FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

Colt Defense LLC

CIK:**1508677**| IRS No.: **202902260** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **333-171547** | Film No.: **13716426**
SIC: **3480** Ordnance & accessories, (no vehicles/guided missiles)

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Colt Finance Corp.

CIK:**1512369**| IRS No.: **271237687** | State of Incorp.:**DE**
Type: **10-K** | Act: **34** | File No.: **333-171547-01** | Film No.: **13716427**

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934.**

For the fiscal year ended December 31, 2012

OR

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

For the transition period from to

Commission file number 333-171547

Colt Defense LLC
Colt Finance Corp.

(Exact name of Registrant as specified in its charter)

Delaware	**32-0031950**
Delaware	**27-1237687**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
547 New Park Avenue, West Hartford, CT	**06110**
(Address of principal executive offices)	(Zip Code)

Registrant’ s telephone number, including area code: **(860) 232-4489**

Securities registered pursuant to Section 12(b) of the Act: **None**
Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☒ No ☐

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained tot the best of registrant' s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☐

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

The number of shares outstanding of the Registrant' s common stock as of March 25, 2013: None.

Documents incorporated by reference: None

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COLT DEFENSE LLC
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This Annual Report on Form 10-K, including the "Management' s Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, that are subject to the "safe harbor" created by those sections. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or our future financial performance and/or operating performance are not statements of historical fact and reflect only our current expectations regarding these matters. These statements are often, but not always, made through the use of words such as "may," "will," "expect," "anticipate," "believe," "intend," "predict," "potential," "estimate," "plan" or variations of these words or similar expressions. These statements inherently involve a wide range of known and unknown uncertainties. Our actual actions and results may differ materially from what is expressed or implied by these statements. Factors that could cause such a difference include, but are not limited to, those set forth as "Risk Factors" under Item 1A herein. Given these factors, you should not rely on forward-looking statements, assume that past financial performance will be a reliable indicator of future performance nor use historical trends to anticipate results or trends in future periods. We expressly disclaim any obligation or intention to provide updates to the forward-looking statements and estimates and assumptions associated with them.

Certain monetary amounts, percentages and other figures included in this 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 Annual Report on Form 10-K, unless the context otherwise requires, or unless specifically stated otherwise, references to the terms "we," "our," "us," "Colt Defense" and the "Company" refer to Colt Defense LLC, Colt Finance Corp. and all of their subsidiaries that are consolidated under GAAP.

PART I

Item 1. Business

Company overview

Colt Defense LLC was formed in 2002 as a Delaware limited liability company as a result of the re-organization of Colt' s Manufacturing Company, Inc. ("Colt' s Manufacturing"). The defense and law enforcement rifle business, under Colt Defense, was separated from the commercial handgun business. Through their respective affiliates, Sciens Management LLC, referred to herein as "Sciens Management", and funds managed by an affiliate of The Blackstone Group, L.P., referred to herein as the "Blackstone Funds", beneficially own a substantial portion of Colt Defense' s limited liability company interests.

We are one of the world' s leading designers, developers and manufacturers of small arms weapons systems for individual soldiers and law enforcement personnel. We have supplied small arms weapons systems to more than 80 countries by expanding our portfolio of products and services to meet evolving military and law enforcement requirements around the world. Our products have proven themselves under the most severe and varied battle conditions. We also modify our rifles and carbines for civilian use and sell them to Colt' s Manufacturing, which sells them into the commercial market.

We have historically been the U.S. military' s sole supplier of the M4 carbine, the U.S. Army' s standard issue rifle, the Canadian military' s exclusive supplier of the C8 carbine and C7 rifle and a supplier of other small arms weapons systems to U.S., Canadian and international law enforcement agencies. Furthermore, our development and sales of M4 carbines and over 50 years of sales of M16 rifles have resulted in a global installed base of more than 7 million M16/M4 small arms weapons systems. Our expertise in designing and manufacturing small arms weapons systems enables us to integrate new technologies and features to upgrade our large installed base, develop international co-production opportunities and capitalize on our experience building to stringent military standards to make commercial rifles and carbines with exceptional reliability, performance and accuracy.

We trace our history to Colonel Samuel Colt, who launched a company that is part of American folklore. A post-Civil War slogan stated, "Abe Lincoln may have freed all men, but Sam Colt made them equal." Samuel Colt' s success story began with the issuance of a U.S. patent in 1836 for a revolving cylinder handgun firing five or six rounds. Colt' s revolver provided its user with greatly increased firepower, since prior to his invention, only one- and two-barrel flintlock pistols were available. In addition, Colt pioneered the mass production of firearms, which

made large numbers of high quality, affordable firearms available for the first time. As a direct result of his invention and the marketing and sales success that followed, Samuel Colt and his small arms played a prominent role in the history of a developing America. We have been a leading supplier of small arms weapons systems to the U.S. military since the Mexican-American War in 1847 and have supplied our products to international customers for nearly as long.

Industry overview

We compete in the global market for small arms weapons systems designed for military, law enforcement and civilian (commercial) use. Our end customers include U.S. and foreign military forces, law enforcement and security agencies and through an arrangement with Colt' s Manufacturing, domestic sporting and hunting enthusiasts. Government funding for our military products is primarily linked to the spending trends of U.S., Canadian and other foreign militaries and national and border security agencies. Efforts to reduce the U.S. federal budget deficit and the wind-down of military operations in Iraq and Afghanistan will likely result in flat to declining U.S. defense budgets for the foreseeable future. Austerity measures will also pressure the European defense market spending. At this point, it is unclear how extensive defense budget cuts will be or specifically how small arms weapons programs will be impacted by the cuts. International markets outside of Europe appear to be less impacted by budget constraints.

As a result of our continued emphasis on the law enforcement and commercial (“LE/Commercial”) markets, we have seen strong year-over-year sales growth into these markets. Law enforcement agencies at all levels of government (federal, state and municipal) are experiencing budgetary pressures, but Colt’ s Manufacturing has seen continued strong demand in the commercial rifle market.

Business Segment

Our small arms weapons systems segment represents our core business, as substantially all of our operations are conducted through this segment. The small arms weapons systems segment consists of two operating segments, which have similar economic characteristics and have been aggregated into the Company’ s only reportable segment. The small arms weapons systems segment of our business designs, develops and manufactures small arms weapons systems for military and law enforcement personnel both domestically and internationally and, indirectly, for the domestic commercial market. For a discussion of our financial performance, see “Results of Operations” in Item 7 of this Form 10-K.

Products

Our name, products and services connote quality, reliability, performance and integrity in the U.S., Canada and around the world. We believe these strengths facilitate sales of our products and allow us to expand our sales of small arms weapons systems and related products and services.

Our product line includes:

- Military, law enforcement and commercial rifles and carbines;
- machine guns, grenade launchers and other products for military and law enforcement customers; and
- a range of weapons-related products, parts, accessories and services.

Below is a brief description of some of our significant products.

Small Arms Weapons Systems

Proprietary Legacy Military Weapons Systems

M4 5.56mm carbine. The M4 carbine, the standard weapon of issue for the U.S. Army, was first approved for use by the U.S. military in 1993. Due to its size and performance, it is not only well suited for special operations and elite battle units of the U.S. military and similar units of other militaries, but also for general purpose forces as well. The M4 is a fully/semi-automatic, air-cooled, magazine-fed, gas-operated carbine. The M4 carbine is designed for

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simplicity of operation, maximum interchangeability of parts and ease of maintenance. This combination of favorable characteristics has contributed to a durable, high performance system with low life cycle maintenance costs. The M4 carbine features a four-position sliding butt stock allowing it to adapt to soldiers of different sizes and physical characteristics as well as various firing positions. The

M4 carbine is the first military weapon to fully utilize the flat top upper receiver, which provides the user flexibility in accessorizing the weapon.

M16 5.56mm Rifle. The M16 is a fully/semi-automatic, air-cooled, magazine-fed, gas-operated rifle. This rifle has been produced since the 1960s, and until the transition to the M4 carbine, it was the standard weapon of issue for the U.S. Army. The M16A4 rifle version features a removable carrying handle with an integral rail-mounting system. When the carrying handle is removed, any accessory device with a rail grabber, such as an optical sight, can be mounted on the weapon.

Variations of the M4 carbine and M16 rifle offered include, among others: the M4 Commando, C8 carbine, C8SFW, C7 rifle, Infantry Automatic Rifle, Sub-Compact Weapon and the 9mm Submachine Gun.

Proprietary New Weapons Systems

CM901 Multi-caliber, Modular Weapon System. The CM901™ modular weapon system is a newly designed modular carbine that can change calibers in the field, from 5.56mm up to and including 7.62 x 51mm NATO. The CM901™ is a fully/semi-automatic, air-cooled, magazine-fed, gas-operated carbine. By simply disengaging the take-down and pivot pins on the universal lower receiver, the user can quickly change from a 5.56mm Close Quarter Battle short barrel configuration to a full length 7.62 x 51mm Extended Range Carbine configuration. The CM901™ has a free-floating barrel system to improve operator accuracy and hit probability. With an adaptor, the CM901™ is designed to accept all legacy M4/M16 Colt upper receiver assemblies making it both compatible with our customers' current M4/M16 inventory and familiar in functionality to the soldier.

Advanced Piston Carbine (APC). The new Colt P0923 Advanced Piston Carbine is a modular, 5.56mm, piston-operated, lightweight, one-piece upper receiver, magazine-fed carbine capable of firing in automatic and semi-automatic modes. The Colt P0923 incorporates a unique articulating link piston operating system that reduces the inherent stress in the piston stroke by allowing for deflection and thermal expansion. The P0923 is specifically designed for ease of cleaning, disassembly, and assembly of the carbine.

Military Handgun

M45A1 Close Quarters Battle Pistol. The M45A1 (Close Quarters Battle Pistol − CQBP) is a variation of the ubiquitous Colt 1911 pistol which first entered military service over one-hundred years ago in 1911. This marks the first time since the end of World War II that a Colt 1911 has been delivered to the U.S. Government as a service pistol. The M45A1 is a semiautomatic, magazine-fed, .45 ACP handgun with an enclosed slide which also includes features compliant with the U.S. Marine Corps specifications for their new service pistol including self-illuminating (tritium) night sights and an integral MIL-STD-1913 "Picatinny" rail. This product is manufactured for us by Colt' s Manufacturing.

Commercial and Law Enforcement Weapons Systems

LE/Commercial Model Rifles and Carbines. Our LE/Commercial rifles and carbines include numerous variants of our military rifles and carbines. Weapons systems sold to law enforcement customers tend to closely resemble our military products and can be made and sold in automatic and semiautomatic fire configurations. Rifles and carbines that we manufacture for Colt' s Manufacturing (which sells them to the commercial market) are available in semiautomatic fire mode only.

Military Weapon Systems Under License

M240 and M249Machine Guns. The M240 is a belt-fed, gas-operated medium machine gun that utilizes the 7.62 x 51mm NATO cartridge. The M249 is a belt-fed, gas-operated light machine gun that utilizes the 5.56 x 45 mm NATO cartridge. We manufacture the M240 and the M249 under licenses for sale exclusively to the U.S. Government.

Spares/Other

Spares and Accessories. We produce and provide spare parts and replacement kits for our small arms weapon systems. With certain customers, we also provide the overhaul services associated with the spare parts and replacement kits. We also provide engineering services to the Canadian Government. Due to the flexibility of our small arms weapons systems, we offer our customers procurement services whereby we will accessorize the small arms we sell to meet the customer' s specifications. The M4 carbines, M16 rifles and other variants are the platform for the U.S. military' s current generation modular weapon system, which incorporates a rail adapter system into the weapons. These rail systems provide multiple mounting surfaces for various accessory devices, including flashlights, optical sights, thermal sights, backup iron sights, laser sighting and targeting devices. Accordingly, there is a large base of components using the rail adapter system and a significant investment by the U.S. military and foreign countries in these components. On a limited basis, we also produce subcomponents for other prime government defense contractors.

EAGLE 40mm Grenade Launcher. The EAGLE grenade launcher is a lightweight, single-shot, 40mm weapon designed specifically to work with the new generation of weapons equipped with one piece upper receivers, including the Model CM901 modular weapon system. The EAGLE is a side opening launcher that will accommodate the whole range of 40mm high explosive and special purpose ammunition (including non-lethal ammunition). The launcher can be configured for left- or right-handed shooters. It has a maximum effective range of 400 meters with low recoil. The EAGLE is also available as a stand-alone unit.

Law Enforcement Sales and Training.

We provide armorer' s and tactical training courses for the law enforcement community. Armorer' s courses cover design, theory, compatibility, disassembly, assembly, maintenance and troubleshooting. Tactical training courses address the use of tactical rifles and handguns in various law enforcement scenarios.

Research and development

We conduct research and development activities to continually enhance our existing products, develop new products to meet our customers' needs and requirements and address new market opportunities. Our ability to compete for new government contracts and commercial sales depends, to a large extent, on the success of our product development programs at creating innovations and improvements. In 2012, research and development expenditures were $4.7 million, compared to $5.6 million in 2011 and $4.5 million 2010. For a discussion of risks associated with product development, see "Risk Factors" in Item 1A of this Form 10-K.

Co-production programs

We have entered into co-production transactions with partners in foreign countries, including Canada and Malaysia, and we continue to be willing to enter into new relationships. All manufacturing license agreements that we enter into with non-U.S. counterparties have finite terms and require approval by the U.S. State Department.

Customer and customer concentration

We sell our products and services to a customer base that includes:

- U.S. Government, including the Foreign Military Sales Program ("FMS") sales by the U.S. Government;
- Canadian Government;

- direct sales to other foreign governments;
- domestic law enforcement agencies and select distributors servicing law enforcement agencies; and
- Colt' s Manufacturing, which sells our products into the domestic commercial market through a network of distributors.

A significant portion of our net sales is derived from a limited number of customers. In 2012, we had four customers that each accounted for more than 10% of our net sales. In total, sales to these four customers accounted for almost 77% of our net sales. In 2011, we had two customers that each accounted for more than 10% of our net sales and together accounted for 42% of our net sales. In 2010, one customer accounted for 55% of our net sales and there were no other customers that exceeded 10% of net sales. For additional information on customer concentration and the related risks, see "Risk Factors" in Item 1A and "Note 13 Segment Information" in Item 8 of this Form 10-K.

Government contracts

Our U.S. Government business is performed under fixed-price contracts pursuant to which the U.S. Government ordinarily commits to purchase a minimum quantity over a multi-year period but has the option to purchase a greater quantity at a pre-committed price. Substantially all of our contracts have been awarded to us after competitive solicitations. There is intense competition for the U.S. Government contracts for which we compete.

U.S. Government contracts are, by their terms, subject to termination by the U.S. Government for either its convenience or default by the contractor. Termination for convenience is at the U.S. Government' s discretion and occurs when there is a determination that termination of the contract is in the U.S. Government' s interest, such as when there is a change in the U.S. Government' s needs. Fixed-price contracts provide for payment upon termination for items delivered to and accepted by the U.S. Government and, if the termination is for convenience, for payment of fair compensation of work performed plus the costs of settling and paying claims by terminated subcontractors, other settlement expenses, and a reasonable profit on the costs incurred.

The U.S. Government also regulates the methods under which costs are allocated to U.S. Government contracts. Under U.S. Government regulations, certain costs, including certain financing costs, portions of research and development costs, lobbying expenses, certain types of legal expenses, and certain marketing expenses related to the preparation of bids and proposals, are not allowed for pricing purposes. We are subject to a variety of audits performed by U.S. Government agencies in connection with our U.S. Government contracts. Such audits can occur prior to, during or after the completion of a given contract.

Since 1976, our Canadian subsidiary and its predecessor have served as the Government of Canada' s Strategic Source for Small Arms. This relationship requires our Canadian subsidiary to work closely and cooperate with the Department of National Defense and Canadian Forces regarding its strategic source of supply for the design, development, manufacture, testing and overhaul of small arms, including but not limited to the C7 and C8 family of weapons, and maintain the Small Arms Center for Excellence, the Canadian Government' s center to test, improve and develop small arms.

For a discussion of the risks associated with U.S. and Canadian government contracts, see "Risk Factors" in Item 1A of this Form 10-K.

Marketing and distribution

Our marketing strategy focuses on the following three specific sales channels: the U.S. and Canadian Governments; the International market; and the U.S. LE/Commercial market.

U.S. and Canadian Government sales typically consist of sales to the U.S. Department of Defense, the Canadian Department of National Defense and other U.S. and Canadian agencies. For the U.S. and Canadian Governments, we utilize a direct sales force that maintains significant interaction with the customer and end user. This level of interaction enables us to respond to feedback and guidance from weapon system operators on a real-time basis.

International sales are ordinarily to a military or law enforcement unit of a foreign government. We interact with the international market through a global network of independent, commission-based sales representatives, as well as a direct sales force. Sales representatives work in coordination with our direct sales force in promoting our products, indentifying opportunities, submitting quotes and bids, finalizing sales contracts and associated paperwork and providing delivery and after-sale support. Our products also enter the international market via the U.S. Government FMS program. FMS sales, which we characterize as sales to the U.S. Government for financial reporting purposes, are sales to the U.S. Government for the benefit of a foreign end-user, to which the product is shipped. For additional information on sales and long-lived assets by geographic area, see "Note 13 Segment Information" in Item 8 of this Form 10-K.

U.S. LE/Commercial sales consist of sales to distributors, including Colt' s Manufacturing, and sales to law enforcement agencies. We interact with commercial and law enforcement customers through both a direct sales force and a domestic network of independent, commission-based sales representatives.

Sources and availability of raw materials

The raw materials in our products consist primarily of metals, principally steel and aluminum, and polymers. We purchase bar steel and aluminum forgings for machining operations that we conduct at our facilities but most of our purchased inventory consists of parts that are already fully or partially machined or processed. The critical machined and processed purchased parts are manufactured pursuant to proprietary specifications. In some cases, we are dependent on sole-source suppliers. In order to mitigate the risk associated with sole-source suppliers, we usually enter into long-term or volume purchase arrangements. We have also broadened our supplier base for certain parts in order to meet the increased demand associated with the commercial market. We have not been materially adversely affected by price fluctuations relating to essential raw materials.

Backlog

Because a substantial portion of our business is of a build-to-order nature, we generally have a significant backlog of orders to be manufactured and shipped. Our backlog decreased from $176.7 million at December 31, 2011 to $165.9 million at December 31, 2012 due in part to shipments on a large, long-term, international order. The decline in international backlog was partially offset by year over year increases in both our U.S. Government and LE/Commercial backlog. We expect approximately 81% of our backlog of orders as of December 31, 2012 to be shipped over the next twelve months. Management uses our backlog to project sales and plan our business on an ongoing basis. Our total backlog represents the estimated remaining sales value of work to be performed under firm, and when applicable, funded contracts.

Competition

The markets we serve are highly competitive. Our principal competitor for U.S. Government business has been FN Manufacturing LLC, the U.S. subsidiary of FN Herstal, S.A. We also face competition for U.S. Government business from smaller companies that compete for small business set-aside contracts. Other domestic commercial "black rifle" manufacturers, including Remington Arms Company LLC, have participated in recent procurement competitions. Although we anticipate that robust competition for U.S. military contracts will continue to exist, entrance barriers are high due to rigorous production and quality standards to which defense contractors are subject. Accordingly, we believe that our ability to consistently ship large quantities of high-quality product on time and our long track record provide us with a competitive advantage over potential new entrants into this market.

In Canada, we are the exclusive supplier of the C7 rifle and C8 carbine to the Canadian Department of National Defense and are the center of excellence with respect to other small arms projects for the Canadian Government.

Outside Canada and the United States, our principal competitors for foreign military and law enforcement sales are foreign small arms manufacturers. In countries that already have inventories of M16 rifles and M4 carbines in service as a result of prior purchases directly from us or through the U.S. Government' s FMS program, we believe our incumbency provides a competitive advantage.

Our primary competition in the U.S. for commercial and law enforcement model rifles and carbines are domestic rifle manufacturers that sell similar products primarily or exclusively into the commercial market. There are many such competitors and the domestic commercial market for rifles and carbines is extremely competitive.

Intellectual property

We own or license common law and registered trademarks that are used to identify our products and services. Certain of our trademarks are registered in the United States and in certain foreign jurisdictions. We have an exclusive, worldwide, license right from New Colt Holding Corp. ("New Colt") to use the widely recognized Colt® brand name for the sale of small arms, spare parts and other products and services for military use and to use the Colt brand name for the sale of firearms, except handguns, plus spare parts and related products, for law enforcement use. This license also includes the use of the principal long-standing Colt trademarks. This license

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is fully paid for its initial 20-year term, which expires December 31, 2023, and may be extended indefinitely at our option for successive five-year periods upon payment of $250 thousand for each additional five-year period.

Our proprietary firearms technology consists primarily of trade secrets such as proprietary drawings and know-how and also includes patents and other intellectual property rights. We engage in a number of measures to protect our trade secrets. We also identify and protect with patents those patentable inventions generated by our ongoing research and development activities that we believe may provide us with a competitive advantage or other future value. Patents are filed and maintained in the United States, Canada and other jurisdictions as appropriate.

We have entered into licenses with third parties pertaining to portions of our firearms technology. The U.S. Government is licensed to use our M16 rifle and M4 carbine technology for competitive procurements for military use. The Canadian Government is licensed to use our M16 rifle and M4 carbine technology for its military and law enforcement needs. We also have entered into a license agreement with a manufacturer in Malaysia pursuant to which the manufacturer will assemble the M4 carbine and machine certain components for use in that country.

For a discussion of the risks associated with our intellectual property, see "Risk Factors" in Item 1A of this Form 10-K.

Environmental laws and regulations

We are subject to various federal, state, local, provincial and foreign laws and regulations governing the protection of human health and the environment. In the U.S., we employ a full-time manager whose responsibilities include our compliance with environmental laws and regulations. In 2012, we did not make any significant capital expenditures for equipment required by environmental laws and regulations, but we incurred aggregate expenses of $0.5 million for remediation of environmental conditions. For a discussion of the risks associated with environmental compliance, see "Risk Factors" in Item 1A of this Form 10-K.

Employees

As of December 31, 2012, we had approximately 552 active, full-time employees, of whom 452 employees were located in the U.S. and 100 employees were located in Canada. In the U.S., approximately 68% of our workforce is represented by a union and is covered by a new collective bargaining agreement that became effective April 1, 2012 and expires on March 31, 2014. The new collective bargaining agreement contains new features that focus on cost containment for health and pension plans. Beginning April 1, 2013, all of our U.S. employees will participate in a new consumer-directed health plan. In addition, all employees who are subject to the collective bargaining agreement and commenced service after April 1, 2012 are not eligible to participate in the hourly defined benefit plan. Instead, they are eligible to participate in our defined contribution retirement plan. For additional information about changes to our defined benefit and defined contribution plans, see "Note 8 Pension, Savings and Postretirement Benefits" in Item 8 of this Form 10-K.

None of our Canadian employees are subject to collective bargaining agreements. Of our total workforce, 460 were directly or indirectly involved in the production process. For a discussion of the risks associated with labor, see "Risk Factors" in Item 1A of this Form 10-K.

Available Information

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available, at your request, without charge, from Colt Defense LLC, 547 New Park Avenue, West Hartford, CT 06110, Attention: Chief Financial Officer. Our telephone number at that address is (860) 232-4489.

The public may read and copy any materials we file with the SEC at the SEC' s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site at http://www.sec.gov that contains the reports and other information that are filed electronically with the SEC.

Item 1A. Risk Factors

Our operations could be affected by various risks, many of which are beyond our control. Based on current information, we believe that the following identifies the most significant risks that could affect our business. Investors should carefully consider the following risk factors, together with all of the information included in this Form 10-K, in evaluating our company, our business and our prospects.

Risks related to our business

We make a significant portion of our net sales to a limited number of customers, and a decrease in sales to these customers could have a material adverse effect on our business.

