 June 30, 2012, 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 June 30, 2012, our accrual for product liability and other product related cases and claims was approximately $17.8 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 cases and threatened, but unasserted, 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 that 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 that any probable loss exceeding amounts already recognized through our accruals has been incurred with respect to product liability and product related cases and claims.

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. 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.

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.

Item 5. Other Information

FGI Opco entered into an Incremental Term Loan. See the description under "Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Company Developments—Debt Refinancings".