A significant portion of our net sales is derived from a limited number of customers. For the year ended December 31, 2012, our top ten customers represented approximately 90% of our net sales. Our four largest customers, which each accounted for more than 10% of our net sales, accounted for approximately 77% of our net sales for the year ended December 31, 2012. In 2013, we expect to continue to derive a significant portion of our business from sales to a relatively small number of customers. If we were to lose one or more of our top customers, or if one or more of these customers significantly decreased orders for our products without another customer generating offsetting new orders, our business would be materially and adversely affected.

We are subject to risks related to a lack of product revenue diversification.

We derive a substantial percentage of our net sales from a limited number of products, especially variants of our M4 carbine and other small arms weapons systems, and we expect these products to continue to account for a large percentage of our net sales in the near term. Continued market acceptance of these products is, therefore, critical to our future success. We cannot predict how long the M4 carbine and related products will continue to be the primary small arms weapons system of choice for the U.S. Government and certain of our other customers. Our business, operating results, financial condition, and cash flows could be adversely affected by:

- a decline in demand for the M4 carbine and related small arms weapons systems;
- future U.S. Government procurements of the M4 carbine, including spare parts, will be on a competitive basis;
- a failure to achieve continued market acceptance of our key products;
- export restrictions or other regulatory, legislative or multinational actions which could limit our ability to sell those products to key customers or markets, especially existing and potential international customers;
- improved competitive alternatives to our products gaining acceptance in the markets in which we participate;
- increased pressure from competitors that offer broader product lines;
- technological change that we are unable to address with our products; or
- a failure to release new or enhanced versions of our products to our military or other customers on a timely basis.

Any of the above events could impact our ability to maintain or expand our business with certain customers.

In addition, the Army recently announced the award to a competitor of ours of a five-year indefinite delivery, indefinite quantity ("IDIQ") contract to supply the Army with the M4 carbine. Competition for contracts to supply spare parts to the U.S. Army is also intense and our competitors have demonstrated their ability to compete successfully for spare parts contracts.

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If our Memorandum of Understanding with Colt' s Manufacturing were not to be renewed, our sales of rifles and carbines into the commercial market could be significantly impacted.

Sales to Colt' s Manufacturing accounted for approximately 34% of our sales in 2012 as compared to 6% of sales in 2011. Colt' s Manufacturing sells those rifles and carbines to distributors and retailers who resell them into the domestic commercial market. Our sales to Colt' s Manufacturing occur under a written Memorandum of Understanding that by its terms expires at the end of April 2013. If the Memorandum of Understanding is not renewed or replaced by another agreement, we will not be able to continue selling rifles and carbines to Colt' s Manufacturing after the current agreement expires.

We would face two impediments to selling rifles and carbines directly to the commercial market if we wished to do so after termination of the Memorandum of Understanding. First, we are not licensed to sell Colt-branded products to the commercial market. Second, our limited liability company agreement prohibits us from selling rifles and carbines directly to the commercial market, under any brand, without the consent of Sciens Management and the Blackstone Funds. There is no assurance that such consent could be obtained. Even if such consent were obtained, there is no assurance that customers in the domestic commercial market will continue to purchase our products if they are not marketed and sold under the Colt name and are marketed and sold instead under a different brand name.

For these reasons, termination of the Memorandum of Understanding could have a material adverse effect on our business.

New federal and state laws and regulations may restrict our ability to continue to sell the products that we currently sell into the domestic commercial market, which could materially adversely affect our revenues.

A significant portion of our revenues is derived from sales into the domestic commercial market of variants of our military and law enforcement rifles and carbines. Since December 2012, there has been an extremely sharp increase in political and public support for new "gun control" laws and regulations in the United States. Some proposed legislation, including legislation that has been introduced and is under active consideration in Congress and in state legislatures, would ban and/or restrict the sale of substantially all of our products, in their current configurations, into the commercial market, either throughout the United States or in particular states. It is also possible that the President of the United States could issue Executive Orders that would adversely affect our ability to sell, or customers' ability to purchase, our products. The political environment for enactment of new "gun control" measures at the federal, state and local level is evolving rapidly and additional significant change in the domestic legal and regulatory environment during 2013 is likely.

In light of the uncertain and evolving political, legal and regulatory environment, it is not clear what measures might be necessary in order to redesign our products to comply with applicable law, nor whether it will even be possible in every instance to do so. To the extent that redesigns of our products are possible, we may need to spend significant amounts of capital in order to effectuate such redesigns and may incur associated sales, marketing, legal and administrative costs in connection with the introduction of new models. Furthermore, there is no assurance that customers will accept redesigned rifles and carbines.

A substantial decline in sales into the domestic commercial market for any of these reasons would have a material adverse effect on our business.

It is possible that demand for commercial versions of our product could experience a sudden decline.

Previous patterns of demand in the domestic commercial rifle market suggest that demand for our products in that market could experience a rapid, material decline at any time. For example, demand that was intense in late 2008 and early 2009 declined suddenly in mid-2009, when perceptions that the new administration in Washington might entail new "gun control" legislation subsided. There are indications that that the commercial market has recently experienced a surge in demand due to renewed concerns relating to "gun control" laws and regulations. To the extent that is the case, if the market determines that the risk is not as great as anticipated, there could be a similar rapid decline in sales into the commercial market. A rapid decline in demand for our products in the commercial market could cause Colt' s Manufacturing to cancel purchase orders that we have included in our backlog.

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Our manufacturing facilities may experience disruptions adversely affecting our financial position and results of operations.

We currently manufacture our products primarily at our facilities in West Hartford, Connecticut and Kitchener, Ontario, Canada. We lease our West Hartford facility from an affiliate of one of our sponsors. The term of this lease has been extended to October 25, 2015.

The lease does not provide for renewal of the term after the lease maturity and we may not be able to continue to occupy the property on acceptable terms or be able to find suitable replacement manufacturing facilities on satisfactory terms and conditions. Any natural disaster or other serious disruption at either of our facilities due to a fire, electrical outage or any other calamity could damage our capital equipment or supporting infrastructure or disrupt our ability to ship our products from, or receive our supplies at, these facilities. Any such event could materially impair our ability to manufacture and deliver our products. Even a short disruption in our production output could delay shipments and cause damage to relationships with customers, causing them to reduce or eliminate the amount of products they purchase from us. Any such disruption could result in lost net sales, increased costs and reduced profits, which could have a material adverse affect on our financial position and results of operations.

Our sponsors control us and may have conflicts of interest with us or you now or in the future.

Through their respective affiliates, our sponsors, Sciens Management and the Blackstone Funds, beneficially own a substantial portion of the Company' s limited liability company interests. Under the terms of the Company' s limited liability company agreement, our sponsors and our union have the right to appoint our Governing Board and our sponsors, subject to maintaining certain equity ownership levels, have specified veto or approval rights which may be exercised in their discretion. As such, our sponsors have the ability to prevent specified transactions that might be in the best interests of the noteholders or to cause the Company to engage in transactions in which the sponsors have interests that might conflict with the interests of the noteholders. Members of the Company' s Governing Board are not required to abide by the same standard of care under the Delaware Limited Liability Company Act as the standard of care required of directors of a Delaware corporation. Additionally, Sciens Management and the Blackstone Funds are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that may directly or indirectly compete with or otherwise be adverse to us. They may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us.

We are subject to significant withholding taxes if we repatriate the earnings of our Canadian subsidiary.

As a result of current U.S. and Canadian tax laws and our existing legal structure, we cannot use profits from our Canadian subsidiary in the parent company business without incurring significant tax expense. Our inability to bring profits from our Canadian subsidiary into the parent company in a tax-efficient manner diminishes the value of profits generated in Canada.

Our long-term growth plan includes the expansion of our global operations. Such global expansion may not prove successful, and may divert significant capital, resources, and management time and attention and could adversely affect our ongoing operations.

Net direct sales to customers outside the United States accounted for approximately 48% of our net sales for the year ended December 31, 2012. We intend to continue to focus considerable efforts on expanding our international presence, which will require our management' s time and attention and may detract from our efforts in the United States and our other existing markets and adversely affect our operating results in these markets. Our products and overall marketing approach may not be accepted in other markets to the extent needed to continue the profitability of our international operations. Any further international expansion will likely intensify our risks associated with conducting international operations, including:

- difficulty in predicting the timing of international orders and shipments;

- increased liquidity requirements as a result of bonding or letters of credit requirements;

- unexpected changes in regulatory requirements;

- changes in foreign legislation;
- multinational agreements restricting international trade in small arms weapons systems;
- possible foreign currency controls, currency exchange rate fluctuations or devaluations;
- tariffs;
- difficulties in staffing and managing foreign operations;
- difficulties in obtaining and managing vendors and distributors;
- potential negative tax consequences;
- greater difficulties in protecting intellectual property rights;
- greater potential for violation of U.S. and foreign anti-bribery and export-import laws; and
- difficulties collecting or managing accounts receivable.

General economic and political conditions in these foreign markets may also impact our international net sales, as such conditions may cause customers to delay placing orders or to deploy capital to other governmental priorities. These and other factors may have a material adverse effect on our future international net sales.

We are required by Section 404 of the Sarbanes-Oxley Act to evaluate the effectiveness of our internal control over financial reporting; however, our independent registered public accounting firm is not required to attest to the effectiveness of our internal control over financial reporting.

Section 404 of the Sarbanes-Oxley Act requires the Company to perform a comprehensive evaluation and report of its internal controls. This report must contain an assessment by management of the effectiveness of our internal control over financial reporting as of the end of our fiscal year and a statement as to whether or not our internal controls are effective. However, our independent registered public accounting firm is not required to issue an opinion on management' s assessment or the effectiveness of our internal control over financial reporting. To comply with these requirements, we have documented and tested our internal control procedures and our management has assessed and issued a report concerning our internal control over financial reporting. Our efforts to comply with Section 404 have resulted in, and are likely to continue to result in, significant costs, the commitment of time and operational resources and the diversion of management' s attention. We may not prevent or detect material misstatements or errors, controls may become inadequate because of changes in circumstances, the degree of compliance with the policies or procedures may deteriorate and become ineffective and/or investors may not have an accurate financial evaluation of the Company or market perception of our financial condition may be adversely affected and customer perception of our business may suffer.

The markets in which we compete are highly competitive and we may be unsuccessful at designing new products to meet changing customer demand, introducing them on a timely basis or pricing them competitively.

In each of our markets − military, law enforcement and commercial − there are numerous competitors offering similar products at prices that are attractive to customers. Some competitors have greater financial, technical, marketing, manufacturing and distribution resources than we do, or may have broader product lines. Our ability to compete successfully for U.S., Canadian and other military and law enforcement contracts depends on our success at offering better product performance than our competitors at a lower price and on the readiness and capacity of our facilities, equipment and personnel to produce quality products consistently. Our ability to compete successfully in the domestic commercial market depends on our continuing to distinguish our products from similar product offered by competitors and to command pricing that reflects the value connoted by the Colt brand.

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While part of our strategy is to pursue strategic acquisitions, we may not be able to identify businesses that we can acquire on acceptable terms, we may not be able to obtain necessary financing or may face risks due to additional indebtedness, and our acquisition strategy may incur significant costs or expose us to substantial risks inherent in the acquired business's operations.

Our strategy of pursuing strategic acquisitions may be negatively impacted by several risks, including the following:

- We may not successfully identify companies that have complementary product lines or technological competencies or that can diversify our revenue or enhance our ability to implement our business strategy.

- We may not successfully acquire companies if we fail to obtain financing, or to negotiate the acquisition on acceptable terms, or for other related reasons.

- We may incur additional expenses due to acquisition due diligence, including legal, accounting, consulting and other professional fees and disbursements. Such additional expenses may be material, will likely not be reimbursed and would increase the aggregate investment cost of any acquisition.

- Any acquired business will expose us to the acquired company's liabilities and to risks inherent to its industry. We may not be able to ascertain or assess all of the significant risks.

- We may require additional financing in connection with any future acquisition. Such financing may adversely impact, or be restricted by, our capital structure and our ability to pay amounts owed under the notes when due and payable. Increasing our indebtedness could increase the risk of a default that would entitle the holder to declare all of such indebtedness due and payable, as well as the risk of cross-defaults under other debt facilities.

- Achieving the anticipated potential benefits of a strategic acquisition will depend in part on the successful integration of the operations, administrative infrastructures and personnel of the acquired company or companies in a timely and efficient manner. Some of the challenges involved in such an integration include:

  - demonstrating to the customers of the acquired company that the consolidation will not result in adverse changes in quality, customer service standards or business focus;

  - preserving important relationships of the acquired company;

  - coordinating sales and marketing efforts to effectively communicate the expanded capabilities of the combined company; and

  - coordinating the supply chains.

- Our limited liability company agreement prohibits us from entering certain new lines of business without the consent of Sciens Management and the Blackstone Funds. There is no assurance that such consent could be obtained.

Any integration is expected to be complex, time-consuming and expensive and may harm the newly-consolidated company' s business, financial condition and results of operations.

We license the Colt name and trademarks from an entity we do not control.

We license the Colt trademarks and service marks from New Colt. There are events that are outside of our control that pose a risk to our rights under the license agreement, including the bankruptcy of New Colt or the licensing of the trademarks and service marks to manufacturers that tarnish the quality, reputation and goodwill of these marks; actions or omissions by New Colt that abandon or forfeit some or all of its rights to these marks or that diminish the value of the marks; failure by New Colt to take appropriate action to deter infringement of these marks; and certain

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breaches by New Colt of the agreement governing our license to these marks. Furthermore, the licensor can seek to terminate the license agreement if it believes we have breached our obligations under the license. In addition, prosecuting certain claims against third parties to protect the value of the Colt trademarks and services marks could depend, in part, on the participation of New Colt, and any delay or refusal to cooperate in such dispute could prejudice our business interests or rights. Impairment of the value of the Colt trademarks and service marks, or the loss of our right to use them under the license agreement, would negatively affect our business.

Our U.S. and Canadian Government contracts are generally multi-year contracts that are funded by government appropriations annually. A reduction in the defense budget of our government customers would have a material adverse effect on our business.

Our primary contracts with the U.S. Government are IDIQ contracts under which the customer places orders at its discretion. Although these contracts generally have a four- or five-year term, they are funded annually by government appropriations. Furthermore, our primary contracts with the Canadian Government are funded annually by Canadian Government appropriations. Agreements with other foreign governments may also have similar conditions or may otherwise be dependent on initial or continued funding by such governments. Accordingly, our net sales from year to year with respect to such customers are dependent on government appropriations and subject to uncertainty. The U.S. Government' s ability to place orders under our most recent IDIQ contract for the M4 carbine expired on December 31, 2010.

The U.S. or Canadian Government, or a foreign government, may decide to reduce government defense spending in the programs in which we participate. Sovereign budget deficits are likely to put long-term pressure on defense budgets in many of the European countries to which we sell our products. There can be no assurances that the amount spent on defense by countries to which we sell our products will be maintained or that individual defense agencies will allocate a percentage of their budget for the purchase of small arms. The loss of, or significant reduction in, government funding, for any program in which we participate, could have a material adverse effect on our sales and earnings.

We may not receive the full amount of orders authorized under indefinite delivery, indefinite quantity contracts.

Our contracts with the U.S. Government are ordinarily IDIQ contracts under which the U.S. Government may order up to a maximum quantity specified in the contract but is only obligated to order a minimum quantity. We may incur capital or other expenses in order to be prepared to manufacture the maximum quantity that may not be fully recouped if the U.S. Government orders a smaller amount. The U.S. Government may order less than the maximum quantity for any number of reasons, including a decision to purchase the same product from others despite the existence of an IDIQ contract. Our failure to realize anticipated revenues from IDIQ contracts could negatively affect the results of our operations.

Our dependence on large government customers, including foreign governments, could result in significant fluctuations in our period-to-period performance.

Our operating results and cash flow are materially dependent upon the timing of securing government contracts and manufacturing and delivering products according to our customers' timetables. Uncertainty and volatility in the timing of orders and the tendency of these orders to be proportionately large in value is likely to continue to affect our net sales. We do not recognize sales until delivery of the product or service has occurred and title and risk of loss have passed to the customer, which may be in a non-U.S. location. This may extend the period of time during which we carry inventory and may result in an uneven distribution of net sales from these contracts between periods. As a result, our period-to-period performance may fluctuate significantly, and you should not consider our performance during any particular period as indicative of longer-term results.

In addition, we are subject to business risks specific to companies engaged in supplying defense-related equipment and services to the U.S. Government and other governments. These risks include the ability of the U.S. Government and other government counterparties to suspend or permanently prevent us from receiving new contracts or from extending existing contracts based on violations or suspected violations of procurement laws or regulations, terminate our existing contracts or not purchase the full agreed-upon number of small arms weapons systems or other products to be delivered by us.

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Government contracts are subject to competitive bidding, and bidding for such contracts may require us to incur additional costs.

We obtain a significant portion of our U.S. Government and other government contracts through competitive bidding. We will not win all of the contracts for which we compete and, even when we do, contracts awarded to us may not result in a profit. We are also subject to risks associated with the substantial expense, time and effort required to prepare bids and proposals for competitively awarded contracts that may not be awarded to us. In addition, our customers may require terms and conditions that require us to reduce our price or provide more favorable terms if we provide a better price or terms under any other contract for the same product. Such "most favored nation" clauses could restrict our ability to profitably compete for government and other contracts.

In order for us to sell our products overseas, we are required to obtain certain licenses or authorizations, which we may not be able to receive or retain.

Export licenses are required for us to export our products and services from the United States and Canada and issuance of an export license lies within the discretion of the issuing government. In the United States, substantially all of our export licenses are processed and issued by the Directorate of Defense Trade Controls ("DDTC") within the U.S. Department of State. In the case of large transactions, DDTC is required to notify Congress before it issues an export license. Congress may take action to block the proposed sale. As a result, we may not be able to obtain export licenses or to complete profitable contracts due to domestic political or other reasons that are outside our control. We cannot be sure, therefore, of our ability to obtain the governmental authorizations required to export our products. Furthermore, our export licenses, once obtained, may be terminated or suspended by the U.S. or Canadian Government at any time. Failure to receive required licenses or authorizations or any termination or suspension of our export privileges could have a material adverse effect on our financial condition, results of operations and cash flow.

Labor disruptions by our employees could adversely affect our business.

The United Automobile, Aerospace & Agricultural Implement Workers of America ("Union") represents our West Hartford workforce pursuant to a collective bargaining agreement that expires on March 31, 2014. Failure to reach agreement with the Union on the terms of a new collective bargaining agreement upon the expiration of the current agreement could lead to a strike or lockout, either of which would adversely affect our operations.

The terms of our collective bargaining agreement limit our flexibility in various labor matters including the ability to quickly change our staffing levels in response to business needs or to make changes to our employee benefits in order to reduce our costs. As a result, our labor costs may be higher than those of our competitors, which could place us at a disadvantage when bidding for government contracts or pricing our products in the commercial market.

Additionally, the workforce of Colt' s Manufacturing shares space with us at our West Hartford manufacturing facility, and is subject to the same Union collective bargaining agreement as our West Hartford employees. Positions taken by Colt' s Manufacturing with respect to matters covered by the collective bargaining agreement could adversely affect our ability to enforce the collective bargaining agreement and could adversely affect our operations.

Our government contracts are subject to audit and our business could suffer as a result of a negative audit by government agencies.

As a U.S. and Canadian Government contractor, we are subject to financial audits and other reviews by the U.S. and Canadian Governments of our costs, performance, accounting and other business practices relating to certain of our significant U.S. and Canadian Government contracts. We are audited and reviewed on a continual basis. Based on the results of their audits, the U.S. and Canadian Governments may challenge the prices we have negotiated for our products, our procurement practices and other aspects of our business practices. Although adjustments arising from government audits and reviews have not caused a material decline in our results of operations in the past, future audits and reviews may have such effects. In addition, under U.S. and Canadian Government purchasing regulations, some of our costs, including most financing costs, amortization of intangible assets, portions of our research and development costs, and some marketing expenses may not be reimbursable or allowed in our negotiation of fixed-price contracts. Further, as a U.S. and Canadian Government contractor, we are subject to a

higher risk of investigations, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities than purely private sector companies, the results of which could cause our results of operations to suffer.

As a U.S. and Canadian Government contractor, we are subject to a number of procurement rules and regulations.

We must comply with and are affected by laws and regulations relating to the award, administration, and performance of our U.S. and Canadian Government contracts. Government contract laws and regulations affect how we do business with our customers and vendors and, in some instances, impose added costs on our business. In many instances, we are required to self-report to the responsible agency if we become aware of a violation of applicable regulations. In addition, we have been, and expect to continue to be, subjected to audits and investigations by government agencies regarding our compliance with applicable regulations. A violation of specific laws and regulations could result in the imposition of fines and penalties or the termination of our contracts or debarment from bidding on future contracts. These fines and penalties could be imposed for failing to follow procurement integrity and bidding rules, employing improper billing practices or otherwise failing to follow cost accounting standards, receiving or paying kickbacks, filing false claims, or failing to comply with other applicable procurement regulations. Additionally, the failure to comply with the terms of our government contracts also could harm our business reputation. It also could result in payments to us being withheld. If we violate specific laws and regulations, it could result in the imposition of fines and penalties or the termination of our contracts or debarment from bidding on contracts, which could have a material adverse effect on our net sales and results of operations.

Our contracts with foreign governments often contain ethics and other requirements that subject us to some of the same risks. Also, we and our independent sales representatives are required to comply with numerous laws and regulations, including the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions. By contract or law in certain foreign jurisdictions, the actions of our representatives can subject us to legal risk or liability. Violation of contractual terms with our customers, or applicable local law in foreign jurisdictions, could interfere with our ability to perform or collect payment under our contracts.

Our government and other sales contracts contain termination provisions such that they can be cancelled at any time at the government's sole discretion.

U.S. Government and other government counterparties may terminate contracts with us either for their convenience or if we default by failing to perform. Termination for convenience provisions generally would enable us to recover only our costs incurred or committed, and settlement expenses and profit on the work completed, prior to termination. Termination for default provisions do not permit these recoveries and make us liable for excess costs incurred by the U.S. Government or other government counterparties in procuring undelivered items from another source. In addition, a termination arising out of our default could expose us to liability and have a material adverse effect on our ability to compete for future contracts and orders.

We may lose money on our fixed unit price contracts, and our contract prices may be adjusted to reflect price reductions or discounts that are requested by our customers.

We provide our products and services primarily through fixed unit price contracts. In a fixed unit price contract, we provide our products and services at a predetermined price, regardless of the costs we incur. Accordingly, we must fully absorb any increases in our costs that occur during the life of the contract, notwithstanding the difficulty of estimating all of the costs we will incur in performing these contracts and in projecting the ultimate level of sales that we may achieve. Our failure to estimate costs accurately, including as a result of price volatility relating to raw materials, or to anticipate technical problems of a fixed unit price contract may reduce our profitability or cause a loss. From time to time, we have also accommodated our customers' requests for price reductions or discounts in the past, and customers may continue to make such requests in the future.

Some of our contracts with foreign governments are or will be subject to the fulfillment of offset commitments or industrial cooperation agreements that could impose additional costs on us and that we might not be able to timely satisfy, possibly resulting in the assessment of penalties or even debarment from doing further business with that government.

Some countries that we are or are planning on doing business with impose offset purchase commitments, also known as industrial cooperation commitments, in return for purchasing our products and services. These

commitments vary from country to country and generally require us to commit to make direct or indirect purchases, or investments in the local economy. The gross amount of the offset purchase commitment arising from a sales contract is typically a function of the value of the contract. Failure to satisfy offset purchase commitments can result in penalties or blacklisting against awards of future contracts. We have paid penalties that were assessed by foreign governments and incurred transaction costs to trade credits to satisfy offset purchase commitments in the past. We may be subject to future penalties or transaction costs or even disbarment from doing business with a government.

Our remaining gross offset purchase commitment is the total amount of offset purchase commitments reduced for claims submitted and approved by the governing agencies. At December 31, 2012 and 2011, our remaining gross offset purchase commitments totaled $68.2 million and $58.5 million respectively. We have evaluated our settlement of our remaining gross offset purchase commitments through probable planned spending and other probable satisfaction plans to determine our net offset purchase commitment. We have accrued $1.8 million and $1.6 million as of December 31, 2012 and 2011, respectively, based on our estimated cost of settling the remaining net offset purchase commitment. We may incur costs to settle our offset purchase commitments that are in excess of the amounts accrued, which could have a material adverse effect on our earnings.

We face risks associated with international currency exchange.

Our Canadian subsidiary conducts most of its business in either the Canadian dollar or the Euro. Fluctuations in those foreign currency exchange rates could affect the sale of our products or the cost of goods and operating margins and could result in exchange losses. In addition, currency devaluation could result in losses on the deposits that we hold in those currencies. When our Canadian operating results are translated into U.S. dollars, fluctuations in those currencies relative to the U.S. dollar affect our operating results. We do not hedge our foreign currency exposure. We cannot predict the impact of future exchange rate fluctuations on our operating results.

We intend to incur additional costs to develop new products and variations that diversify our product portfolio, and we may not be able to recover these additional costs.

The development of additional products and product variations is speculative and may require additional and, in some cases, significant expenditures for marketing, research, development and manufacturing equipment. The new products or product variations that we introduce may not be successful, or they may not generate an amount of net sales that is sufficient to fully recover the additional costs incurred for their development. In addition, we may not successfully develop new products or product variations that are superior to products offered by other companies.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand.

Despite our efforts to protect our proprietary technology, unauthorized persons may be able to copy, reverse engineer or otherwise use some of our proprietary technology. It also is possible that others will develop and market similar or better technology to compete with us. Furthermore, existing intellectual property laws may afford only limited protection, and the laws of certain countries do not protect proprietary technology as well as United States law. For these reasons, we may have difficulty protecting our proprietary technology against unauthorized copying or use, and the efforts we have taken or may take to protect our proprietary rights may not be sufficient or effective. Significant impairment of our intellectual property rights could harm our business or our ability to compete. Protecting our intellectual property rights is costly and time consuming and we may not prevail. Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand.

If we lose key management or are unable to attract and retain qualified individuals required for our business, our operating results and growth may suffer.

Our ability to operate our business is dependent on our ability to hire and retain qualified senior management. Our senior management is intimately familiar with our small arms weapons systems and those offered by our competitors, as well as the situations in which small arms weapons systems are utilized in combat and law enforcement activities. Our senior management also brings an array of other important talents and experience to the Company, including managerial, financial, governmental contracts, sales, legal and compliance. We believe their backgrounds, experience and knowledge gives us expertise that is important to our success. Losing the services of these or other members of our management team, particularly if they depart the Company to join a competitor' s

business, could harm our business and expansion efforts. The Company' s success also is dependent on its ability to hire and retain technically skilled workers. Competition for some qualified employees, such as engineering professionals, is intense and may become even more competitive in the future. If we are unable to attract and retain qualified employees, our operating results, growth and ability to obtain future contracts could suffer.

Misconduct by employees or agents could harm us and is difficult to detect and deter.

Our employees or representatives may engage in misconduct, fraud or other improper activities including engaging in violations of the U.S. Arms Export Control Act or Foreign Corrupt Practices Act or numerous other state and federal laws and regulations, as well as the corresponding laws and regulations in the foreign jurisdictions into which we sell products that could have adverse consequences on our prospects and results of operations,. Misconduct by employees or agents, including foreign sales representatives, could include the export of defense articles or technical data without an export license, the payment of bribes in order to obtain business, failure to comply with applicable U.S. or Canadian Government or other foreign government procurement regulations, violation of government requirements concerning the protection of classified information and misappropriation of government or third-party property and information. It is not always possible to deter misconduct by agents and employees and the precautions we take to detect and prevent this activity may not be effective in all cases. The occurrence of any such activity could result in our suspension or debarment from contracting with the government procurement agency, as well as the imposition of fines and penalties, which would cause material harm to our business.

Failure to comply with applicable firearms laws and regulations in the U.S. and Canada could have a material adverse effect on our business.

As a firearms manufacturer doing business in the U.S. and Canada, we are subject to the National Firearms Act and the Gun Control Act in the U.S. and the Firearms Act in Canada, together with other federal, state or provincial, and local laws and regulations that pertain to the manufacture, sale and distribution of firearms in and from the U.S. and Canada. In the U.S., we are issued a Federal Firearms License by, and pay Special Occupational Taxes, to the Bureau of Alcohol, Tobacco, Firearms and Explosives of the U.S. Department of Justice to be able to manufacture firearms and destructive devices in the U.S. Similarly, in Canada, we are issued a Business Firearms License by the Chief Provincial Firearms Officer of Ontario, to enable us to manufacture firearms and destructive devices in Canada. These federal agencies also require the serialization of receivers or frames of our firearm products and recordkeeping of our production and sales. Our places of business are subject to compliance inspections by these agencies. Compliance failures, which constitute violations of law and regulation, could result in the assessment of fines and penalties by these agencies, including license revocation. Any curtailment of our privileges to manufacture, sell, or distribute our products could have a material adverse effect on our business.

If we fail to maintain certain quality assurance standards, we may lose existing key customers and have difficulty attracting new customers.

Our U.S. and Canadian production facilities are both ISO 9001:2008 certified. ISO 9001 is an international standard certification granted by the International Organization of Standardization ("ISO") that confirms that a supplier can consistently provide good quality products and services. Some of our government contracts require that we maintain ISO certification. A failure to maintain our ISO certification may cause us to lose existing customers or have difficulty attracting new customers, which could have a material adverse effect on our business, financial condition and results of operations.

Third parties may assert that we are infringing their intellectual property rights.

Although we do not believe our business activities infringe upon the rights of others, nor are we aware of any pending or contemplated actions to such effect, it is possible that one or more of our products infringe, or any of our products in development will infringe, upon the intellectual property rights of others. We may also be subject to claims of alleged infringement of intellectual property rights asserted by third parties whose products or services we use or combine with our own intellectual property and for which we may have no right to intellectual property indemnification. Our competitors may also assert that our products infringe intellectual property rights held by them. Moreover, as the number of competitors in our markets grows, the possibility of an intellectual property infringement claim against us may increase. In addition, because patent applications are maintained under conditions of confidentiality and can take many years to issue, our products may potentially infringe upon patent applications that are currently pending of which we are unaware and which may later result in issued patents. If that were to occur and we were not successful in obtaining a license or redesigning our products, we could be subject to litigation.

Regardless of the merits of any infringement claims, intellectual property litigation can be time-consuming and costly. Determining whether a product infringes a patent involves complex legal and factual issues that may require the determination of a court of law. An adverse finding by a court of law may require us to pay substantial damages or prohibit us from using technologies essential to our products covered by third-party intellectual property, or we may be required to enter into royalty or licensing agreements that may not be available on terms acceptable to us, if at all. Inability to use technologies or processes essential to our products could have a material adverse effect on our financial condition, results of operations and cash flow.

We may incur higher employee medical costs in the future.

Our employee medical plans are self-insured. As of December 31, 2012, the average age of the production employees working in our West Hartford, CT facility is 53 years. Approximately 20% of those employees are age 65 or over. The age of our workforce and the level of benefits that we offer, which are subject to our collective bargaining agreement, could result in higher than anticipated future medical claims. We have stop loss coverage in place for catastrophic events, but the aggregate impact may have an effect on our profitability.

We may be unable to realize expected benefits from our cost reduction efforts and our profitability may be hurt or our business otherwise might be adversely affected.

In order to operate more efficiently and control costs, we have historically and continue to evaluate various cost reduction initiatives, including workforce reductions. These plans are intended to generate operating expense savings through direct and indirect overhead expense reductions as well as other savings. We may undertake further workforce reductions or cost saving actions in the future. If we do not successfully manage these activities, the expected efficiencies and benefits might be delayed or not realized, and our operations and business could be disrupted. Risks associated with these actions and other workforce management issues include delays in implementation of anticipated workforce reductions, additional unexpected costs, adverse effects on employee morale and the failure to meet operational targets due to the loss of employees, any of which may impair our ability to achieve anticipated cost reductions or may otherwise harm our business, which could have a material adverse effect on our cash flows, competitive position, financial condition or results of operations.

Significant risks are inherent in the day-to-day operations in our business.

The day-to-day activities of our business involve the operation of machinery and other operating hazards, including worker exposure to lead and other hazardous substances. As a result, our operations can cause personal injury or loss of life, severe damage to and destruction of property and equipment, and interruption of our business. In addition, our weapon systems are designed to kill and therefore can cause accidental damage, injury or death or can potentially be used in incidents of workplace violence.

We could be named as a defendant in a lawsuit asserting substantial claims upon the occurrence of any of these events. Although we maintain insurance protection in amounts we consider to be adequate, this insurance could be insufficient in coverage and may not be effective under all circumstances or against all hazards to which we may be subject. If we are not fully insured against a successful claim, there could be a material adverse effect on our financial condition and result of operations.

Our West Hartford, Connecticut facility is inspected from time to time by the U.S. Occupational Safety and Health Administration and similar agencies. We have been cited for violation of U.S. occupational safety and health regulations in the past and could be cited again in the future. A violation of these regulations can result in substantial fines and penalties. We are subject to similar regulations at our Canadian manufacturing facility.

Environmental laws and regulations may subject us to significant costs and liabilities.

We are subject to various U.S. and Canadian environmental, health and safety laws and regulations, including those related to the discharge of hazardous materials into the air, water or soil and the generation, storage, treatment, handling, transportation, disposal, investigation and remediation of hazardous materials. Certain of these laws and regulations require our facilities to obtain and operate under permits or licenses that are subject to periodic renewal

or modification. These laws, regulations or permits can require the installation of pollution control equipment or operational changes to limit actual or potential impacts to the environment. A violation of these laws, regulations or permit conditions can result in substantial fines or penalties.

Certain environmental laws impose strict as well as joint and several liability for the investigation and remediation of spills and releases of hazardous materials and damage to natural resources, without regard to negligence or fault on the part of the person being held responsible. In addition, certain laws require and we have incurred costs for, the investigation and remediation of contamination upon the occurrence of certain property transfers or corporate transactions. We are potentially liable under these and other environmental laws and regulations for the investigation and remediation of contamination at properties we currently or have formerly owned, operated or leased and at off-site locations where we may be alleged to have sent hazardous materials for treatment, storage or disposal. We may also be subject to related claims by private parties alleging property damage or personal injury as a result of exposure to hazardous materials at or in the vicinity of these properties. Environmental litigation or remediation, new laws and regulations, stricter or more vigorous enforcement of existing laws and regulations, the discovery of unknown contamination or the imposition of new or more stringent clean-up requirements may require us to incur substantial costs in the future. As such, we may incur material costs or liabilities in the future.

We may have to utilize significant cash to meet our unfunded pension obligations, and postretirement health care liabilities and these obligations are subject to increase.

Our employees at our West Hartford facility participate in our defined benefit pension plans. Under the terms of our current collective bargaining agreement, the accrual of benefits for employees participating in our bargaining unit pension plan was frozen effective December 31, 2012. We also have a salaried pension plan. The accrual of benefits for employees participating in the salaried plan was frozen effective December 31, 2008. At December 31, 2012, our aggregate unfunded pension liability totaled $6.8 million. Declines in interest rates or the market values of the securities held by the plans, or other adverse changes, could materially increase the underfunded status of our plans and affect the level and timing of required cash contributions. To the extent we use cash to reduce these unfunded liabilities, the amount of cash available for our working capital needs would be reduced. Under the Employee Retirement Income Security Act of 1974, as amended, or ERISA, the Pension Benefit Guaranty Corporation, or PBGC, has the authority to terminate an underfunded tax-qualified pension plan under limited circumstances. In the event our tax-qualified pension plans are terminated by the PBGC, we could be liable to the PBGC for the underfunded amount.

We also have a postretirement health plan for our union employees. The postretirement health plan is unfunded. We derive postretirement benefit expense from an actuarial calculation based on the provisions of the plan and a number of assumptions provided by us including information about employee demographics, retirement age, turnover, mortality, discount rate, amount and timing of claims, and a health care inflation trend rate. In connection with our collective bargaining agreement, we have capped certain retirees to approximately $250 (not in thousands) per employee per month. The unfunded post-retirement health care benefit obligation was $14.1 million at December 31, 2012.

Our cash is highly concentrated with one financial institution.

We have a concentration of cash in accounts with a single financial institution. Our holdings in this institution significantly exceed the insured limits of the Federal Deposit Insurance Corporation. Although we believe that the risk of loss associated with out uninsured deposit accounts is low given the financial strength and reputation of our depository institution, we could suffer losses with respect to the uninsured balances if the depository institution failed and the institution' s assets were insufficient to cover its deposits and/or the Federal government did not take actions to support deposits in excess of existing FDIC insured limits. Any such losses could have a material adverse effect on our liquidity, financial condition and results of operations.

We have a substantial amount of indebtedness, which could have a material adverse effect on our financial health and our ability to obtain financing in the future and to react to changes in our business.

We now have, and will continue to have, a substantial amount of indebtedness, which requires significant interest payments. As of December 31, 2012, we had approximately $247.6 million of debt outstanding and we reported a total deficit in our Consolidated Balance Sheets of $151.3 million.

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Our significant amount of indebtedness could have important consequences to holders of the notes. For example, it could:

- make it more difficult for us to pay interest and principal on our notes, as payments become due, especially during general negative economic and market industry conditions because if our net sales decrease due to general economic or industry conditions, we may not have sufficient cash flow from operations to make our scheduled debt payments or to refinance our indebtedness;
- increase our vulnerability to adverse economic, regulatory and general industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, which would reduce the availability of our cash flow from operations to fund working capital, capital expenditures, acquisitions or other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and industry in which we operate and, consequently, place us at a competitive disadvantage to our competitors with less debt;
- limit our ability to obtain additional debt or equity financing, particularly in the current economic environment; and
- increase our cost of borrowing.

Despite our current levels of debt, we may still incur substantially more debt. This could further exacerbate the risks described above.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. The credit agreement for our senior secured revolving loan (the "Credit Agreement") provides up to $50.0 million of borrowing capacity, of which none had been borrowed as of December 31, 2012. Borrowings under the Credit Agreement are effectively senior to the notes to the extent of the value of the assets securing the indebtedness. We may also incur other additional indebtedness that ranks equally with the notes and the holders of that debt will be entitled to share ratably in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding-up of our business. This may have the effect of reducing the amount of proceeds paid to holders of our notes.

Although covenants under the indenture governing the notes and the Credit Agreement limit our ability to incur certain additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. If we add new debt to our current debt levels, the related risks that we now face could intensify, making it less likely that we will be able to fulfill our obligations to holders of the notes.

We face the risk of breaching covenants under the Credit Agreement and other future financings and may not be able to comply with certain covenants in the indenture covering the notes.

The Credit Agreement contains a financial covenant that is applicable upon an event of default or a lack of availability under the borrowing base formula. This covenant pertains to our fixed charge coverage ratio. Our ability to meet the financial or other covenants can be affected by failure of our business to generate sufficient cash flow and by various risks, uncertainties and events beyond our control, and we cannot provide assurance that we will meet these tests. Failure to comply with any of the covenants in the Credit Agreement or any future financing agreement could result in a default under those agreements and other agreements containing cross-default provisions, including the indenture governing the notes.

Upon the occurrence of an event of default under the Credit Agreement, all amounts outstanding can be declared immediately due and payable and all commitments to extend further credit may be terminated. Such acceleration of repayment under the Credit Agreement could result in an event of default under the indenture governing the notes. Under these circumstances, we might not have sufficient funds or other resources to satisfy all of our obligations, including our ability to repay borrowings under the Credit Agreement and our obligations under the notes.

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We may not be able to generate enough cash to service our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on, or to refinance, our debt and to fund planned capital expenditures and pursue our acquisition strategy will depend on our ability to generate cash. This is subject, in part, to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Accordingly, our business may not generate sufficient cash flows from operations to enable us to pay our indebtedness, including the notes, or to fund our other liquidity needs. In addition, we will be permitted to make certain distributions to our members, including distributions in amounts based on their allocated taxable income and gains. Any such payments may reduce our ability to make payments on our debt, including the notes.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness, including the notes. We may not be able to take any of these actions, these actions may not be successful enough to permit us to meet our scheduled debt service obligations or these actions may not be permitted under the terms of our existing or future debt agreements, including the Credit Agreement or the indenture that will govern the notes. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The Credit Agreement and the indenture that govern the notes restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them, and these proceeds may not be adequate to meet any debt service obligations then due.

If we cannot make scheduled payments on our debt, we will be in default and, as a result:

- our debt holders could declare all outstanding principal and interest to be due and payable;
- the lenders under our Credit Agreement could terminate their commitments to lend us money and foreclose against the assets securing their borrowings; and
- we could be forced into bankruptcy or liquidation, which could result in holders of our notes losing their investment in our notes.

Our ability to bid for large contracts may depend on our ability to obtain performance guarantees from financial institutions.

In the normal course of our business we may be asked to provide performance guarantees to our customers in relation to our contracts. Some customers may require that our performance guarantees be issued by a financial institution in the form of a letter of credit, surety bond or other financial guarantee. A deterioration of our credit rating and financial position may prevent us from obtaining such guarantees from financial institutions or make the process more difficult or expensive. If we are not able to obtain performance guarantees or if such performance guarantees were to become expensive, we could be prevented from bidding on or obtaining certain contracts or our profit margins with respect to those contracts could be adversely affected, which could in turn have a material adverse effect on our revenue, financial condition and results of operations.

We may not be able to finance a change of control offer required by the indenture governing our outstanding notes.

If we were to experience specific kinds of change of control events, we are required to offer to purchase all of the notes then outstanding at 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. If a change of control were to occur, we may not have sufficient funds to purchase the notes. In fact, we expect that we would require third-party debt or equity financing to purchase all of such notes, but we may not be able to obtain that financing on favorable terms or at all. Further, our ability to repurchase the notes may be limited by law.

Any of our existing and future senior secured indebtedness, including our Credit Agreement, would likely restrict our ability to repurchase the notes, even when we are required to do so by the indenture in connection with a change of control. A change of control could therefore result in a default under such senior secured indebtedness and could

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cause the acceleration of our debt. The inability to repay such debt, if accelerated, and to purchase all of the tendered notes, would constitute an event of default under the indenture.

Holders of the notes may not be able to determine when a change of control giving rise to their right to have the notes repurchased has occurred following a sale that potentially constitutes a sale of "substantially all" of our assets.

The definition of change of control in the indenture governing the notes includes a phrase relating to the sale of "all or substantially all" of our assets. There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, the ability of a holder of notes to require us to repurchase its notes as a result of a sale of less than all of our assets to another person may be uncertain.

Holders of the notes should not expect Colt Finance Corp. to participate in making payments on the notes.

Colt Finance Corp. is a wholly owned subsidiary of Colt Defense LLC that was incorporated to accommodate the issuance of the Senior Notes by Colt Defense LLC. Colt Finance Corp. will not have any operations or assets of any kind and will not have any revenue other than as may be incidental to its activities as a co-issuer of the Senior Notes. Holders of the notes should not expect Colt Finance Corp. to participate in servicing any of the obligations on the notes.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our principal properties include the facility housing our corporate headquarters in West Hartford, Connecticut and our facility in Kitchener, Ontario, Canada. The West Hartford location is also our primary engineering, manufacturing and research and development facility. We lease this approximately 310,000 square foot facility pursuant to a lease expiring October 25, 2015. For additional information about this lease, see "Certain Relationships and Related Party Transactions" in Item 13 of this Form 10-K. We own our facility in Kitchener, Ontario, Canada. It is approximately 48,000 square feet in size and is utilized for manufacturing, engineering and research and development.

We believe that our properties, both owned and leased, are in good condition and are suitable and adequate for our operations, and our manufacturing facilities have the capacity to meet existing and planned production requirements.

Item 3. Legal Proceedings

We are involved in various legal claims and disputes in the ordinary course of our business. As such, the Company accrues for such liabilities when it is both (i) probable that a loss has occurred and (ii) the amount of the loss can be reasonably estimated in accordance with ASC 450, Contingencies. The Company evaluates, on a quarterly basis, developments affecting various legal claims and disputes that could cause an increase or decrease in the amount of the liability that has been previously accrued. During the first quarter of 2012, we accrued $0.7 million related to a potential settlement of a dispute. Subsequently, we settled the matter for $0.6 million. There is no litigation pending that is likely to substantially negatively affect our financial condition, results of operations and cash flows.

As a U.S. and Canadian government contractor, we are subject to numerous regulatory and contractual requirements pertaining to nearly every aspect of our operations, including purchasing, accounting, employment, and subcontracting among others. Many of the agencies with regulatory or contractual authority over particular aspects of our government contracting activities are permitted or required to audit our operations as part of their responsibilities. As a result, we are routinely audited by U.S. and Canadian government agencies in the ordinary course of our business. In addition, our government contracts, or the regulations that are incorporated into them, often require that we voluntarily report violations of law that come to our attention and it is our policy to do so whenever required. There are no material proceedings pending in connection with our activities as a contractor to the U.S. and Canadian governments.

As a company that manufactures and sells military and law enforcement products domestically and overseas, we are subject to numerous U.S., Canadian and foreign statutes and regulations, including in particular regulations administered by the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives, as well as the International Traffic in Arms Regulations and Foreign Corrupt Practices Act. We employ attorneys and other individuals whose responsibilities include legal compliance to advise us on our compliance obligations on a continuous basis. Those individuals attend external educational programs as required in order to stay current in the respective fields and they conduct internal training of relevant employees. In addition, we have written policies in place in every area with respect to which a written policy is required or, in our view, appropriate. There are no material proceedings pending with regard to our compliance with applicable statutes and regulations.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for the Company' s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

There is no established trading market for our membership units. In addition, our membership units are subject to transfer restrictions pursuant to our operating agreement. As of December 31, 2012, there were 132,174 membership units outstanding, which were held by 24 members.

During 2012, we made a $3.3 million distribution to our members. In addition, we made distributions to our members in 2011 and 2010 of $12.9 million and $5.0 million, respectively. In 2013, we do not anticipate making a distribution to our members based on our 2012 results.

Our Credit Agreement and the indenture governing our Senior Notes contain covenants that limit our ability to pay dividends or other distributions. For additional information about the covenants contained in our debt agreements, see "Note 5 Notes Payable and Long Term Debt" in Item 8 of this Form 10-K.

Item 6. Selected Financial Data

The following table sets forth our historical consolidated financial data as of and for the dates indicated. The data as of and for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 have been derived from our audited consolidated financial statements. Our selected financial data should be read in conjunction with Item 7, "Management' s Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and the accompanying notes thereto included in Item 8, "Financial Statements and Supplementary Data," which are included elsewhere in this Annual Report on Form 10-K. All amounts are presented in thousands.

	For the Year Ended December 31,				
	2012	**2011 (b)**	**2010 (b)**	**2009 (b)**	**2008 (b)**
Statement of operations data:					
Net sales	$ 213,328	$ 208,810	$ 175,805	$ 270,163	$ 269,119
Operating income	18,557	32,503	18,478	63,861	70,380
Interest expense	24,579	24,010	24,598	18,845	19,266
(Loss) Income from continuing operations (a)	(7,055)	4,988	(10,276)	29,493	49,330
Net (loss) income attributable to Colt Defense LLC members	(7,055)	4,988	(11,065)	29,661	44,463
Balance sheet data (at period ended):					
Cash and cash equivalents	$ 42,373	$ 38,236	$ 61,444	$ 72,705	$ 29,248

Inventories	40,561	36,215	31,641	35,448	26,997
Property and equipment, net	22,134	22,589	21,741	17,919	13,736
Total assets	162,968	164,956	167,587	187,252	109,838
Total debt and capital lease obligations	247,573	248,334	249,215	250,058	195,100
Total deficit	(151,287)	(142,834)	(141,398)	(110,818)	(130,668)

(a) As a limited liability company, the Company is treated as a partnership for U.S. federal and state income tax reporting purposes and, therefore, is not subject to U.S. federal or state income taxes other than withholding tax on foreign royalties and interest. The taxable income (loss) of the Company is reported to the members for inclusion in their individual tax returns. Colt Canada files separate income tax returns in Canada. Distributions to members equal to 45 percent of taxable income are made in any year in which U.S. taxable income is allocated to the Company' s members and to the extent the Company' s Governing Board determines that sufficient funds are available.

(b) Certain amounts have been revised to correct prior period errors identified as follows: operating income, (loss) income from continuing operations and net (loss) income attributable to Colt Defense LLC members increased (decreased) by ($208) and $105 in 2011 and 2010, respectively, and total deficit decreased by $338, $229, $1,396 and $1,396 at December 31, 2011, 2010, 2009 and 2008, respectively. For additional information about the revision, see "Note 2 Summary of Accounting Policies" in item 8 of this Form 10-K.

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Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations

2012 Highlights

Our 2012 net sales of $213.3 million represented a 2% increase from 2011. Adjusted EBITDA from continuing operations ("Adjusted EBITDA") decreased by 30% from $38.9 million to $27.0 million and net income decreased from net income of $5.0 million to a net loss of $7.1 million from 2011 to 2012 respectively. In 2012, we experienced 254% growth in our LE/Commercial market. As a result, LE/Commercial sales, which tend to carry relatively lower margins, grew from 12% of net sales in 2011 to 42% of net sales in 2012. We experienced additional margin compression in 2012 as we began initial production on several new products, such as the M240, CM901 and the M45A1, as well as new variations of our existing products. As a result, our profitability did not grow proportionately with our sales. For additional information and a reconciliation of Adjusted EBITDA from continuing operations to (loss) income from continuing operations, see "Note 13 Segment Information" in Item 8 of this Form 10-K.

Business Overview

We are one of the world' s leading designers, developers and manufacturers of small arms weapons systems for individual soldiers and law enforcement personnel. We have supplied small arms weapons systems to more than 80 countries by expanding our portfolio of products and services to meet evolving military and law enforcement requirements around the world. Our products have proven themselves under the most severe and varied battle conditions. We also modify our rifles and carbines for civilian use and sell them to Colt' s Manufacturing, which sells them into the U.S. commercial market.

We have been the U.S. military' s sole supplier of the M4 carbine, the U.S. Army' s standard issue rifle, the Canadian military' s exclusive supplier of the C8 carbine and C7 rifle and a supplier of small arms weapons systems to U.S., Canadian and international law enforcement agencies. Furthermore, our development and sales of M4 carbines and the 50 years of sales of M16 rifles have resulted in a global installed base of more than 7 million M16/M4 small arms weapons systems. Our expertise in designing and manufacturing small arms weapons systems enables us to integrate new technologies and features to upgrade our large installed base, develop international co-production opportunities and capitalize on our experience building to stringent military standards to make commercial rifles and carbines with exceptional reliability, performance and accuracy.

Industry Overview

We compete in the global market for small arms weapons systems designed for military, law enforcement and commercial use. Our end customers include U.S. and foreign militaries, law enforcement and security agencies and domestic sporting and hunting enthusiasts. The funding for our proprietary military products is primarily linked to the spending trends of U.S., Canadian and other foreign militaries and national and border security agencies. Efforts to reduce the U.S. federal budget deficit and the wind-down of military operations in Iraq and Afghanistan will likely result in flat to declining U.S. defense budgets for the near future. Austerity measures will also pressure the European defense market spending. At this point, it is unclear how extensive defense budget cuts will be or specifically how small arms weapons programs will be impacted by the cuts. International markets outside of Europe have not demonstrated the same budget constraints.

As a result of our continued emphasis on the law enforcement and commercial ("LE/Commercial") markets, we have seen strong year-over-year sales growth into these markets. Law enforcement agencies at all levels of government (federal, state and municipal) are experiencing budgetary pressures, but Colt' s Manufacturing has seen continued strong demand in the commercial rifle market.

Company Outlook, Trends and Uncertainties

We believe the competitive and evolving nature of the small arms weapons systems industry provides both challenges to, and opportunities for, the continued growth of our business in both the global military and the commercial and law enforcement markets. Our outlook is driven by international military and U.S. commercial demand for rifles and carbines, with a relatively small, but stable, base of U.S. Government business. Rifle and carbine production rates for the international and commercial markets now approximate our historical peak production levels of the M4 for the U.S. Army. However, both of these markets have inherent risk factors.

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The U.S. commercial market for modern sporting rifles ("MSR' s") has continued to grow and is now a significant part of our overall business. This market provides growth opportunities for the company as well as regulatory uncertainties as the potential imposition of new "gun control" laws and regulations at the state and federal level have become a part of the national dialogue. International business tends to have attractive margins but is slow to develop and the timing is difficult to predict. U.S. Government procurement of the M4 carbine in 2013 and beyond, including spare parts, will be on a competitive basis and budget pressures could limit U.S. Government demand for our products. Efforts to determine if a new carbine can offer significant improvement over the M4 continue within the U.S. Army, but budgetary factors will be the dominant influence on U.S. purchases of any carbine.

Commercial market legislation, international sales volumes and timing, and the U.S. Government' s purchasing decisions will influence our revenues and cash flows. As a result of the competitive and evolving nature of this industry, our revenue growth, profitability and backlog have been or may be negatively impacted, or we may be impacted in multiple ways, including but not limited to the following:

- if we lose one or more of our top customers or if one or more of these customers significantly decreases orders for our products;
- if the U.S. military selects other small arms manufacturers to supply the M4 carbine for use by U.S. military personnel or we are not able to continue to successfully compete for international sales;

- if commercial demand, which tends to be volatile, ebbs or if new federal and state laws and regulations are enacted that limit our ability to continue selling our products we could experience a significant decline in commercial product orders and sales;

- general economic and political conditions in the foreign markets where we currently, or may seek to, do business may impact our international sales, as such conditions may cause customers to delay placing orders or to deploy capital to other governmental priorities;

- we may not be able to identify businesses that we can acquire on acceptable terms; we may not be able to obtain necessary financing or may face risks due to indebtedness; and our acquisition strategy may incur significant costs or expose us to numerous risks inherent in the acquired business' s operations; and

In addition to the above, we face additional sources of uncertainty regarding our sales into the U.S. commercial market. All of our sales into the domestic commercial market are currently made to Colt' s Manufacturing, which sells them to commercial distributors and retailers. These sales occur under a written Memorandum of Understanding that by its terms expires in April 2013. Termination or non-renewal of the Memorandum of Understanding would likely end our ability to sell Colt-branded rifles and carbines into the commercial market because we are not licensed to use the Colt name and trademarks in connection with sales to the commercial market. There is no assurance that we will be able to sell rifles and carbines into the commercial market under a different brand name if the Memorandum of Understanding with Colt' s Manufacturing is not renewed or extended. Our limited liability company agreement prohibits us from selling rifles and carbines directly to the commercial market without the consent of our sponsors, Sciens Management and the Blackstone Funds. There is no assurance that such consent could be obtained. If we are unable to sell MSR' s into the U.S. commercial market because our Memorandum of Understanding terminates or federal and state regulations change, then our access to short- and long-term capital could be adversely affected.

Other factors, including those that may impact our prospective industry trends and uncertainties, that are described in "Risk Factors" in Item 1A of this Form 10-K.

Backlog

Any of the foregoing may negatively impact our backlog, which we view as a key indicator of our future performance. Our backlog decreased from $176.7 million at December 31, 2011 to $165.9 million at December 31, 2012 due in part to shipments on a large, long-term, international order. In addition, as the commercial component of our business continues to grow, backlog becomes less of an indicator of future sales volume. The decline in international backlog was partially offset by year over year increases in both our U.S. Government and

LE/Commercial backlog. Our backlog, when applicable, includes only orders for which funding is authorized by the customer. Backlog does not include the portion of any IDIQ contract for which a specific, contractually binding purchase order has not been received, or unexercised options associated with existing firm contracts. Because the value of these arrangements is subject to the customer' s future exercise of an indeterminate quantity of delivery orders, we recognize these contracts in backlog only when specific, contractually binding purchase orders are received.

Sales

A significant portion of our sales are derived from a limited number of customers. Our top ten customers represented approximately 90% of our net sales for the year ended December 31, 2012. For the year ending December 31, 2013, we expect to continue to derive a significant portion of our business from sales to a relatively small number of customers. If we were to lose one or more of our top customers, or if one or more of these customers significantly decreased orders for our products and we were not able to replace these sales, our business would be materially and adversely affected.

As a result of the expiration of our M4 IDIQ contract in December 2010 and U.S. Government' s re-evaluation of its carbine procurement strategy, our customer mix has shifted. Our net sales to the U.S. Government, which includes foreign military sales through the U.S. Government, has decreased to 11% of net sales in 2012 from 31% of net sales in 2011 and 55% of net sales in 2010. Conversely, we have experienced strong growth in commercial sales which have grown from 6% of sales in 2011 to 34% of sales in 2012.

Employee Union Matters

In 2012, we negotiated a new, two-year collective bargaining agreement with the Union that represents our West Hartford workforce. This agreement, which expires on March 31, 2014, applies to approximately 68% of our U.S. workforce. Failure to reach agreement with the Union on the terms of a new collective bargaining agreement upon the expiration of the current agreement could lead to a strike or lockout, either of which would adversely affect our operations. For additional information on how this agreement impacts pension, savings and postretirement benefits, see "Note 8 Pension, Savings and Postretirement Benefits" in Item 8 of this Form 10-K.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition, results of operations, liquidity and capital resources is based on our financial statements, which have been prepared in accordance with U.S. GAAP. The application of GAAP requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. We base these estimates on historical experience and on various other assumptions that we consider reasonable under the circumstances. Note 2 of our financial statements contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions. We believe that of our significant accounting policies, the following are noteworthy because they are based on estimates and assumptions that require more complex, subjective judgments by management, and can materially affect reported results. Changes in these estimates or assumptions could materially affect our financial condition and results of operations.

Revenue Recognition

Net sales are gross sales net of discounts. Our revenues are derived primarily from sales of our products. We recognize revenue when evidence of an arrangement exists, delivery of the product or service has occurred, title and risk of loss have passed to the customer, the sales price is fixed or determinable, and collectability of the resulting receivable is reasonably assured.

Our contracts with the U.S. Government to produce the M4 carbine and other products have been multi-year sole source negotiated contracts in which we have provided cost and pricing data to support our prices. In developing our contract estimates, we consider our current manufacturing costs (consisting primarily of material, labor and overhead), plus as applicable, our estimates of future cost increases over the life of the contract. These contracts are subject to post-award audit and the imposition of retroactive price adjustments and penalties in the event we failed to disclose material events or made errors in the calculation of our costs. Historically, we have not experienced such adjustments.

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These contracts are not subject to price adjustment for subsequent changes in our cost of materials, labor or overhead. Contracts with the U.S. Government for other rifles and spare parts are subject to firm fixed pricing. Sales of law enforcement and commercial model rifles are based on purchase orders.

The majority of our contracts with the Canadian Government are sole source contracts because of our Canadian operation' s status as Canada' s strategic source of small arms. We provide full cost backup to the Canadian Government using negotiated labor and overhead rates to support our pricing. In developing our contract estimates, we consider our current manufacturing costs (consisting primarily of material, labor and overhead), plus as applicable, our estimates of future cost increases over the life of the contract. These contracts are not subject to price adjustment for subsequent changes in our costs. However, they may be subject to re-pricing resulting from changes in negotiated labor and overhead rates. Contracts won competitively with the Canadian Government are firm fixed and are not subject to adjustment. All contracts contain discretionary audit clauses, which allow the Canadian Government to recover monies where extraordinary profits have been realized. Canadian sales of law enforcement model rifles are based on contracts that are competitively bid using firm, fixed prices, which are not subject to adjustment. Contracts received through the Canadian Commercial Corporation are subject to discretionary audit. We review the revenue recognition on all of these contracts on a quarterly basis and if necessary provide reserves against our contracts; however, we have not incurred any such contract losses for any period presented.

Goodwill and Intangible Assets Valuation (Possible Impairment)

At December 31, 2012, we had goodwill of $14.9 million and intellectual property (intangible assets) deemed to have finite lives with a net carrying value of $6.0 million, which are amortized over 15-30 year lives. We test goodwill for impairments annually as of the end of our third fiscal quarter, or immediately if conditions indicate that either a goodwill or intellectual property impairment could exist. Goodwill is tested for impairment using a two-step process. In the first step, the fair value of the reporting unit is compared to its carrying value. If the fair value of the reporting unit exceeds the carrying value of its net assets, goodwill is considered not impaired and no further testing is required. If the carrying value of the net assets exceeds the fair value of the reporting unit, a second step of the impairment test is performed in order to determine the implied fair value of a reporting unit' s goodwill. Determining the implied fair value of goodwill requires a valuation of the reporting unit' s tangible and intangible assets and liabilities in a manner similar to the allocation of purchase price in a business combination. If the carrying value of the reporting unit' s goodwill exceeds the implied fair value of its goodwill, goodwill is deemed impaired and is written down to the extent of the difference.

Management estimates the fair value of each reporting unit primarily using the income approach. Specifically the discounted cash flow ("DCF") model was utilized for the valuation of each reporting unit. Management develops cash flow forecasts based on existing firm orders, expected future orders, contracts with suppliers, labor agreements and general market conditions. We discount the cash flow forecasts using the weighted-average cost of capital method at the date of evaluation. We also calculate the fair value of our reporting units using the market approach in order to corroborate our DCF model results. These methodologies used in the current year are consistent with those used in the prior year.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include the development of cash flow forecasts, risk-adjusted discount rates and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are also unpredictable in nature and inherently uncertain. Actual future results may differ from those estimates.

For finite-lived assets, impairment testing is performed whenever events or changes in circumstances ("Triggering Events") indicate that the carrying amount may not be recoverable. We will recognize an impairment loss if the carrying value exceeds its fair value. Any change in the remaining useful lives of the intangible assets could have a significant impact on our reported results of operations.

Since December 2012, there has been an extremely sharp increase in political and public support for new "gun control" laws and regulations in the United States. Some proposed legislation, including legislation that has been introduced and is under active consideration in Congress and in state legislatures, would ban and/or restrict the sale of substantially all of our products, in their current configurations, into the commercial market, either throughout the

United States or in particular states. We considered this potential adverse change in our business climate to be a Triggering Event. Therefore, in addition to our annual goodwill impairment testing, we also performed a sensitivity analysis to determine the impact that a material decrease in LE/Commercial sales would have on our valuation. There was no indication of impairment as a result of our 2012 impairment analysis. The fair value of our reporting units was substantially in excess of carrying value for all scenarios that we tested.

Retirement Benefits

Our pension and other postretirement benefit costs and obligations are dependent on various assumptions. Our major assumptions relate primarily to discount rates, long-term return on plan assets and medical cost trend rates. We base the discount rate assumption on current investment yields of high quality fixed income investments during the retirement benefits maturity period. Long-term return on plan assets is determined based on historical portfolio results and management' s expectation of the future economic environment, as well as target asset allocations.

Our medical cost trend assumptions are developed based on historical cost data, the near-term outlook, an assessment of likely long-term trends and the cap limiting our required contributions. Actual results that differ from our assumptions are accumulated and are amortized generally over the estimated future working life of the plan participants.

Our major assumptions vary by plan and the weighted-average rates used. Each assumption has different sensitivity characteristics, and, in general, changes, if any, have moved in the same direction over the last several years. For fiscal 2012, changes in the weighted-average rates for the benefit plans would have the following impact on our net periodic benefit cost:

- A decrease of 25 basis points in the long-term rate of return on assets would have increased our net 2012 benefit cost by approximately $0.1 million; and

- A decrease of 25 basis points in the liability discount rate would have an immaterial impact on our 2012 net benefit cost.

Recent Accounting Pronouncements

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income - In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-02, which requires disclosure of significant amounts reclassified out of accumulated other comprehensive income by component and their corresponding effect on the respective line items of net income. This guidance is effective for the Company beginning in the first quarter of 2013. We are currently evaluating what impact, if any, ASU 2013-02 will have on our financial statements.

Presentation of Comprehensive Income − In June 2011, FASB issued ASU 2011-05, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. This update eliminates the option to present components of other comprehensive income as part of the statement of equity, but it does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, FASB issued ASU 2011-12, which amends ASU 2011-05. This amendment defers the requirement to present components of reclassifications of other comprehensive income on the face of the income statement. Both standards were effective for us beginning on January 1, 2012. The adoption of these standards had no impact on our operating results or financial position.

Intangibles − Goodwill and Other − In September 2011, FASB issued ASU 2011-08, which provides entities the option to perform a qualitative assessment in order to determine whether additional quantitative impairment testing is necessary. This amendment is effective for reporting periods beginning after December 15, 2011. This amendment does not impact the quantitative testing methodology, should it be necessary. We adopted this standard on January 1, 2012 and it had no impact on our operating results or financial position.

Fair Value Measurement − In May 2011, FASB issued an amendment to revise the wording used to describe the requirements for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments to result in a change in the application of existing

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fair value measurement requirements, such as specifying that the concepts of the highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements such as specifying that, in the absence of a Level 1 input, a reporting entity should apply premiums or discounts when market participants would do so when pricing the asset or liability. We adopted this standard on January 1, 2012 and it had no impact on our operating results or financial position.

Key Performance Measures

Our management reviews and analyzes several key performance indicators in order to manage our business and assess the quality and potential variability of our earnings and cash flows. These key performance indicators include:

- Net sales;
- Net sales growth;
- Gross profit as a percentage of net sales;
- Operating income as a percentage of net sales;
- Adjusted EBITDA; and
- Adjusted EBITDA as a percentage of net sales ("Adjusted EBITDA margin").

For the years ended December 31, 2012, 2011 and 2010, these key performance measures were ($ in thousands):

	Year Ended December 31,		
	2012	**2011**	**2010**
Net sales	$ 213,328	$ 208,810	$ 175,805
Net sales growth	2.2%	18.8%	(34.9)%
Gross profit as a percentage of net sales	24.0%	31.3%	25.3%
Operating income as a percentage of net sales	8.7%	15.6%	10.5%
Adjusted EBITDA (a)	$ 27,032	$ 38,859	$ 23,859
Adjusted EBITDA margin	12.7%	18.6%	13.6%

(a) Adjusted EBITDA is used by management as the primary measure of the operating performance of our business. Adjusted EBITDA consists of income (loss) from continuing operations before interest, income taxes, depreciation and amortization of intangible assets, Sciens fees and expense, and other income or expenses. For additional information on our operating segments and a reconciliation of Adjusted EBITDA to income (loss) from continuing operations, see "Note 13 Segment Information" in Item 8 of this Form 10-K.

Results of Operations

The following table sets forth our results of operations in dollars and as a percentage of total net sales for the periods presented ($ in thousands):

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	Year Ended December 31,					
	2012	%	2011 (a)	%	2010 (a)	%
Statement of Operations Data:						
Net sales	$ 213,328	100.0%	$ 208,810	100.0%	$ 175,805	100.0%
Cost of sales	162,177	76.0	143,478	68.7	131,278	74.7
Gross profit	51,151	24.0	65,332	31.3	44,527	25.3
Selling and commissions	13,059	6.1	13,612	6.5	9,344	5.3
Research and development	4,747	2.2	5,578	2.7	4,536	2.6
General and administrative	14,285	6.7	13,098	6.3	11,621	6.6
Amortization of purchased intangibles	503	0.2	541	0.3	548	0.3
Total operating expenses	32,594	15.3	32,829	15.7	26,049	14.8
Operating income	18,557	8.7	32,503	15.6	18,478	10.5
Other expense (income):						
Interest expense	24,579	11.5	24,010	11.5	24,598	14.0
Debt prepayment expense	–	0.0	295	0.1	1,246	0.7
Other (income) expenses, net	(717)	(0.3)	39	0.0	411	0.2
	23,862	11.2	24,344	11.7	26,255	14.9
(Loss) income from continuing operations before provision for foreign income taxes	(5,305)	(2.5)	8,159	3.9	(7,777)	(4.4)
Provision for foreign income taxes	1,750	0.8	3,171	1.5	2,499	1.4
(Loss) income from continuing operations	(7,055)	(3.3)	4,988	2.4	(10,276)	(5.8)
(Loss) from discontinued operations	–	0.0	–	0.0	(665)	(0.4)
(Loss) on disposal of discontinued operations	–	0.0	–	0.0	(208)	(0.1)
Net (loss) income	(7,055)	(3.3)	4,988	2.4	(11,149)	(6.3)
Less: net loss attributable to non-controlling interest	–	0.0	–	0.0	84	0.0

Net (loss) income attributable to Colt Defense LLC members	$ (7,055)	(3.3)%	$ 4,988	2.4%	$ (11,065)	(6.3)%

(a) Certain amounts have been revised to correct prior period errors identified. For additional information about the revision, see "Note 2 Summary of Accounting Policies" in Item 8 of this Form 10-K.

Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

Net Sales

The following table shows net sales for the year ended December 31, 2012 and December 31, 2011 by product category ($ in thousands):

	Year Ended December 31,		
	2012	**2011**	**% Change**
Weapon systems	$ 160,788	$ 125,141	28.5%
Spares /other	52,540	83,669	(37.2)%
Total	$ 213,328	$ 208,810	2.2%

Net sales for 2012 were $213.3 million, an increase of $4.5 million, or 2.2%, from $208.8 million in 2011. In fiscal 2012, weapon system sales increased by $35.6 million compared to 2011. The growth came from LE/Commercial and international markets where sales grew $64.6 million and $2.5 million, respectively. These increases were partially offset by a $31.5 million decline in sales to the U.S. Government from the comparable period in 2011, as the U.S. Government continued to evaluate its carbine procurement strategy.

Spares/other sales decreased $31.1 million from $83.6 million in 2011 to $52.5 million in 2012. Spares sales to the U.S. Government declined $9.8 million in 2012, mainly because our IDIQ contract for the M249 spare barrel was completed. In addition, international spares sales were $20.7 million lower in 2012. In 2011, we had a $19.5 million spares sale to a single customer that did not repeat in 2012. While we have historically sold small arms weapons systems to over 80 countries, the number and mix of countries that buy our spare parts, replacement kits, accessories and other items each year varies as each individual country assesses its requirements. These orders also tend to be large in size. As a result, these sales tend to fluctuate significantly from year to year.

Cost of Sales/Gross Margin

Our cost of sales consists of direct labor and benefits, materials, subcontractor costs and manufacturing overhead, including depreciation and amortization, utilities, and maintenance and repairs. Gross margin decreased from 31.3% in 2011 to 24.0% in 2012. The decline in gross margin was mainly due to a mix shift that resulted from the strong growth in Commecial/LE sales with lower gross margins as well as the unfavorable margin impact of new model and product offerings, which tend to carry lower margins in their early stages of introduction. In addition, cost of

sales for 2012 includes a $1.3 million expense related to the curtailment of our bargaining unit pension plan. This non-recurring expense decreased our 2012 gross margin by 0.6%.

Selling and Commissions Expense

Selling expense consists primarily of compensation, advertising, promotions, travel, trade shows, consulting fees and marketing materials. In addition, we pay commissions to independent foreign sales representatives on certain direct foreign sales and to domestic sales representatives on most LE/Commercial sales, which generally are a percentage of the selling price.

During 2012, selling and commission expenses decreased by $0.5 million to $13.1 million. Commission expense was $2.1 million lower in 2012 compared to 2011 due to a change in customer mix. Lower commission expense was partially offset by a $1.6 million increase in selling expense, primarily due to higher professional fees, compensation and travel expenses to support sales efforts in the international and LE/Commercial markets.

Research and Development Expense

Research and development expenses consist primarily of compensation and benefits and experimental work materials for our employees who are responsible for the development and enhancement of new and existing products. In 2012, our research and development expense decreased by $0.8 million to $4.7 million. The higher expenses in 2011 were mainly associated with a project that was being developed for NATO trials in early 2012.

General and Administrative Expense

General and administrative expense consists of compensation and benefits, professional services and other general office administration expenses. These costs do not increase proportionately with changes in sales. During 2012, general and administrative costs, increased by $1.2 million to $14.3 million. In 2012, we expensed approximately $0.6 million to settle a legal dispute. In addition, legal expenses increased $0.7 million in 2012 for matters including our protest of the U.S. Army' s M4 contract award to another vendor, the negotiation of a new labor union contract and legal expenses related to a dispute. These increases were partially offset by lower consulting fees in 2012.

Interest Expense

Our interest expense in 2012 was $24.6 million, an increase of $0.6 million from $24.0 million in 2011. The increase in 2012 was primarily due to $0.3 million of interest expense related to a Connecticut tax audit settlement. In addition, we had higher amortization of deferred financing fees and unused line fees associated with the Credit Agreement. For additional information about the Credit Agreement, see "−Liquidity and Capital Resources."

Debt Prepayment Expense

Debt prepayment expense in 2012 was $0.3 million lower than 2011. During 2011, we incurred $0.3 million of debt prepayment expense to terminate a $10.0 million revolving line of credit when we entered into the Credit Agreement.

Other (Income) Expense, net

In 2012, net other income was $0.8 million higher, mainly due to higher service income from Colt' s Manufacturing resulting from a new contract that was effective July 1, 2012.

Income Taxes

As a limited liability company, we are treated as a partnership for U.S. federal and state income tax reporting purposes and therefore, we are not subject to U.S. federal or state income taxes. Our taxable income (loss) is reported to our members for inclusion in their individual tax returns. The income tax that we incurred results from Canadian federal and provisional income taxes as well as withholding tax required on royalty and interest income received from our Canadian subsidiary. For 2012, we had foreign income tax expense of $1.8 million compared to $3.2 million for 2011, primarily due to lower non-U.S. income.

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Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Net Sales

Sales

The following table shows net sales for the year ended December 31, 2011 and December 31, 2010 by product category ($ in thousands):

	Year Ended December 31,		
	2011	2010	% Change
Weapon systems	$ 125,141	$ 120,737	3.6%
Spares /other	83,669	55,068	51.9%
Total	$ 208,810	$ 175,805	18.8%

Net sales for 2011 were $208.8 million, an increase of $33.0 million, or 18.8%, from $175.8 million in 2010. Weapon system sales increased in 2011 compared to the same period in 2010 by $4.4 million. The growth came from international and LE/Commercial markets where sales grew $24.0 million and $13.8 million, respectively. These increases were partially offset by a $33.4 million decline in sales of carbines to the U.S. Government from the comparable period in 2010, as the U.S. Government continued to evaluate its carbine procurement strategy.

Spares/other sales increased 51.9% from $55.1 million in 2010 to $83.7 million in 2011. The increase was mainly due to higher international sales to several customers, the largest of which was the United Arab Emirates. While we have historically sold small arms weapons systems to over 80 countries, the number and mix of countries that buy our spare parts, replacement kits, accessories and other items each year varies as each individual country assesses its requirements. As a result, these sales tend to fluctuate from year to year.

Cost of Sales/Gross Margin

Our cost of sales consists of direct labor and benefits, materials, subcontractor costs and manufacturing overhead, including depreciation and amortization, utilities cost, and maintenance and repairs. Gross margin in 2011 increased to 31.3% from 25.3% in 2010. Several factors drove the year over year gross margin improvement. In 2010, we shut down our West Hartford facility for two weeks in July and had one week per month furloughs for production workers from February through August, which had a significant adverse impact on our 2010 gross margins. We did not have any plant shutdowns and we only had one four-day, partial furlough in 2011. A favorable sales channel mix also generated higher margins in 2011. In addition, our West Hartford facility benefited from lower expenses related to excess and obsolete inventory in 2011 compared to the prior year. These favorable variances were partially offset by higher expense related to offset purchase commitments. For additional information about offset purchase commitments, see "−Contractual Obligations and Commitments."

Selling and Commissions Expense

Selling expense consists of primarily commissions, salaries, travel, trade shows, marketing materials, and customer training. In addition, we pay commissions to independent foreign sales representatives on most direct foreign sales, which generally are a percentage of the selling price. Foreign sales usually yield higher gross profit percentages, which offset the higher cost of commissions.

During 2011, selling and commission expenses increased by $4.3 million to $13.6 million. Commission expense was $2.8 million higher in 2011 compared to 2010 primarily due to an increase in commissionable international sales. We also made a larger investment in marketing in 2011 to support our sales strategy in the LE/Commercial markets.

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Research and Development Expense

In 2011, research and development expenses increased by $1.0 million to $5.6 million. The increase was mainly due to costs associated with development projects at our Canadian subsidiary.

General and Administrative Expense

General and administrative expense consists of compensation and benefits expense, fees for professional services and other general office administration expenses. These costs do not increase proportionately with increases in sales. During 2011, general and administrative costs, increased by $1.5 million over 2010. The year over year increase was mainly due to higher compensation expense, a one-time severance expense and increased outside professional fees related to both the filing of our Registration statement on Form S-4 and other consulting services.

Interest Expense

Our interest expense in 2011 was $24.0 million, a decrease of $0.6 million from $24.6 million in 2010. In the first nine months of 2010, we had a $50.0 million revolving credit facility (“the Revolver”). In the fourth quarter of 2010, we amended the Revolver and reduced it to a $10.0 million letter of credit facility, which resulted in $0.5 million of year over year interest savings during 2011.

Debt Prepayment Expense

Debt prepayment expense in 2011 was $0.9 million lower than 2010. During 2010, we incurred $1.2 million of debt prepayment expenses related to the revolver amendment compared to $0.3 million of debt prepayment expense to terminate the revolver in 2011.

Other Expense, net

Net other expenses were $0.4 million lower in 2011, mainly due to lower foreign exchange losses compared to 2010.

Income Taxes

As a limited liability company, we are treated as a partnership for U.S. federal and state income tax reporting purposes and therefore, we are not subject to U.S. federal or state income taxes. Our taxable income (loss) is reported to our members for inclusion in their individual tax returns. The income tax that we incurred results from Canadian federal and provisional income taxes as well as withholding tax required on royalty and interest income received from our Canadian subsidiary. For 2011, we had foreign income tax expense of $3.2 million compared to $2.5 million for 2010.

Discontinued Operations

We dissolved Colt Rapid Mat as of December 31, 2010. In 2010, we recognized a loss from this discontinued operation of $0.7 million and a loss on disposal of $0.2 million. The loss on disposal is primarily due to the disposal of our non-controlling interest and the liquidation of our assets.

Liquidity and Capital Resources

Our primary liquidity requirements are for debt service, working capital and capital expenditures. We have historically funded these requirements through internally-generated operating cash flow. In order to support the growth in our working capital requirements related to our expanding international business, on September 29, 2011, we entered into a Credit Agreement with Wells Fargo Capital Finance, LLC. Under the terms of the Credit Agreement, senior secured revolving loans are available up to $50.0 million, inclusive of $20.0 million available for letters of credit. Revolving loans are subject to, among other things, the borrowing base, which is calculated monthly based on specified percentages of eligible accounts receivable and inventory and specified values of fixed assets. Under the Credit Agreement, our obligations are secured by a first-priority security interest in substantially all our assets, including accounts receivable, inventory and certain other collateral. The Credit Agreement matures on September 28, 2016.

Borrowings under the Credit Agreement bear interest at a variable rate based on the London Inter-Bank Offer Rate ("LIBOR"), the Canadian Banker' s Acceptance Rate or the lender' s prime rate, as defined in the Credit Agreement, plus a spread. The interest rate spread on borrowings and fees for letters of credit varies based on both the rate option selected and our quarterly average excess availability under the Credit Agreement. There is an unused line fee ranging from .375% to .50% per annum, payable quarterly on the unused portion under the facility and a $40 thousand annual servicing fee.

The Credit Agreement limits our ability to incur additional indebtedness, make investments or certain payments, pay dividends and merge, acquire or sell assets. In addition, certain covenants would be triggered if excess availability were to fall below the specified level, including a fixed charge coverage ratio requirement. Excess availability is determined as the lesser of our borrowing base or $50.0 million, reduced by outstanding obligations under the credit agreement and trade payables that are more than 60 days past due. Furthermore, if excess availability falls below $11.0 million or an event of default occurs, the lender may assume control over the Company' s cash until such event of default is cured or waived or the excess availability exceeds such amount for 60 consecutive days.

The Credit Agreement contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, cross-defaults with other material indebtedness, certain events of bankruptcy or insolvency, judgments in excess of a certain threshold and the failure of any guaranty or security document supporting the agreement to be in full force and effect. In addition, if excess availability falls below $9.0 million and the fixed charge coverage ratio is less than 1.0 to 1.0, the Company would be in default under the Credit Agreement. As of December 31, 2012, we were in compliance with all covenants and restrictions.

As of December 31, 2012, there was a $6 thousand advance and $1.7 million of letters of credit outstanding under the Credit Agreement. The $6 thousand advance, which was automatically made by Wells Fargo on our behalf in order to pay a letter of credit fee, was non-interest bearing and we repaid it in full in January 2013.

On February 24, 2012, we obtained an amendment from the lender under the Credit Agreement which clarified the calculation of certain fees payable thereunder.

On September 29, 2011, in conjunction with our entering into the Credit Agreement, we terminated an existing credit facility. From November 10, 2009 through October 31, 2010, the Company was party to a $50.0 million senior secured revolving credit facility. On

November 1, 2010, the senior secured credit facility was amended to provide for a $10.0 million letter of credit facility. The letter of credit facility existed for the sole purpose of supporting our letter of credit requirements.

On November 10, 2009, Colt Defense LLC ("Parent") and Colt Finance Corp, our 100%-owned finance subsidiary, jointly and severally co-issued $250 million senior unsecured notes. The Senior Notes bear interest at 8.75% and mature November 15, 2017. Interest is payable semi-annually in arrears on May 15 and November 15, commencing on May 15, 2010. We issued the Senior Notes at a discount of $3.5 million from their principal value. This discount will be amortized as additional interest expense over the life of the indebtedness. Proceeds from the Senior Notes were used to repay the outstanding balances of our then outstanding senior secured credit facility and senior subordinated notes ($189.3 million), settle outstanding interest rate swap agreements ($5.4 million), pay a prepayment premium on our senior subordinated notes ($0.6 million) and pay financing costs ($12.8 million). The balances of the proceeds were available for general corporate purposes.

No principal repayments are required until maturity. However, in the case of a change in control of our company, we are required to offer to purchase the outstanding notes at a price equal to 101% of their principal amount, together with accrued and unpaid interest. In addition, the Senior Notes may be redeemed at our option under certain conditions as follows:

- at any time prior to November 15, 2013, we may redeem some or all of the notes at a price equal to 100% of the principal amount of the notes together with accrued and unpaid interest plus a make whole premium, as defined in the indenture; and

- on and after November 15, 2013, we may redeem all or, from time to time, a part of the notes at the following redemption process (expressed as a percentage of principal amount of the notes to be redeemed) plus accrued and unpaid interest, including additional interest, if any on the notes to the

applicable redemption date if redeemed during the twelve month period beginning on November 15 of the years indicated below:

Year	Percentage
2013	104.375%
2014	102.187%
2015 and thereafter	100.000%

The Senior Notes are not guaranteed by any of our subsidiaries and they do not have any financial condition covenants which require us to maintain compliance with any financial ratios or measurements on a periodic basis. The Senior Notes do contain incurrence-based covenants that, among other things, limit our ability to incur additional indebtedness, enter into certain mergers or consolidations, incur certain liens and engage in certain transactions with our affiliates. Under certain circumstances, we are required to make an offer to purchase our notes offered hereby at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase with the proceeds of certain asset dispositions. In addition, the indenture restricts our ability to pay dividends or make other restricted payments (as defined in the indenture) to our members, subject to certain exceptions, unless certain conditions are met, including that (1) no default under the indenture shall have occurred and be continuing, (2) we shall be permitted by the indenture to incur additional indebtedness and (3) the amount of the dividend or payment may not exceed a certain amount based on, among other things, our consolidated net income. Such restrictions are not expected to affect our ability to meet our cash obligations for the next 12 months. The indenture does not restrict our ability to pay dividends or provide loans to the Parent or the net assets of our subsidiaries, inclusive of the co-issuer, Colt Finance Corp. Additionally, the Senior Notes contain certain cross default provisions with other indebtedness, if such indebtedness in default aggregates to $20.0 million or more.

On May 11, 2011, Colt Defense completed an exchange offer for up to $250.0 million in the aggregate principal amount of our registered 8.75% Senior Notes due 2017 for up to a like aggregate principal amount of our outstanding 8.75% Senior Notes due 2017 issued pursuant to Rule 144A. The Company did not recognize any gain or loss for accounting purposes as a result of the exchange offer.

Our cash used in or generated from operating activities is generally a reflection of our operating results adjusted for non-cash charges or credits such as depreciation and amortization and changes in working capital including accounts receivable and our investment in inventory. Historically, tax distributions to our members have been made in amounts equal to 45% of our taxable income, as defined, for the applicable period. Our Governing Board may also declare other distributions to our members from time to time. In addition, our cash requirements and liquidity could be impacted by potential acquisitions.

Changes in accounts receivable and inventory can cause significant fluctuations in our cash flow from operations. U.S. Government receivables are generally collected within 20 days. Payment terms for international orders are negotiated individually with each customer. As a result, international receivables, a growing portion of our receivable base, tend to experience a longer collection cycle. LE/Commercial receivables, which have grown significantly in 2012, are generally collected within 10 days as distributors take advantage of payment terms. To date, we have not experienced any significant credit losses.

Our renewed emphasis on the international and LE/Commercial markets have also caused increased fluctuations and an overall increase in our inventory levels. Certain large international orders tend to ship at the end of large production runs, which can cause greater fluctuations in inventory levels. In addition, we need to maintain higher inventory levels to support an expanded product offering.

At December 31, 2012, we had cash and cash equivalents totaling $42.4 million. We believe that our existing cash balances, Credit Agreement availability and forecasted operating cash flows are sufficient to meet our obligations for the next twelve months. On March 22, 2013, we purchased 31,165.589 common units from the Blackstone Funds for an aggregate purchase price of $14.0 million. For additional information about this transaction, see "Note 18 Subsequent Events" in Item 8 of this Form 10-K. Other than this transaction, we are not aware of any significant events or conditions that are likely to have a material impact on our liquidity.

Cash Flows

The following table sets forth our consolidated cash flows for the years ended December 31, 2012, 2011 and 2010:

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	Year Ended December 31,		
	2012	2011	2010
Cash provided by (used in) operating activities	$ 12.4	$ (0.7)	$ 1.7
Cash (used in) investing activities	(3.9)	(7.0)	(6.9)
Cash (used in) financing activities	(4.5)	(15.8)	(6.2)

Cash Flows Provided by Operating Activities

Net cash provided by operating activities for 2012 was $12.4 million, compared to $0.7 million used in operating activities in 2011. While we had a net loss in 2012, it was more than offset by changes in our operating assets and liabilities, which provided $10.4 million of cash in 2012, but used $12.9 million in 2011.

During 2012, changes in operating assets and liabilities provided $10.4 million of cash. Accounts receivable provided $8.1 million as we collected on a $16.1 million international receivable that was outstanding at the end of 2011, which was partially offset by increased sales in the latter part of the fourth quarter of 2012. A $4.2 million increase in inventory related to higher production levels and an expanded product offering was more than offset by a largely related $5.2 million increase in accounts payable and accrued expenses. Customer deposits and deferred revenue increased $2.0 million as we collected more deposits from international customers. These sources of cash were partially offset by a $1.0 increase in prepaid expenses and other assets mainly due to a Canadian income tax receivable.

Net cash used in operating activities for 2011 was $0.7 million, compared to $1.7 million provided by operating activities in 2010. The unfavorable variance was mainly due to changes in operating assets and liabilities, which were a $12.9 million net use of cash in 2011 compared to a $5.0 million source of cash in 2010. This unfavorable change in operating assets and liabilities was largely offset by increased profitability as net income increased to $5.0 million, up from an $11.1 million net loss in 2010.

The changes in our operating assets and liabilities, which were a net use of cash in 2011, were driven by not only our overall sales growth, but also a change in our sales mix as international and LE/Commercial sales grew and U.S. Government sales declined. Accounts receivable increased by $15.8 million primarily due to $16.1 million of accounts receivable with an international customer related to fourth quarter shipments. Inventory, which was a $4.8 million use of cash in 2011, mainly grew to support the initial shipments of the M240 to the U.S. Government and an anticipated large international shipment in 2012. These uses of cash were partially offset by growth-driven increases in accounts payable and accrued expenses.

Cash Flows Used in Investing Activities

Net cash used in investing activities was $3.9 million in 2012 compared to $7.0 million in 2011. In both years, the primary use of cash was for capital expenditures. In 2012, capital expenditures were $4.4 million compared to $5.6 million in 2011. These capital expenditures mainly reflect purchases of equipment associated with new products, including the M240 and the CM901, additional production capacity and modernization initiatives.

In 2012, we had a $0.5 million favorable change in restricted cash as an older cash-collateralized letter of credit expired and new letters of credit were placed under the Credit Agreement without cash collateral. Conversely, in 2011 we used $1.4 million of cash to fund an increase in restricted cash used to secure our outstanding letters of credit.

Net cash used in investing activities from continuing operations of $7.0 million in both 2011 and 2010 was primarily for capital expenditures. In 2011, capital expenditures were $5.6 million compared to $7.4 million in 2010. These capital expenditures mainly reflect purchases of equipment associated with contract awards for new products including the M240 and the M249 and modernization initiatives. In addition, in 2011 we invested $0.5 million in the expansion of our Canadian facility.

In addition to capital expenditures, we used $1.4 million of cash to fund an increase in restricted cash used to secure our outstanding letters of credit on 2011. In 2010, restricted cash was a $0.5 million source of cash as our cash required to collateralize outstanding letters of credit decreased.

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Cash Flows Used in Financing Activities

Net cash used in financing activities in 2012 was $4.5 million as compared to $15.8 million of cash used in financing activities in 2011. The primary reason for the favorable variance was a decrease in distributions to our members from $12.9 million in 2011 to $3.3 million in 2012. Payments on capital leases were $1.1 million in 2012, a slight decrease from $1.2 million in 2011 as all of our capital leases matured in late 2012. In addition, we used $1.6 million to pay debt issuance costs associated with the Credit Agreement in 2011.

Net cash used in financing activities in 2011 was $15.8 million as compared to $6.2 million of cash used in financing activities in 2010. A $12.9 million distribution to members was the primary use of cash in 2011. In addition, we used $1.6 million to pay debt issuance costs and $1.2 million for capital lease payments in 2011.

Net cash (used in) provided by financing activities consisted of the following ($ in millions):

	Year Ended December 31,		
	2012	2011	2010
Capital lease obligation payments	$ (1.2)	$ (1.2)	$ (1.1)
Debt issuance costs (a)	–	(1.7)	(0.1)
Distributions paid to members(b)	(3.3)	(12.9)	(5.0)
Total	$ (4.5)	$ (15.8)	$ (6.2)

(a) In 2011, we incurred debt issuance costs when we entered on to the Credit Agreement with Wells Fargo and terminated the J.P. Morgan credit facility. During 2010, we amended the revolving credit facility with J.P. Morgan and incurred additional financing costs.

(b) 2012 and 2010 reflect tax distributions made to members. In 2010, the Governing Board also declared a special distribution to members of $12.9 million, which was paid to members in 2011.

Contractual Obligations and Commitments

We have contractual obligations and commercial commitments that may affect our financial condition. The following table identifies material obligations and commitments as of December 31, 2012 (in millions):

		Payments Due by Period			
	Total	Less than 1 Year	13-35 Months	36-60 Months	More than 5 Years
Long-term debt principal payments(a)	$ 250.0	$ –	$ –	$ 250.0	$ –
Interest payments	107.0	22.0	44.1	40.9	–
Operating leases	2.7	0.9	1.8	0.0	–
Payments to pension trust(b)	8.9	0.7	2.2	2.5	3.5
Postretirement healthcare payments(b)	7.8	0.6	1.4	1.6	4.2
Purchase obligations(c)	2.4	2.4	–	–	–
Total contractual obligations	$ 378.8	$ 26.6	$ 49.5	$ 295.0	$ 7.7

(a) Includes $250 million of Senior Notes which were issued at a discount of $3.5 million.

(b) Payments to the pension trust and post retirement plan are required pursuant to our plan.

(c) We had unconditional purchase obligations related to capital expenditures for machinery.

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Offset Purchase Commitments

We have certain Industrial Cooperation Agreements, which stipulate our commitments to provide offsetting business to certain countries that have purchased our products. We generally settle our offset purchase commitments under Industrial Cooperation Agreements through on-going business and/or cooperating with other contractors on their spending during the related period. Additionally, we identify future purchases and other satisfaction plans for the remainder of the offset purchase commitment period and should there be a projected net purchase commitment after such consideration, we accrue the estimated cost to settle the offset purchase commitment.

Our remaining gross offset purchase commitment is the total amount of offset purchase commitments reduced for claims submitted and approved by the governing agencies. At December 31, 2012 and 2011, our remaining gross offset purchase commitments totaled $68.2 million and $58.5 million, respectively. We have evaluated our settlement of our remaining gross offset purchase commitments through probable planned spending and other probable satisfaction plans to determine our net offset purchase commitment. We have accrued $1.8 million and $1.6 million as of December 31, 2012 and 2011, respectively, based on our estimated cost of settling the remaining net offset purchase commitment.

Performance Guarantees

In the normal course of our business we may be asked to provide performance guarantees to our customers in relation to our contracts. Some customers may require that our performance guarantees be issued by a financial institution in the form of a letter of credit. As of December 31, 2012, we had $3.7 million in outstanding letters of credit, of which $1.3 million were fully collateralized by cash.

Pension Plans and Postretirement Health Care Obligations

We have two domestic defined benefit plans that cover a significant portion of our salaried and hourly paid employees. Effective December 31, 2012, we froze the pension benefits under our hourly defined benefit plan. The benefits under our salaried defined benefit plan have been frozen since December 31, 2008. As a result, participants retain the benefits that they have already accrued, however no additional benefits will accrue after the effective date of the freeze.

We derive pension benefit expense from an actuarial calculation based on the defined benefit plans' provisions and management's assumptions regarding discount rate and expected long-term rate of return on assets. Management determines the expected long-term rate of return on plan assets based upon historical actual asset returns and the expectations of asset returns over the expected period to fund participant benefits based on the current investment mix of our plans. Management sets the discount rate based on the yield of high quality fixed income investments expected to be available in the future when cash flows are paid. In addition, management also consults with independent actuaries in determining these assumptions. The excess of the projected benefit obligations over assets of the plans is $6.8 million at December 31, 2012. We anticipate we will make a contribution of approximately $1.5 million to our pension plans in 2013.

We also have a postretirement health plan for our domestic union employees. The postretirement health plan is unfunded. We derive postretirement benefit expense from an actuarial calculation based on the provisions of the plan and a number of assumptions provided by us including information about employee demographics, retirement age, turnover, mortality, discount rate, amount and timing of claims, and a health care inflation trend rate. In connection with our collective bargaining agreement, we have capped certain retirees to approximately $250 (not in thousands) per employee per month. The unfunded post-retirement health care benefit obligation was $14.1 million at December 31, 2012.

401(k) Plan

We have a domestic contributory savings plan ("401(k) Plan") under Section 401(k) of the Internal Revenue Code covering substantially all U.S. employees. The 401(k) Plan allows participants to make voluntary contributions of up to 15% of their annual compensation, on a pretax basis, subject to IRS limitations. During 2012, employees represented by the collective bargaining agreement who were hired after April1, 2012 were eligible for the employer match for up to 3% of their salaries, subject to eligibility rules. Effective January 1, 2013, all employees represented by the collective bargaining agreement will be eligible for the employer match for up to 3% of their salaries. For all other employees, we match 50% of their elective deferrals up to the first 6% of eligible deferred compensation. The employer match expense in 2012 was $0.3 million.

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In addition, we have a defined contribution pension plan ("Canadian Plan") for our employees in Canada, whereby the employees must make a minimum of 1% contribution but can contribute up to 2.5% of their gross earnings. The Canadian Plan requires employer matching. There is a 700 hours worked eligibility requirement. There is no vesting period. In Canada, we also have a profit sharing plan, which provides for a contribution calculated at up to 7% of the net operating earnings, minus the employer contributions to the Canadian Plan. The funds are distributed proportionately based on annual remuneration. We incurred expenses related to these plans of $0.6 million in 2012.

Transactions With Certain Other Parties

In May 2011, we signed a Memorandum of Understanding with Colt' s Manufacturing to jointly coordinate the marketing and sales of rifles into the commercial market. All sales under the Memorandum of Understanding are based on a negotiated discount. Accounts receivable for product sales to Colt' s Manufacturing were $12.5 million and $2.2 million at December 31, 2012 and December 31, 2011, respectively. Transactions with Colt' s Manufacturing were as follows (in millions):

	Year Ended December 31,		
	2012	2011	2010
Net sales of rifles to Colt' s Manufacturing	$ 73.3	$ 11.7	$ 0.9
Service fee income earned	1.1	0.4	0.4

For additional information on transactions with related and certain other parties, see "Note 11 Transactions With Related and Certain Other Parties" in Item 8 of this Form 10-K.

Off-balance Sheet Arrangements

At December 31, 2012, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC.

Impact of Inflation

Although inflationary increases in certain costs, particularly labor, outsourced parts and raw materials, could potentially have an impact on our operating results, inflation has not significantly impacted our overall operations in the last three years.

Item 7.A Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exposure

We are subject to foreign currency exchange risks relating to receipts from customers, payments to suppliers and some intercompany transactions. As a matter of policy, we do not engage in currency speculation and therefore, we have no derivative financial instruments to hedge this exposure. In our Consolidated Statements of Operations, we had a foreign currency gain of $0.2 million for 2012 and foreign currency losses of $0.3 million and $0.7 million for 2011 and 2010, respectively. The foreign currency amounts reported in the Consolidated Statements of Operations may change materially should our international business continue to grow or if changes in the Canadian dollar or Euro versus the U.S. dollar fluctuate materially.

Interest Rate Exposure

As of December 31, 2012, we had $250.0 million in principal amount of fixed-rate Senior Notes outstanding. A hypothetical 100 basis point increase in interest rates would not impact the interest expense on our fixed-rate debt, which is not hedged. We had no variable rate debt outstanding at December 31, 2012.

Item 8. Financial Statements and Supplemental Data

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Members and Governing Board of Colt Defense LLC:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in deficit and changes in cash flows present fairly, in all material respects, the financial position of Colt Defense LLC and its Subsidiaries (the “Company”) at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company’ s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut
March 26, 2013

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Colt Defense LLC and Subsidiaries
Consolidated Balance Sheets
For the Years Ended December 31,
(In thousands of dollars)

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 42,373	$ 38,236
Restricted cash	777	1,241
Accounts receivable, net	22,683	30,575
Inventories	40,561	36,215
Other current assets	3,416	2,481
Total current assets	109,810	108,748
Property and equipment, net	22,134	22,589
Goodwill	14,947	14,713
Intangible assets with finite lives, net	6,037	6,635
Deferred financing costs	7,642	9,312
Long-term restricted cash	810	810
Other assets	1,588	2,149
Total assets	$ 162,968	$ 164,956
LIABILITIES AND DEFICIT		
Current liabilities:		
Line of credit	$ 6	$ –
Capital lease obligations – current portion	–	1,148
Accounts payable	13,055	11,114
Accrued expenses	20,315	16,189
Pension and retirement obligations - current portion	626	609
Customer advances and deferred income	10,002	8,804
Accrued distributions to members	–	3,343
Total current liabilities	44,004	41,207

Long-term debt	247,567	247,186
Pension and retirement liabilities	20,261	17,896
Other long-term liabilities	2,423	1,501
Total long-term liabilities	270,251	266,583
Total liabilities	314,255	307,790
Commitments and Contingencies (Note 6 and 12)		
Deficit:		
Accumulated deficit	(137,446)	(129,704)
Accumulated other comprehensive loss	(13,841)	(13,130)
Total deficit	(151,287)	(142,834)
Total liabilities and deficit	$ 162,968	$ 164,956

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

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Colt Defense LLC and Subsidiaries
Consolidated Statements of Operations
For the Years Ended December 31,
(In thousands of dollars)

	2012	2011	2010
Net sales	$ 213,328	$ 208,810	$ 175,805
Cost of sales	162,177	143,478	131,278
Gross profit	51,151	65,332	44,527
Operating expenses:			
Selling and commissions	13,059	13,612	9,344
Research and development	4,747	5,578	4,536
General and administrative	14,285	13,098	11,621
Amortization of purchased intangibles	503	541	548
Total operating expenses	32,594	32,829	26,049
Operating income	18,557	32,503	18,478
Other (income)/expense:			
Interest expense	24,579	24,010	24,598
Debt prepayment expense	–	295	1,246
Other (income) expense, net	(717)	39	411
Total other expenses, net	23,862	24,344	26,255
(Loss) income from continuing operations before provision for foreign income taxes	(5,305)	8,159	(7,777)
Provision for foreign income taxes	1,750	3,171	2,499
(Loss) income from continuing operations	(7,055)	4,988	(10,276)
Discontinued operations:			
Loss from discontinued operations	–	–	(665)

Loss on disposal of discontinued operations	–	–	(208)
Net (loss) income	(7,055)	4,988	(11,149)
Less: Net loss (income) from discontinued operations attributable to non-controlling interest	–	–	84
Net (loss) income attributed to Colt Defense LLC members	$ (7,055)	$ 4,988	$ (11,065)

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

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Colt Defense LLC and Subsidiaries
Consolidated Statements of Comprehensive Loss
For the Years Ended December 31,
(In thousands of dollars)

	2012	2011	2010
Net (loss) income	$ (7,055)	$ 4,988	$ (11,149)
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	518	(444)	1,415
Change in pension and postretirement benefit plans, net	(1,229)	(5,202)	(3,089)
Comprehensive loss	$ (7,766)	$ (658)	$ (12,823)

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

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Colt Defense LLC and Subsidiaries
Consolidated Statements of Changes in Cash Flows
For the Years Ended December 31,
(In thousands of dollars)

	2012	2011	2010
Operating Activities			
Net (loss) income	$ (7,055)	$ 4,988	$ (11,149)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Loss from discontinued operations	–	–	873
Depreciation and amortization	5,696	5,476	4,562
Amortization of financing fees	1,653	1,498	1,918
Pension curtailment expense	1,325	–	–
Deferred foreign income taxes	39	(271)	(161)
Loss (gain) on sale/disposals of fixed assets	4	(12)	(8)

Amortization of debt discount	381	348	318
Debt prepayment expense	–	295	1,246
Amortization of deferred income	(79)	(125)	(188)
Common unit compensation expense	17	–	–
Changes in operating assets and liabilities:			
Accounts receivable	8,091	(15,761)	5,501
Inventories	(4,158)	(4,765)	3,901
Prepaid expenses and other current assets	(984)	405	(198)
Accounts payable and accrued expenses	5,201	8,001	(5,052)
Accrued pension and retirement liabilities	(172)	(622)	(1,075)
Customer advances and deferred income	2,001	(46)	1,967
Other liabilities, net	463	(71)	(69)
Net cash provided by (used in) operating activities from continuing operations	12,423	(662)	2,386
Net cash used in operating activities from discontinued operations	–	(33)	(732)
Net cash provided by (used in) operating activities	12,423	(695)	1,654
Investing Activities			
Purchases of property and equipment	(4,410)	(5,600)	(7,440)
Proceeds from sale/disposal of property	66	12	19
Change in restricted cash	464	(1,380)	465
Net cash used in investing activities from continuing operations	(3,880)	(6,968)	(6,956)
Net cash provided by investing activities from discontinued operations	–	–	14
Net cash used in investing activities	(3,880)	(6,968)	(6,942)
Financing Activities			
Debt issuance costs	–	(1,636)	(75)
Line of credit advance	6	–	–
Capital lease obligation payments	(1,148)	(1,229)	(1,146)
Distributions paid to members	(3,343)	(12,889)	(4,976)
Net cash used in financing activities from continuing operations	(4,485)	(15,754)	(6,197)
Net cash used in financing activities from discontinued operations	–	–	(15)
Net cash used in financing activities	(4,485)	(15,754)	(6,212)
Effect of exchange rates on cash	79	209	239
Change in cash and cash equivalents	4,137	(23,208)	(11,261)
Cash and cash equivalents, beginning of period	38,236	61,444	72,705
Cash and cash equivalents, end of period	$ 42,373	$ 38,236	$ 61,444
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	$ 22,198	$ 22,075	$ 22,817
Cash paid for foreign income taxes	3,207	2,574	3,313
Non-cash consideration for sale of equipment	75	–	–
Accrued debt issuance costs	–	17	–
Accrued purchases of fixed assets	516	364	78
Accrued distributions to members	–	3,343	15,606

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

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Colt Defense LLC and Subsidiaries
Consolidated Statements of Changes in Deficit
For the Years Ended December 31,
(In thousands of dollars)

	Member Units	Accumulated Members' Deficit	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total
Balance, December 31, 2009	132,174	$ (104,912)	$ (5,810)	$ (96)	$ (110,818)
Disposal of non-controlling interest	–	–	–	180	180
Distributions to members	–	(17,937)	–	–	(17,937)
Net loss	–	(11,065)	–	(84)	(11,149)
Other comprehensive (loss)/income:					
Pension and postretirement health liabilities	–	–	(3,089)	–	(3,089)
Foreign currency translation	–	–	1,415	–	1,415
Comprehensive loss	–	–	–	–	(12,823)
Balance, December 31, 2010	132,174	(133,914)	(7,484)	–	(141,398)
Distributions to members	–	(778)	–	–	(778)
Net income	–	4,988	–	–	4,988
Other comprehensive loss:					
Pension and postretirement health liabilities	–	–	(5,202)	–	(5,202)
Foreign currency translation	–	–	(444)	–	(444)
Comprehensive loss	–	–	–	–	(658)
Balance, December 31, 2011	132,174	(129,704)	(13,130)	–	(142,834)
Common unit compensation expense	–	17	–	–	17
Distribution to members	–	(704)	–	–	(704)
Net loss	–	(7,055)	–	–	(7,055)
Other comprehensive (loss)/income:					
Pension and postretirement health liabilities	–	–	(1,229)	–	(1,229)
Foreign currency translation	–	–	518	–	518
Comprehensive loss	–	–	–	–	(7,766)
Balance, December 31, 2012	132,174	$ (137,446)	$ (13,841)	$ –	$ (151,287)

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

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Colt Defense LLC and Subsidiaries
Notes to Consolidated Financial Statements
(in thousands of dollars, except unit and per unit data)

1. Nature of Business

Colt Defense LLC was formed in 2002 as a Delaware limited liability company as a result of the re-organization of Colt' s Manufacturing Company, Inc. The defense and law enforcement rifle business was separated from the commercial handgun business. We are one of the world' s leading designers, developers and manufacturers of small arms weapons systems for individual soldiers and law enforcement personnel. We have supplied small arms weapons systems to more than 80 countries by expanding our portfolio of products and services to meet evolving military and law enforcement requirements around the world. Our products have proven themselves under the most severe and varied battle conditions. We also modify our rifles and carbines for civilian use and sell them to Colt' s Manufacturing Company LLC ("Colt' s Manufacturing"), which sells these MSR' s into the U.S. commercial market.

2. Summary of Significant Accounting Policies

Basis of Accounting and Consolidation

The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Our consolidated financial statements include the accounts of Colt Defense LLC and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Reclassification of Prior Period Amounts

Certain prior period amounts have been reclassified to conform to the current year' s presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash and short-term, highly liquid investments with original maturities of three months or less at the date of purchase.

Restricted Cash

Restricted cash at December 31, 2012 and 2011 consists of funds deposited to secure standby letters of credit primarily for performance guarantees related to our international business.

Revenue, Accounts Receivable and Credit Policies

We recognize revenue when evidence of an arrangement exists, delivery of the product or service has occurred and title and risk of loss have passed to the customer, the sales price is fixed or determinable, and collectability of the resulting receivable is reasonably assured. For certain "bill and hold" sales to the U.S. and Canadian governments, such sales and related accounts receivable are recognized upon inspection and acceptance of the rifles, including title transfer, by a government official and after we place the accepted rifles in a government approved location at our premises where they are held waiting shipping instructions. The sales value of such bill and hold sales where the shipments were still located at our premises at December 31, 2012, 2011 and 2010 were $0, $6,840 and $9,026, respectively.

We account for revenues and earnings under two long-term government contracts/programs with interrelated multiple elements (procurement of parts, manufacturing and refurbishment services) using concepts of proportionate performance. These contracts effect reported results for all periods presented. We estimate the total profit on each contract as the difference between the total estimated revenue and total estimated cost of the contract and recognize that profit over the remaining life of the contract using an output measure (the ratio of rifles completed to the total number of rifles to be refurbished under the contract). We compute an earnings rate for each contract, including general and administrative expense, to determine operating earnings. We review the earnings rate quarterly to assess revisions in contract values and estimated costs at completion. Any changes in earnings rates and recognized contract to date earnings resulting from these assessments are made in the period the revisions are identified. Contract costs include production costs, related overhead and allocated general and administrative costs. Amounts billed and collected on this contract in excess of revenue recorded are reflected as customer advances and deferred income in the Consolidated Balance Sheets.

Anticipated contract losses are charged to operations as soon as they are identified. Anticipated losses cover all costs allocable to the contracts, including certain general and administrative expenses. If a contract is cancelled by the government for its convenience, we can make a claim against the customer for fair compensation for worked performed plus costs of settling and paying claims by terminated subcontractors, other settlement expenses and a reasonable profit on costs incurred. When we have a customer claim, revenue arising from the claims process is either recognized as revenue or as an offset against a potential loss only when the amount of the claim can be estimated reliably and its realization is probable. We had no claims recorded at any year-end presented.

Credit is extended based on an evaluation of each customer' s financial condition. Generally, collateral is not required, other than in connection with some foreign sales. If the circumstances warrant, we require foreign customers to provide either a documentary letter of credit or a prepayment.

Credit losses are provided for, primarily using a specific identification basis. Once a customer is identified as high risk based on the payment history and creditworthiness, we will provide an allowance for the estimated uncollectible portion. Accounts are considered past due based on the original invoice date. Write-offs of uncollectible accounts receivable occur when all reasonable collection efforts have been made. Neither provisions nor write-offs were material for any period presented. Our allowance for doubtful accounts at December 31, 2012 was $0 and at December 31, 2011 was $1.

		Total
Balance at December 31, 2010	$	216
Provision for (recovery of) doubtful accounts		(209)
Write-offs		(6)
Balance at December 31, 2011	$	1
Provision for (recovery of) doubtful accounts		1
Write-offs		(2)
Balance at December 31, 2012	$	–

Accounts receivable represent amounts billed and currently due from customers. There were no material amounts that were not expected to be collected within one year from the balance sheet date.

Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market. Cost includes materials, labor and manufacturing overhead related to the purchase and production of inventories.

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We review market value based on historical usage and estimates of future demand. Based on these reviews, inventory write-downs are recorded, as necessary, to reflect estimated obsolescence, excess quantities and declines in market value.

Property and Equipment

Property and equipment are recorded at cost. Depreciation of building and equipment (including assets recorded under capital leases) and amortization of leasehold improvements are computed using the straight-line method over the estimated useful life of the assets or for leasehold improvements, over the life of the lease term if shorter. Depreciation and amortization of property and equipment for the years ended December 31, 2012, 2011 and 2010 was $4,891, $4,633 and $3,712, respectively. We did not enter into any capital leases during 2012 or 2011.

Expenditures that improve or extend the lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Property and equipment consist of:

	December 31,		Estimated
	2012	2011	Useful Life
Land	$ 362	$ 354	–
Building	2,718	2,521	33
Machinery and equipment	37,749	34,086	7-10
Furniture, fixtures and leasehold improvements	6,378	6,089	3-5
	47,207	43,050	
Less accumulated depreciation and amortization	(28,162)	(23,531)	
	19,045	19,519	
Construction in process	3,089	3,070	
Property and equipment, net	$ 22,134	$ 22,589	

Goodwill

Goodwill is tested for impairment annually as of the end of our third fiscal quarter, or when events or circumstances indicate that its value may have declined. Impairment exists when the carrying amount of goodwill exceeds its fair market value. Management estimates the fair value of each reporting unit primarily using the income approach. Specifically the discounted cash flow (“DCF”) model was utilized for the valuation of each reporting unit. Management develops cash flow forecasts based on existing firm orders, expected future orders, contracts with suppliers, labor agreements and general market conditions. We discount the cash flow forecasts using the weighted-average cost of capital method at the date of evaluation. We also calculate the fair value of our reporting units using the market approach in order to corroborate our DCF model results. These methodologies used in the current year are consistent with those used in the prior year.

Since December 2012, there has been an extremely sharp increase in political and public support for new “gun control” laws and regulations in the United States. Some proposed legislation, including legislation that has been introduced and is under active consideration in Congress and in state legislatures, would ban and/or restrict the sale of substantially all of our products, in their current configurations, into the commercial market, either throughout the United States or in particular states. We considered this potential adverse change in our business climate to be a Triggering Event. Therefore, in addition to our annual goodwill impairment testing, we also performed a sensitivity analysis to determine the impact that a material decrease in LE/Commercial sales would have on our valuation. As of December 31, 2012, the fair value of our reporting units was substantially in excess of carrying value for all scenarios that we tested.

There were no impairment indicators of any goodwill during 2012, 2011 or 2010. Changes in the carrying amount of goodwill are as follows:

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	Total
Balance at December 31, 2010	$ 14,950
Effect of foreign currency translation	(237)
Balance at December 31, 2011	14,713
Effect of foreign currency translation	234
Balance at December 31, 2012	$ 14,947

As of December 31, 2012 and 2011, there was an accumulated impairment of $1,245 on the gross book value of $16,192.

Intangible Assets

We review long-lived assets, including intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Impairment losses, where identified, are determined as the excess of the carrying value over the estimated fair value of the long-lived asset. We assess the recoverability of the carrying value of assets held for use based on a review of projected undiscounted cash flows. When long-lived assets are reclassified to “held for sale”, we compare the asset’ s carrying amount to its estimated fair value less cost to sell to evaluate impairment. No long-lived assets have been reclassified to held for sale for any period presented.

The net carrying value of our intangible assets with finite lives follows:

	As of December 31, 2012			
	Gross Carrying Amount	Accumulated Amortization	Net	Estimated Useful Life
Customer relationship				
Canadian Government	$ 2,533	$ (640)	$ 1,893	30
Customer relationships other	7,219	(4,603)	2,616	20
Technology-based intangibles	3,610	(2,082)	1,528	15
	$ 13,362	$ (7,325)	$ 6,037	

	As of December 31, 2011			
	Gross			Estimated

		Carrying Amount		Accumulated Amortization		Net	Useful Life
Customer relationship							
Canadian Government	$	2,478	$	(544)	$	1,934	30
Customer relationships other		7,062		(4,091)		2,971	20
Technology-based intangibles		3,610		(1,880)		1,730	15
	$	13,150	$	(6,515)	$	6,635	

Amortization expense for these intangible assets for the years ended December 31, 2012, 2011 and 2010 was $704, $742 and $749, respectively, of which $202 in 2012, $201 in 2011 and $201 in 2010 were included in cost of sales in the Consolidated Statements of Operations. The Company expects to record annual amortization expense of $666, $635, $604, $573 and $542 for 2013, 2014, 2015, 2016 and 2017, respectively. The Canadian government customer intangible and technology based intangibles are amortized using the straight-line method. The other customers' intangibles are amortized using the sum of the years' digits method.

Prepaid License Fee

The prepaid license fee (see Note 11) is being amortized over its initial 20-year term. Amortization expense was $101 per year in 2012, 2011 and 2010.

Deferred Financing Costs

Deferred financing costs are amortized over the term of the related debt as a component of interest expense.

Warranty Costs

We generally warrant our military products for a period of one year and record the estimated costs of such product warranties at the time the sale is recorded. For direct foreign sales, posting a warranty bond for periods ranging from one to five years is occasionally required. Our estimated warranty costs are based upon actual past experience, our current production environment as well as specific and identifiable warranty. As of December 31, 2012 and 2011, the balance of our warranty reserve was $167 and $139, respectively.

Self-Funded Medical Plan

We maintain a self-funded employee group medical plan under which the liability is limited by individual and aggregate stop loss insurance coverage. Included in accrued expense in the accompanying Consolidated Balance Sheets is a liability for reported claims outstanding, as well as an estimate of incurred but unreported claims, based on our best estimate of the ultimate cost not covered by stop loss insurance. The actual amount of the claims could differ from the estimated liability recorded of $1,396 and $340 at December 31, 2012 and 2011, respectively.

Accrued Expenses

Accrued expenses consisted of:

	December 31,	
	2012	2011
Accrued compensation and benefits	$ 5,770	$ 4,984
Accrued taxes	5,293	2,267
Accrued interest	3,230	2,923
Accrued commissions	1,229	2,872
Other accrued expenses	4,793	3,143
	$ 20,315	$ 16,189

Advertising Costs

We expense advertising as incurred. Advertising expense was $1,219 in 2012, $1,653 in 2011 and $774 in 2010.

Research and Development Costs

Research and development costs consist primarily of compensation and benefits and experimental work materials for our employees who are responsible for the development and enhancement of new and existing products. Research and development costs incurred to develop new products and to enhance existing products, which are not specifically covered by contracts, and those costs related to our share of research and development activity in connection with cost-sharing arrangements are charged to expense as incurred. Research and development expenses were $4,747 in 2012, $5,578 in 2011 and $4,536 in 2010.

Research and development costs incurred under contracts with customers are included as a contract cost and reported as a component of cost of sales when revenue from such contracts is recognized. Government

research and development support, not associated with specific contracts, is recorded as a reduction to cost of sales in the period earned.

Income Taxes

In accordance with the provisions of ASC Topic 740, an uncertain income tax position will not be recognized in the financial statements unless it is more-likely-than-not to be sustained. As of December 31, 2012 and 2011, we had no reserves for any uncertain tax positions.

Common Unit Compensation Expense

We use the Black-Scholes option pricing model to estimate the fair value of all unit-based compensation awards on the date of grant. The fair value of each time-based award is expensed on a straight-line basis over the requisite service period. For performance-based awards, compensation expense is recognized when it is probable that the performance conditions will be met.

Foreign Currency Translation

The functional currency for our Canadian operation is the Canadian dollar. We translate the balance sheet accounts of our Canadian operation at the end-of-period exchange rates and its income statement accounts at the average exchange rates for each month. The resulting foreign currency translation adjustments are recorded as a component of accumulated other comprehensive income or loss, which is included in members' deficit.

Our Canadian operation is subject to foreign currency exchange rate risk relating to receipts from customers, payments to suppliers and some intercompany transactions in currencies other than the Canadian dollar. As a matter of policy, we do not engage in interest rate or currency speculation. We have no derivative financial instruments to hedge this exposure. In our Consolidated Statements of Operations, we had a foreign currency gain of $155 for 2012 and foreign currency losses of $294 and $685 for 2011 and 2010, respectively.

Fair Value Measurements

The fair value of an asset or liability is the amount at which the instrument could be exchanged or settled in a current transaction between willing parties where neither is compelled to buy or sell. The carrying values for cash, accounts receivable, accounts payable, accrued expenses and other current assets and liabilities approximate their fair values due to their short maturities. The carrying value of our long-term debt of $247,567 and $247,186 at December 31, 2012 and 2011, respectively, was recorded at amortized cost. The estimated fair value of long-term debt of approximately $161,250 and $172,500 at December 31, 2012 and 2011, respectively, was based on quoted market prices, which are Level 1 inputs.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value fall into the following hierarchy.

Level 1:	Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2:	Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
Level 3:	Unobservable inputs for the asset or liability.

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During 2012 and 2011, we did not have any financial assets and liabilities reported at fair value and measured on a recurring basis or any significant non-recurring measurements of nonfinancial assets and nonfinancial liabilities.

Retirement Benefits

We have pension and other post retirement benefit costs and obligations which are dependent on various assumptions. Our major assumptions relate primarily to discount rates, long-term return on plan assets and medical cost trend rates. We base the discount rate assumption on current investment yields of high quality fixed income investments during the retirement benefits maturity period. Long-term return on plan assets is determined based on historical portfolio results and management's expectation of the future economic environment, as well as target asset allocations.

Our medical cost trend assumptions are developed based on historical cost data, the near-term outlook, an assessment of likely long-term trends and the cap limiting our required contributions. Actual results that differ from our assumptions are accumulated and are amortized generally over the estimated future working life of the plan participants.

Recent Accounting Pronouncements

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income - In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-02, which requires disclosure of significant amounts reclassified out of accumulated other comprehensive income by component and their corresponding effect on the respective line items of net income. This guidance is effective for the Company beginning in the first quarter of 2013. We are currently evaluating what impact, if any, ASU 2013-02 will have on our financial statements.

Presentation of Comprehensive Income − In June 2011, the FASB issued ASU 2011-05, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. This update eliminates the option to present components of other comprehensive income as part of the statement of equity, but it does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, FASB issued ASU 2011-12, which amends ASU 2011-05. This amendment defers the requirement to present components of reclassifications of other comprehensive income on the face of the income statement. Both standards were effective for us beginning on January 1, 2012. The adoption of these standards had no impact on our operating results or financial position.

Intangibles − Goodwill and Other − In September 2011, FASB issued ASU 2011-08, which provides entities the option to perform a qualitative assessment in order to determine whether additional quantitative impairment testing is necessary. This amendment was effective for reporting periods beginning after December 15, 2011. This amendment does not impact the quantitative testing methodology, should it be necessary. We adopted this standard on January 1, 2012 and it had no impact on our operating results or financial position.

Fair Value Measurement − In May 2011, FASB issued an amendment to revise the wording used to describe the requirements for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments to result in a change in the application of existing fair value measurement requirements, such as specifying that the concepts of the highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements such as specifying that, in the absence of a Level 1 input, a reporting entity should apply premiums or discounts when market participants would do so when pricing the asset or liability. We adopted this standard on January 1, 2012 and it had no impact on our operating results or financial position.

Revision to the consolidated financial statements

In connection with the preparation of the consolidated financial statements for the year ended December 31, 2012 certain errors were identified that affected our reported results for the years ended December 31, 2010 and 2011 and our quarterly reported results in 2011 and 2012. These errors related to the post-retirement health plan accounting and, as previously reported, a sales transaction recognized in the first quarter of 2012 that should have been recognized in the second quarter of 2012. As a result of these errors, we concluded that we would revise our consolidated financial statements for the years ended December 31, 2011 and 2010 and each quarter of 2011 and certain quarters within 2012. Based on an analysis of qualitative and quantitative factors, these errors were deemed immaterial, individually and in the aggregate, to all of the periods presented.

A description of the errors follows:

***Post-retirement health plan accounting* -** We identified errors related to certain actuarial assumptions used in the calculation of claims data, administrative fees and a cap on benefits for a certain group of retirees. As of January 1, 2008, our accumulated deficit was overstated by $1,168 related to the overstatement of the post-retirement liability of $1,396 and understatement of accumulated other comprehensive income of $229 related to this error.

As a result of this error, the post-retirement health expense that we recorded in cost of sales for the year ended December 31, 2010 was overstated by $105 and for the year ended December 31, 2011 was understated by $208. The errors also had the effect of increasing the other comprehensive loss by $1,272 for the year ended December 31, 2010 and increasing other comprehensive income by $317 for the year ended December 31, 2011. These errors also resulted in the overstatement of the reported accrued post-retirement liability by $338 and understatement of accumulated comprehensive loss of $727 at December 31, 2011. Further, as of December 31, 2011, the accrued post-retirement health liability current balance was decreased by $281 and the accrued post-retirement liability long-term balance was increased by $281 to properly reflect the long-term nature of the liability.

Sales cut-off − During the first quarter of 2012, we recognized a sales transaction that should have been recognized in the second quarter of 2012. To correct the error, we decreased net sales by $724 and decreased cost of goods sold by $271 for the quarter ended March 31, 2012 and increased net sales by $724 and increased cost of goods sold by $271 for the quarter ended June 30, 2012.

Impact of the revision

Based on an analysis of qualitative and quantitative factors, these errors were deemed immaterial, individually and in the aggregate, to all periods previously reported. The effects of the revision on our Consolidated Statements of Operations for the years ended December 31, 2011 and 2010 follow:

For the year ended December 31, 2011

	Previously Reported	Adjustments	Revised
Cost of sales	$ 143,270	$ 208	$ 143,478
Gross profit	65,540	(208)	65,332
Operating income	32,711	(208)	32,503
(Loss) income from continuing operations before provision for foreign income taxes	8,367	(208)	8,159
(Loss) income from continuing operations	5,196	(208)	4,988
Net (loss) income	5,196	(208)	4,988
Net (loss) income attributable to Colt Defense LLC members	5,196	(208)	4,988

For the year ended December 31, 2010

	Previously Reported	Adjustments	Revised
Cost of sales	$ 131,383	$ (105)	$ 131,278
Gross profit	44,422	105	44,527
Operating income	18,373	105	18,478
(Loss) income from continuing operations before provision for foreign income taxes	(7,882)	105	(7,777)
(Loss) income from continuing operations	(10,381)	105	(10,276)
Net (loss) income	(11,254)	105	(11,149)

Net (loss) income attributable to Colt Defense LLC members	(11,170)	105	(11,065)

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The effects of the revision on our Consolidated Statements of Comprehensive Loss for the years ended December 31, 2011 and 2010 follow:

For the year ended December 31, 2011

	Previously Reported	Adjustments	Revised
Net (loss) income	$ 5,196	$ (208)	$ 4,988
Change in pension and postretirement benefit plans, net	(5,519)	317	(5,202)
Comprehensive loss	(767)	109	(658)

For the year ended December 31, 2010

	Previously Reported	Adjustments	Revised
Net (loss) income	$ (11,254)	$ 105	$ (11,149)
Change in pension and postretirement benefit plans, net	(1,817)	(1,272)	(3,089)
Comprehensive loss	(11,656)	(1,167)	(12,823)

The effects of the revisions on our Consolidated Balance Sheet as of December 31, 2011 follow:

	Previously Reported	Adjustments	Revised
Pension and retirement obligations − current portion	$ 890	$ (281)	$ 609
Total current liabilities	41,488	(281)	41,207
Pension and retirement obligations	17,953	(57)	17,896
Total long-term liabilities	266,640	(57)	266,583
Total liabilities	308,128	(338)	307,790
Accumulated deficit	(130,769)	1,065	(129,704)
Accumulated other comprehensive loss	(12,403)	(727)	(13,130)
Total deficit	(143,172)	338	(142,834)

The effects of the revision on our consolidated statements of cash flows for the years ended December 31, 2011 and 2010:

For the year ended December 31, 2011

	Previously Reported	Adjustments	Revised
Cash flows from operating activities:			
Net (loss) income	$ 5,196	$ (208)	$ 4,988
Accrued pension and retirement liabilities	(830)	208	(622)

For the year ended December 31, 2010

	Previously Reported	Adjustments	Revised
Cash flows from operating activities:			
Net (loss) income	$ (11,254)	$ 105	$ (11,149)
Accrued pension and retirement liabilities	(970)	(105)	(1,075)

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2010 and 2009 Revisions

As previously reported, during the first quarter of 2011, we identified a $3,259 understatement of goodwill related to our acquisition of Colt Canada and corresponding understatement of deferred tax liabilities. These understatements are attributable to the initial application of purchase accounting in 2005. We corrected this immaterial error through revision of our previously reported historical financial statements. As a result, our net loss for the year ended December 31, 2010 decreased by $160 to $(11,254). Our December 31, 2009 opening total deficit balance in our Consolidated Statements of Changes in Deficit decreased by $1,673. Based on an analysis of qualitative and quantitative factors, this error was deemed immaterial to all periods previously reported.

Prior Period Adjustments

During the first quarter of 2011, fourth quarter of 2011 and the full year of 2011, the Company recorded pre-tax adjustments of $127, $316 and $621, respectively, related to immaterial errors in prior periods. Management has concluded based on its quantitative and qualitative analysis such amounts are not material to our current or prior period interim and annual financial statements.

3. Discontinued Operations

On December 1, 2010, we closed a non-core business located in Delhi, Louisiana, Colt Rapid Mat, which was engaged in the manufacture and sale of runway repair systems. Accordingly, Colt Rapid Mat is presented as a discontinued operation in the consolidated financial statements. Colt Rapid Mat was a guarantor of our $250,000 senior notes issued November 3, 2009; however, upon dissolution Colt Rapid Mat ceased being a guarantor of our senior notes. There was no buyer for this business and no significant proceeds as most assets were either disposed of or absorbed into other parts of the business. In addition, there were no significant costs nor on-going commitments associated with the closure.

The following table summarizes the components of the discontinued operations for Colt Rapid Mat:

	2012	2011	2010
Net sales	$ –	$ –	$ 612
Loss from discontinued operations	–	–	(665)
Loss on disposal of discontinued operations	–	–	(208)

A loss on disposal of discontinued operations of $208 was recognized in 2010 as a result of the disposal of Colt Rapid Mat’ s assets. Additionally, included in the loss from discontinued operations in the Consolidated Statements of Operations is net loss attributed to non-controlling interest of $84 for the year ended December 31, 2010.

4. Inventories

Inventories consist of:

	December 31,	
	2012	2011
Materials	$ 29,177	$ 22,422
Work in process	7,829	8,211
Finished products	3,555	5,582
	$ 40,561	$ 36,215

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5. Notes Payable and Long-term Debt

Credit Agreement

On September 29, 2011, Colt Defense LLC, as the U.S. Borrower, Colt Canada Corporation, as the Canadian Borrower and Colt Finance Corp., as Guarantor, entered into a credit agreement ("Credit Agreement") with Wells Fargo Capital Finance, LLC. Under the terms of the Credit Agreement, senior secured revolving loans are available up to $50,000, inclusive of $20,000 available for letters of credit. Revolving loans are subject to, among other things, the borrowing base, which is calculated monthly based on specified percentages of eligible accounts receivable and inventory and specified values of fixed assets. The Company expects to use the proceeds for working capital and general corporate purposes, as needed.

Borrowings under the Credit Agreement bear interest at a variable rate based on the London Inter-Bank Offer Rate ("LIBOR"), the Canadian Banker' s Acceptance Rate or the lender' s prime rate, as defined in the Credit Agreement, plus a spread. The interest rate spread on borrowing and fees for letters of credit varies based on both the rate option selected and our quarterly average excess availability under the Credit Agreement. There is an unused line fee ranging from .375% to .50% per annum, payable quarterly on the unused portion under the facility and a $40 annual servicing fee.

Under the Credit Agreement, our obligations are secured by a first-priority security interest in substantially all of our assets, including accounts receivable, inventory and certain other collateral. We paid $1,636 of debt issuance costs in 2011 related to the Credit Agreement, which matures on September 28, 2016.

The Credit Agreement limits our ability to incur additional indebtedness, make investments or certain payments, pay dividends and merge, acquire or sell assets. In addition, certain covenants would be triggered if excess availability were to fall below the specified level, including a fixed charge coverage ratio requirement. Excess availability is determined as the lesser of our borrowing base or $50,000, reduced by outstanding obligations under the credit agreement and trade payables that are more than 60 days past due. Furthermore, if excess availability falls below $11,000 or an event of default occurs, the lender may assume control over our cash until such event of default is cured or waived or the excess availability exceeds such amount for 60 consecutive days.

The Credit Agreement contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, cross-defaults with other material indebtedness, certain events of bankruptcy or insolvency, judgments in excess of a certain threshold and the failure of any guaranty or security document supporting the agreement to be in full force and effect. In addition, if excess availability falls below $9,000 and the fixed charge coverage ratio is less than 1.0 to

1.0, we would be in default under the Credit Agreement. As of December 31, 2012, we were in compliance with all covenants and restrictions.

As of December 31, 2012, there was a $6 line of credit advance and $1,715 of letters of credit outstanding under the Credit Agreement. The $6 advance, which was automatically made by Wells Fargo on our behalf in order to pay a letter of credit fee, was non-interest bearing and was repaid in full in January 2013.

Senior Notes

On November 10, 2009, Colt Defense LLC (Parent) and Colt Finance Corp, a 100%-owned finance subsidiary, jointly and severally co-issued $250,000 of unsecured senior notes ("Senior Notes"). The Senior Notes bear interest at 8.75% and mature November 15, 2017. Interest is payable semi-annually in arrears on May 15 and November 15, commencing on May 15, 2010. We issued the Senior Notes at a discount of $3,522 from their principal value. This discount will be amortized as additional interest expense over the life of the indebtedness.

No principal repayments are required until maturity. However, in the event of a change in control of our company, we are required to offer to purchase the Senior Notes at a price equal to 101% of their principal amount, together with accrued and unpaid interest. In addition, the Senior Notes may be redeemed at our option under certain conditions as follows:

- at any time prior to November 15, 2013, we may redeem some or all of the Senior Notes at a price equal to 100% of their principal amount together with accrued and unpaid interest plus a make whole premium, as defined in the indenture; and

- on and after November 15, 2013, we may redeem all or, from time to time, a part of the Senior Notes at the following redemption price (expressed as a percentage of principal amount of the Senior Notes to be redeemed) plus accrued and unpaid interest, including additional interest, if any on the Senior Notes to the applicable redemption date if redeemed during the twelve month period beginning on November 15 of the years indicated below:

Year	Percentage
2013	104.375%
2014	102.187%
2015 and thereafter	100.00%

The Senior Notes are not guaranteed by any of our subsidiaries and do not have any financial condition covenants that require us to maintain compliance with any financial ratios or measurements on a periodic basis. The Senior Notes do contain incurrence-based covenants that, among other things, limit our ability to incur additional indebtedness, enter into certain mergers or consolidations, incur certain liens and engage in certain transactions with our affiliates. Under certain circumstances, we are required to make an offer to purchase our senior notes offered hereby at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase with the proceeds of certain asset dispositions. In addition, the indenture restricts our ability to pay dividends or make other Restricted Payments (as defined in the indenture) to our members, subject to certain exceptions, unless certain conditions are met, including that (1) no default under the indenture shall have occurred and be continuing, (2) we shall be permitted by the indenture to incur additional indebtedness and (3) the amount of distributions to our unit holders may not exceed a certain amount based on, among other things, our consolidated net income. Such restrictions are not expected to affect our ability to meet our cash obligations for the next 12 months. The indenture does not restrict the ability to pay dividends or provide loans to the Parent or the net assets of our subsidiaries' , inclusive of the co-issuer Colt Finance

Corp, which itself has no subsidiaries. Additionally, the Senior Notes contain certain cross default provisions with other indebtedness, including the Credit Agreement, if such indebtedness in default aggregates to $20,000 or more.

On May 11, 2011, Colt Defense completed an exchange offer for up to $250,000 in the aggregate principal amount of our registered 8.75% Senior Notes due 2017 for up to a like aggregate principal amount of our outstanding 8.75% Senior Notes due 2017 issued pursuant to Rule 144A. The Company did not recognize any gain or loss for accounting purposes as a result of the exchange offer.

Outstanding long-term debt balances and weighted average interest rates at December 31, 2012 and 2011 were as follows:

	Year Ended December 31, 2012	Weighted Average Effective Interest Rate	Year Ended December 31, 2011	Weighted Average Effective Interest Rate
Senior notes (a)(b)	$ 250,000	9.0%	$ 250,000	9.0%
Unamortized discount	(2,433)		(2,814)	
	247,567		247,186	
Less: current portion	–		–	
	$ 247,567		$ 247,186	

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(a) Interest expense for 2012 and 2011 includes $381 and $348, respectively, of amortization of original issue discount.

(b) The senior notes bear interest at 8.75%. The effective rate of these notes is 9%, giving effect to the original issue discount.

Financing Costs

When we incur costs associated with financing arrangements, we defer the costs and amortize them to interest expense over the term of the related debt. In 2011, we incurred $1,653 of financing costs when we entered into the Credit Agreement, of which $1,636 was paid in 2011. The remaining $17 of accrued financing costs was subsequently reversed in 2012. In 2010, we incurred $75 of financing costs to amend a revolving credit facility, which was subsequently terminated when we entered into the Credit Agreement. Amortization of deferred financing costs for years ended December 31, 2012, 2011 and 2010 were $1,653, $1,498 and $1,835, respectively.

A summary of deferred financing fee activity follows:

	Total
Balance at December 31, 2010	$ 9,452
Amortization of deferred financing costs	(1,498)
Debt prepayment expense	(295)
Financing fees paid and accrued	1,653
Balance at December 31, 2011	$ 9,312
Amortization of deferred financing costs	(1,653)
Debt prepayment expense	–

Financing fees paid and accrued	(17)
Balance at December 31, 2012	$ 7,642

Debt Prepayment Expense

If a financing arrangement is terminated early, we expense any unamortized financing costs to debt prepayment expense at the time of termination. Total debt prepayment expense, which was included in the Consolidated Statements of Operations, related to the above debt refinancing activities and amendments were:

	2012	2011	2010
Write-off of deferred financing costs	$ –	$ 295	$ 1,246
	$ –	$ 295	$ 1,246

6. Lease Obligations

Future minimum lease payments at December 31, 2012 are as follows:

	Operating Leases
2013	$ 912
2014	958
2015	828
2016	19
Total minimum lease payments	$ 2,717

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As of December 31, 2012, we did not have any assets subject to capital leases. As of December 31, 2011, machinery and equipment with an original cost of $6,641 was recorded under capital leases, with an accumulated depreciation of approximately $5,252. Amortization of assets under capital leases was included in depreciation expense.

In October 2012, we signed an amendment to the operating lease for our corporate headquarters and primary manufacturing facility in West Hartford, CT. The lease amendment, which is with a related party, extends our lease for three years to October 25, 2015. Terms of the lease amendment include monthly rent of $69 in the first year of the extension period and a 2% rent increase in each of the two subsequent years of the extension period. We are responsible for all related expenses, including taxes, maintenance and insurance. We have a $250 security deposit related to this lease arrangement.

In addition to the operating lease for our West Hartford facilities, we also had operating lease contracts for some office equipment and vehicles as of December 31, 2012. Rent expense under our operating leases was $1,048, $1,095 and $1,008 in 2012, 2011 and 2010, respectively. Rent expense is net of rental income of $192 in 2012, $161 in 2011 and $161 in 2010 for the portion of the West Hartford facility subleased to Colt' s Manufacturing. The Colt' s Manufacturing sublease expires in October 2015.

7. Income Taxes

The components of (loss) income from continuing operations before foreign income taxes consisted of:

	December 31,		
	2012	2011	2010
United States	$ (11,923)	$ (4,559)	$ (15,930)
Foreign	6,618	12,718	8,153
Total	$ (5,305)	$ 8,159	$ (7,777)

As a limited liability company, we are treated as a partnership for U.S. federal and state income tax reporting purposes and therefore, are not subject to U.S. federal or state income taxes. Our taxable income (loss) is reported to our members for inclusion in their individual tax returns. Our Canadian operation files separate income tax returns in Canada. We also incur withholding tax on royalty and interest income as well as other distributions received from our Canadian subsidiary. Our limited liability agreement requires that in any year in which U.S. taxable income is allocated to the members, we make distributions to members equal to 45% of the highest taxable income allocated to any common unit, to the extent our Governing Board determines that sufficient funds are available. Based on our results, we have not recorded a gross member tax distribution liability for the year ended December 31, 2012.

The provision (benefit) for foreign income taxes consists of the following:

	December 31,		
	2012	2011	2010
Current	$ 1,711	$ 3,442	$ 2,660
Deferred	39	(271)	(161)
Total	$ 1,750	$ 3,171	$ 2,499

The difference between our consolidated effective tax rate and the U.S. Federal statutory tax rate, results primarily from U.S. income taxable to our members, the difference between the U.S. and Canadian statutory

rates, Canadian non-deductible expenses, Canadian research and development tax credits, and withholding taxes on Canadian and Malaysian royalty expenses.

The components of our deferred income taxes consisted of:

	December 31,	
	2012	2011
Deferred tax assets		
Reserves	$ 255	$ 340
Deferred tax liabilities		
Intangible assets	(1,127)	(1,226)
Fixed assets	(388)	(275)
Other	(70)	(98)
Total	$ (1,330)	$ (1,259)

The net long-term deferred tax liability, which is included in other long-term liabilities in the Consolidated Balance Sheets, was $1,515 and $1,501 at December 31, 2012 and 2011, respectively. The net current deferred tax asset, which is included in other current assets in the Consolidated Balance Sheets, was $185 and $242 at December 31, 2012 and 2011, respectively.

In accordance with the provisions of ASC Topic 740, an uncertain income tax position will not be recognized in the financial statements unless it is more-likely-than-not to be sustained. As of December 31, 2012 and 2011, we had no reserves for any uncertain tax positions.

8. Pension, Savings and Postretirement Benefits

We have two noncontributory, domestic defined benefit pension plans ("Plans") that cover substantially all eligible salaried and hourly U.S. employees.

We also provide certain postretirement health care coverage to retired U.S. employees who were subject to our collective bargaining agreement when they were employees. The cost of these postretirement benefits is determined actuarially and is recognized in our consolidated financial statements during the employees' active working career. In connection with our collective bargaining agreement, we have capped certain retirees to approximately $250 (not in thousands) per employee per month.

We recognize the projected liability for our pension benefits and postretirement health care coverage in excess of plan assets. Obligations for both pension and postretirement plans are measured as of our December 31 year end.

Disclosures related to the pension plans and the postretirement health care coverage follows:

	Pension Plans		Postretirement Healthcare Coverage	
	2012	2011	2012	2011
Projected benefit obligation at beginning of year	$ 25,590	$ 21,284	$ 12,524	$ 11,968
Service cost	455	287	256	179
Interest cost	1,141	1,090	527	573
Plan amendments	951	–	–	–
Actuarial loss	1,766	3,633	1,286	274
Benefits paid	(735)	(704)	(502)	(470)
Projected benefit obligation at end of year	29,168	25,590	14,091	12,524
Fair value of plan assets at beginning of year	19,609	19,328	–	–
Employer contributions	1,500	1,293	502	471
Actual return on plan assets	1,998	(308)	–	–
Benefits paid	(735)	(704)	(502)	(471)
Fair value of plan assets at end of year	22,372	19,609	–	–
Unfunded benefit obligation at end of year	$ (6,796)	$ (5,981)	$ (14,091)	$ (12,524)

The components of the unfunded benefit obligations of the hourly and salaried defined benefit plans follow:

	2012			2011		
	Hourly Plan	Salaried Plan	Total	Hourly Plan	Salaried Plan	Total
Projected benefit obligation	$ 20,474	$ 8,694	$ 29,168	$ 17,775	$ 7,815	$ 25,590
Fair value of plan assets	15,602	6,770	22,372	13,687	5,922	19,609
Unfunded benefit obligation	$ (4,872)	$ (1,924)	$ (6,796)	$ (4,088)	$ (1,893)	$ (5,981)

Effective December 31, 2012, we froze the pension benefits under the hourly defined benefit plan. Benefits under the salaried defined benefit plan have been frozen since December 31, 2008. Accordingly, participants retain the pension benefits that have already accrued. However, no additional benefits will accrue after the effective date of the freeze.

The components of cost recognized in our statement of operations for our pension plans are as follows:

	December 31,		
	2012	2011	2010
Service cost	$ 455	$ 287	$ 361
Interest cost	1,141	1,090	1,123
Expected return on assets	(1,641)	(1,549)	(1,389)
Curtailment of hourly plan	1,325	–	–
Amortization of unrecognized prior service costs	244	170	170
Amortization of unrecognized loss	813	495	358
Net periodic cost	$ 2,337	$ 493	$ 623

The components of cost recognized in our statement of operations for our postretirement health cost coverage are as follows:

	December 31,		
	2012	2011	2010
Service cost	$ 256	$ 179	$ 201
Interest cost	527	573	612
Amortization of unrecognized prior service costs	(172)	(172)	(212)
Amortization of unrecognized loss	208	70	91
Effect of curtailments and settlements	–	–	(714)
Net periodic cost (income)	$ 819	$ 650	$ (22)

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The components of cost recognized in other comprehensive loss for our pension and postretirement health plans are as follows:

	Pension Plans	Post Retirement Health	Total
Balance at December 31, 2010	$ (8,269)	$ (1,874)	$ (10,143)
Recognized in other comprehensive loss	(4,826)	(376)	(5,202)

Balance at December 31, 2011	(13,095)	(2,250)	(15,345)
Recognized in other comprehensive loss	22	(1,251)	(1,229)
Balance at December 31, 2012	$ (13,073)	$ (3,501)	$ (16,574)

The estimated amount that will be amortized from accumulated other comprehensive loss into net periodic cost in 2013 is as follows:

	Pension Plans	Post Retirement Health
Prior service cost/(gain)	$ –	$ (172)
Actuarial loss	420	284
Total	$ 420	$ 112

Weighted-average assumptions used in determining the year-end benefit obligation are as follows:

	Hourly Pension Plan		Salaried Pension Plan		Postretirement Healthcare	
	2012	2011	2012	2011	2012	2011
Discount rate	3.75%	4.25%	4.0%	4.50%	3.5%	4.25%
Expected return on plan assets	7.5%	8.00%	7.5%	8.00%	N/A	N/A

Weighted-average assumptions used to determine net periodic cost for the years ended December 31 are as follows:

	Hourly Pension Plan			Salaried Pension Plan		
	2012	2011	2010	2012	2011	2010
Discount rate	3.75%	4.25%	5.50%	4.0%	4.50%	5.50%
Expected return on plan assets	7.5%	8.00%	8.00%	7.5%	8.00%	8.00%

	Postretirement Health		
	2012	2011	2010
Discount rate	3.5%	4.25%	5.50%
Expected return on plan assets	N/A	N/A	N/A

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Defined Benefit Plans

The long-term rate of return on pension plan assets represents the average rate of earnings expected over the long term on the assets invested to provide for anticipated future benefit payment obligations. We used a building block approach to develop the long-term return on plan assets assumption. The rates of return in excess of inflation were considered separately for equity securities, debt securities and other assets. The excess returns were weighted by the representative target allocation and added along with an appropriate rate of inflation to develop the overall expected long-term return on pension plan assets.

We have developed an investment strategy for the Plans that emphasizes total return; that is, the aggregate return from capital appreciation and dividend and interest income. The primary objective of the investment management for the Plans' assets is the emphasis on consistent growth; specifically, growth in a manner that protects the Plans' assets from excessive volatility in market value from year to year. The investment policy also takes into consideration the benefit obligations, including expected timing of distributions.

The primary objective for the Plans is to provide long-term capital appreciation through investment in equity and debt securities. We select professional money managers whose investment policies are consistent with our investment strategy and monitor their performance against appropriate benchmarks. The Plans do not own an interest in us and there are no significant transactions between us and the Plans.

Our overall investment strategy is to achieve a mix of approximately 50% equity securities, 45% fixed income securities and 5% cash equivalents. This target allocation has not changed from the prior year.

We re-balance our portfolio periodically to realign the actual asset allocation with our target allocation. The percentage allocation to each asset class may vary depending upon market conditions. The Plans' assets are stated at fair market value. The fair value of the Plans' assets by asset category and level were as follow:

	Fair Value Measurements at December 31, 2012				
	Total	Allocation Percent	Level 1	Level 2	Level 3
Equity mutual funds	$ 11,344	51%	$ 11,344	$ –	$ –
Fixed income mutual funds	7,193	32%	7,193	–	–
Money market funds	644	3%	644	–	–
Stable value	3,191	14%	–	3,191	–
	$ 22,372	100%	$ 19,181	$ 3,191	$ –

	Fair Value Measurements at December 31, 2011				
	Total	Allocation Percent	Level 1	Level 2	Level 3
Equity mutual funds	$ 9,858	50%	$ 9,858	$ –	$ –
Fixed income mutual funds	6,211	32%	6,211	–	–
Money market funds	384	2%	384	–	–
Stable value	3,156	16%	–	3,156	–
	$ 19,609	100%	$ 16,453	$ 3,156	$ –

Level 1 assets were based on fund value at the close of market on December 31, 2012. Level 2 assets consist of a stable value fund which was comprised of varying fixed income securities contained within a financial contract and was recorded at fair value.

We anticipate making pension contributions of approximately $1,500 to the plans in 2013.

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The following benefit payments, which reflect future service as appropriate, are expected to be paid. The benefit payments are based on the same assumptions used to measure our benefit obligation at the end of 2012.

Years ending	Pension Plans	Post Retirement Health
2013	$ 1,337	$ 626
2014	1,349	672
2015	1,354	709
2016	1,403	750
2017	1,445	784
2018-2022	7,756	4,228

Defined Contribution Plans

We have a domestic contributory savings plan ("401(k) Plan") under Section 401(k) of the Internal Revenue Code covering substantially all U.S. employees. The 401(k) Plan allows participants to make voluntary contributions of up to 15% of their annual compensation, on a pretax basis, subject to IRS limitations. During 2012, employees represented by the collective bargaining agreement who were hired after April 1, 2012 were eligible for the employer match for up to 3% of their salaries, subject to eligibility rules. Effective January 1, 2013, all employees represented by the collective bargaining agreement will be eligible for the employer match for up to 3% of their salaries. For all other employees, we match 50% of their elective deferrals up to the first 6% of eligible deferred compensation. Employer match expense was $310, $272 and $259 for 2012, 2011 and 2010, respectively.

Our Canadian operation has a defined contribution pension plan whereby the employees can make voluntary contributions up to 2.5% of their gross earnings. This plan requires employer matching. There is a 700 hours worked eligibility requirement. There is no vesting period. The Canadian operation also has a profit sharing plan, which provides for a contribution calculated at up to 7% of the net operating earnings, minus the employer contributions to the pension plan. The funds are distributed proportionately based on years of service and annual remuneration. Our Canadian operation incurred expenses related to these plans of $603, $1,020 and $527 in 2012, 2011 and 2010, respectively.

9. Colt Defense LLC Accumulated Deficit

Our authorized capitalization consists of 1,000,000 common units and 250,000 preferred units. Common units issued and outstanding as of December 31, 2012 and 2011 were 132,174. No preferred units have been issued.

In March 2012, we paid our members a tax distribution of $3,343, which had been accrued in December 2011.

In February 2010, our board declared a special distribution to members of $15,606. During the first quarter of 2011, the final liability was determined to be $12,889. The reduction in the liability was recognized in accumulated deficit. This distribution was made to members during the second quarter of 2011.

Colt Defense Employee Plan Holding Corp ("E-Plan Holding") is wholly owned by the Colt Defense LLC Profit Sharing Plan ("PSP"). The PSP was converted from an employee stock ownership plan to a profit sharing plan effective January 1, 2009. We have no obligation to make any future contributions to E-Plan Holding or the PSP. No common units were purchased during 2012, 2011 or 2010. At December 31, 2012, E-Plan Holding owns 1,205 of our outstanding units.

10. Common Unit Compensation

On March 1, 2012, the Governing Board approved the Colt Defense Long Term Incentive Plan ("LTIP"). The purpose of the LTIP is to advance the interests of Colt Defense and its equity holders by providing a means to attract, retain and motivate key employees, advisors and members of the Governing Board. Awards under the LTIP may consist of options, restricted units, restricted phantom units, performance units or other unit-based awards. A total of 18,878 common units have been reserved for issuance in connection with awards under the LTIP.

Under the LTIP, the exercise price of option awards is set at the grant date and may not be less than the fair market value per unit on that date. The term of each option is ten years from the grant date. The vesting periods, which vary by grant, may be time based, performance based or a combination thereof. Compensation expense equal to the grant date fair value is generally recognized over the period during which the employee is required to provide service in exchange for the award or as the performance obligation is met. Fair value was estimated on the date of grant using the Black-Scholes valuation method.

In March 2012, options were granted for 11,325 common units at a weighted-average exercise price of $100.00 (not in thousands). Common unit compensation expense, which is included in general and administrative expense in our Consolidated Statements of Operations, was $17 in 2012. We did not record any common unit compensation expense in 2011 or 2010.

11. Transactions With Related and Certain Other Parties

We have a financial advisory agreement with Sciens Management LLC ("Sciens Management"), which through its affiliates beneficially owns a substantial portion of Colt Defense' s limited liability interests and whose managing partner is also a member of Colt Defense' s Governing Board. Under the terms of the agreement, we also reimburse Sciens Management for expenses incurred in connection with the financial advisory services provided. The cost for these advisory services and the related expenses are recorded in general and administrative expenses in our Consolidated Statements of Operations. We incurred annual advisory fees and related expenses of $356, $450, and $389 during 2012, 2011 and 2010, respectively.

We have a license agreement (the "License") with New Colt for the use of certain Colt trademarks. Under the terms of the License, we received a 20-year paid-up license for the use of the Colt trademarks, which expires December 31, 2023. Thereafter, the License may be extended for successive five-year periods. Consideration for the License included the transfer to New Colt' s wholly-owned subsidiary, Colt' s Manufacturing of the Colt Match Target® rifle line of business, inventories of $18 and cash of $2,000. The total transferred of $2,018 is recorded in other assets and is being amortized over 20 years. At December 31, 2012 and 2011 this asset had an unamortized balance of $1,109 and $1,210, respectively.

In August 2012, we signed the Services Agreement – 2012 ("Services Agreement"), under which we will provide certain factory, administrative and data processing services to Colt' s Manufacturing for an annual fee of $1,766. Service fee income is included in other (income) expense, net in the Consolidated Statements of Operations. In addition, under the terms of the Services Agreement, Colt' s Manufacturing paid us at an estimated rate of $35 per month for their electricity usage in July and August 2012. Since September 1, 2012, we have invoiced Colt' s Manufacturing each month for the cost of their actual electricity usage based on a newly installed meter. The amount received for electricity usage for the period from September 1 to December 31, 2012 was approximately $81. These amounts are included in cost of sales and operating expenses in the Consolidated Statements of Operations.

The Services Agreement will remain in effect until October 27, 2013 and will be automatically extended for additional one-year periods unless either party gives at least three months prior written notice of termination. The Services Agreement, which was effective dated July 1, 2012, supersedes the Intercompany Services Agreement dated June 26, 2007 between Colt Defense and Colt' s Manufacturing, under which Colt Defense received a $430 annual fee.

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In May 2011, we signed a Memorandum of Understanding with Colt' s Manufacturing to jointly coordinate the marketing and sales of rifles into the commercial market. Accounts receivable for product sales to Colt' s Manufacturing were $12,448 and $2,161 at December 31, 2012 and December 31, 2011, respectively. Transactions with Colt' s Manufacturing were as follows:

	Year Ended December 31,		
	2012	2011	2010
Net sales of rifles to Colt' s Manufacturing	$ 73,292	$ 11,746	$ 855
Service fee income earned	1,098	430	430

During 2012, we entered into a contract to supply the M45A1 Close Quarters Battle Pistol to the United States Marine Corps and we have begun offering this product to our international customers. This product is manufactured and supplied to us by Colt' s Manufacturing pursuant to purchase orders. Purchases of the M45A1 and other products and services from Colt' s Manufacturing, a related party, were $1,235 in 2012, $171 in 2011 and $0 in 2010. Outstanding accounts payable related to these purchase were $249 as of December 31, 2012 and $14 as of December 31, 2011.

During 2009, Colt Security LLC ("Security"), a wholly-owned subsidiary of E-Plan Holding, assumed responsibility for providing security guard services to us, effective January 1, 2009. At that time, Security employed all of the security guards previously employed by us and leased them back to us. We incurred employee leasing costs of $921 in 2012, $869 in 2011 and $858 in 2010.

We also lease our West Hartford facility from NPA Hartford, a related party and we sublease a portion of our facilities to Colt' s Manufacturing. For information about our related party rent expense and sublease rental income, see "Note 6 Lease Obligations."

Our union employees at our West Hartford, Connecticut facility are members of a single bargaining unit with the employees of Colt' s Manufacturing and a single collective bargaining agreement covers both companies.

12. Commitments and Contingencies

A summary of standby letters of credit issued principally in connection with performance and warranty bonds established for the benefit of certain international customers is as follows:

	As of December 31,	
	2012	2011
Standby letters of credit secured by restricted cash	1,253	$ 1,660
Standby letters of credit secured by Credit Agreement	1,715	–
Guarantees of standby letters of credit established by a sales agent on behalf of Colt	702	804

At December 31, 2012 and 2011, we had unconditional purchase obligations related to capital expenditures for machinery and equipment of $2,357 and $2,102, respectively.

We also had certain Industrial Cooperation Agreements, which stipulate our commitments to provide offsetting business to certain countries that have purchased our products. We generally settle our offset purchase commitments under Industrial Cooperation Agreements through on-going business and/or cooperating with other contractors on their spending during the related period. Additionally, we identify future purchases and other satisfaction plans for the remainder of the offset purchase commitment period and

should there be a projected net purchase commitment after such consideration, we accrue the estimated cost to settle the offset purchase commitment.

Our remaining gross offset purchase commitment is the total amount of offset purchase commitments reduced for claims submitted and approved by the governing agencies. At December 31, 2012 and 2011, our remaining gross offset purchase commitments totaled $68,180 and $58,466, respectively. We have evaluated our settlement of our remaining gross offset purchase commitments through probable planned spending and other probable satisfaction plans to determine our net offset purchase commitment. We have accrued $1,804 and $1,563 as of December 31, 2012 and 2011, respectively, based on our estimated cost of settling the remaining net offset purchase commitment.

We are involved in various legal claims and disputes in the ordinary course of our business. As such, we accrue for such liabilities when it is both (i) probable that a loss has occurred and (ii) the amount of the loss can be reasonably estimated in accordance with ASC 450, Contingencies. We evaluate, on a quarterly basis, developments affecting various legal claims and disputes that could cause an increase or decrease in the amount of the liability that has been previously accrued. During 2012, we settled a matter for $625.

During 2012, we were examined by a tax authority. Pursuant to our limited liability company agreement, in the event of an audit, we are obligated, on behalf of our members, for any settlement related expenses. During the second quarter of 2012, we recorded an estimated $650 of accrued expenses and $320 of interest expense for a potential audit settlement. During the first quarter of 2013, we reached an agreement with the tax authority and paid the settlement amount of $1,000. As a result, in the fourth quarter of 2012, we increased our accrued expense to $695 and decreased our accrued interest expense to $305 to accurately reflect the settlement liability.

13. Segment Information

Our small arms weapons systems segment represents our core business, as all of our operations are conducted through this segment. The small arms weapons systems segment consists of two operating segments, weapons systems and spares/other. These operating segments have similar economic characteristics and have been aggregated into the Company' s one reportable segment. The small arms weapons systems segment designs, develops and manufactures small arms weapons systems for military and law enforcement personnel both domestically and internationally. In addition, we manufacture and sell rifles and carbines to Colt' s Manufacturing, which sells them into the commercial market.

Adjusted EBITDA consists of income (loss) from continuing operations before interest, income taxes depreciation and amortization and other expenses as noted below. Management uses Adjusted EBITDA to evaluate the financial performance of and make operating decisions for the small arms weapons systems segment. See the footnotes that follow the reconciliation table below for additional information regarding the adjustments made to arrive at Adjusted EBITDA of the small arms weapons systems segment.

The following tables represent a reconciliation of Adjusted EBITDA from continuing operations to (loss) income from continuing operations:

	Year Ended December 31,		
	2012	2011	2010
Statements of Operations Data:			
(Loss) income from continuing operations	$ (7,055)	$ 4,988	$ (10,276)
Provision for foreign income taxes	1,750	3,171	2,499
Depreciation and amortization (i)	5,696	5,476	4,562
Interest expense, net	24,579	24,010	24,598
Sciens Management fees and expenses (ii)	356	450	389
Pension curtailment expense (iii)	1,325	–	–
Other expenses, net (iv)	381	764	2,087
Adjusted EBITDA	$ 27,032	$ 38,859	$ 23,859

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(i) Includes depreciation and amortization of intangible assets.
(ii) Includes fees and expenses pursuant to our advisory agreement with Sciens Management.
(iii) Noncash expense associated with the curtailment of our bargaining unit pension plan.
(iv) Includes income and/or expenses such as the write-off of unamortized deferred financing fees associated with the refinancing of credit facilities, transaction costs incurred in connection with our contemplated merger and acquisition activities, foreign currency exchange gains or losses and other less significant charges not related to on-going operations.

Geographical Information

Geographic external revenues are attributed to the geographic regions based on the customer' s location of origin. Our reported net sales in the United States include revenues that arise from sales to the U.S. Government under its Foreign Military Sales program, which involves product that is resold by the U.S. Government to foreign governments and we generally ship directly to the foreign government.

The table below presents net sales for specific geographic regions:

	2012	2011	2010
United States	$ 111,852	$ 89,538	$ 108,348
Canada	29,982	26,064	17,564
Europe	16,501	34,908	32,079
Asia/Pacific	45,866	26,762	5,036
Middle East/Africa	3,675	26,188	5,770
Latin America/Caribbean	5,452	5,350	7,008
	$ 213,328	$ 208,810	$ 175,805

Long-lived assets are net fixed assets attributed to specific geographic regions:

	2012	2011
United States	$ 17,272	$ 18,249

Canada	4,862	4,340
	$ 22,134	$ 22,589

Major Customer Information

Sales to Colt' s Manufacturing represented 34% of sales in 2012. In 2011 and 2010 sales to Colt' s Manufacturing did not exceed 10% of net sales. Sales to the U.S. government represented 11% of net sales in 2012, 31% in 2011 and 55% 2010.

In 2012, two direct foreign customers accounted for 21% and 10% of net sales, respectively. In 2011, sales to a direct foreign customer represented 11% of our net sales. No sales to any one direct foreign customer exceeded 10% of our net sales in 2010.

14. Concentration of risk

Accounts Receivable

Financial instruments, which potentially subject us to concentration of credit risk, consist primarily of accounts receivable. At December 31, 2012, the two largest individual trade receivable balances accounted for 55% and 25% of total accounts receivables. At December 31, 2011, the three largest individual trade receivable balances accounted for 53%, 15% and 10% of total accounts receivables.

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Labor

The Union represents approximately 68% of our U.S. workforce. On March 31, 2012, we and the Union agreed to a new, two-year collective bargaining agreement.

15. Other Long-Term Liabilities

Other long-term liabilities consist of the following:

	As of December 31,	
	2012	**2011**
Deferred Canadian income taxes	$ 1,515	$ 1,501
Deferred income	905	–
Other	3	–
	$ 2,423	$ 1,501

16. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss follows:

	Unrecognized Prior Service Cost	**Unrecognized Loss**	**Foreign Currency Translation**	**Total**
Balance, December 31, 2009	$ 1,138	$ (8,192)	$ 1,244	$ (5,810)

Change in pension and postretirement health liabilities	(758)	(2,331)	–	(3,089)
Currency translation	–	–	1,415	1,415
Balance, December 31, 2010	380	(10,523)	2,659	(7,484)
Change in pension and postretirement health liabilities	(2)	(5,200)	–	(5,202)
Currency translation	–	–	(444)	(444)
Balance, December 31, 2011	378	(15,723)	2,215	(13,130)
Change in pension and postretirement health liabilities	447	(1,676)	–	(1,229)
Currency translation	–	–	518	518
Balance, December 31, 2012	$ 825	$ (17,399)	$ 2,733	$ (13,841)

17. Quarterly Operating Results (Unaudited)

	For The Year Ended December 31, 2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 43,853	$ 45,836	$ 56,555	$ 67,084
Gross profit	7,829	8,834	16,442	18,046
Net (loss) income	(7,088)	(6,237)	2,894	3,376

	For The Year Ended December 31, 2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 48,497	$ 36,550	$ 58,877	$ 64,886
Gross profit	13,039	10,983	18,830	22,480
Net (loss) income	(1,792)	(1,919)	3,373	5,326

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During the fourth quarter of 2012, we identified errors related to the post-retirement health plan and a sales transaction (see Note 2). As a result of these errors, we revised previously reported quarterly financial data to correct for these errors. The correction of the error related to the post-retirement health plan was recorded as a reduction of gross profit and net income of $33, $32, $32, $111, $25, $25 and $115 for the quarters ended March 31, 2011, June 30, 2011, September 30, 2011, December 31, 2011, March 31, 2012, June 30, 2012 and September 30, 2012, respectively. The correction of the error for the sales transaction was recorded as a reduction to net sales of $724, gross profit of $453 and net income of $453 for the quarter ended March 31, 2012 and an recorded as an increase to net sales of $724, gross profit of $453 and net income of $453 for the quarter ended June 30, 2012. The correction of these errors is reflected in the above table. Based on an analysis of qualitative and quantitative factors, these errors were deemed immaterial, individually and in the aggregate, to all periods previously reported.

18. Subsequent Events

Common Unit Repurchase

On March 22, 2013, we purchased 31,165.589 common units (the "Unit Repurchase") from Blackstone Mezzanine Partners II-A L.P. and Blackstone Mezzanine Holdings II USS L.P. (collectively, the "Blackstone Funds") (representing 100% of the Colt Defense common membership units held by the Blackstone Funds) for an aggregate purchase price of $14.0 million pursuant to an equity purchase agreement dated as of March 22, 2013 (the "Unit Repurchase Agreement"), by and among Colt Defense and the Blackstone Funds. In accordance with the Unit Repurchase Agreement, upon consummation of the Unit Repurchase, the Blackstone Funds delivered the certificates representing the common units held by the Blackstone Funds to Colt Defense for cancellation, and the rights of the Blackstone Funds under our Amended and Restated LLC Agreement, including appointment rights with respect to Colt Defense' s Governing Board, were terminated. The resignation of Vince Lu and Marc Baliotti, the directors appointed to the Governing Board by the Blackstone Funds, was effective upon consummation of the Unit Repurchase. The Unit Repurchase Agreement provided customary releases and indemnities for Colt Defense and the Blackstone Funds and provides that, upon certain events occurring prior to September 22, 2013, including an acquisition of Colt Defense, a purchase by Colt Defense of common units from one of our members or a cash distribution (other than a tax distribution) by Colt Defense to our members, we may be required to pay additional amounts to the Blackstone Funds if the per unit purchase price in such subsequent transaction exceeds the per unit purchase price paid to the Blackstone Funds.

Credit Agreement Amendment

In connection with the Unit Repurchase, on March 22, 2013, the lenders under the Credit Agreement entered into Amendment No. 2 to the Credit Agreement, whereby, among other things, the lenders under the Credit Agreement consented to the transactions pursuant to the Unit Repurchase Agreement.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Management, including our Chief Executive Officer, Chief Financial Officer and Vice President of Finance and Administration, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act"), as amended), as of December 31, 2012. Based on such evaluation, they have concluded that as of such date, our disclosure controls and procedures are effective, in all material respects, and designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms, and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, management recognizes that any control, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Due to inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

Management' s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in Internal Control − Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company' s system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Based on its assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2012, based on criteria in Internal Control − Integrated Framework, issued by the COSO.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This report does not include an attestation report from our independent registered public accounting firm regarding internal control over financial reporting. Management' s report is not subject to attestation by our independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of 2012 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Each member of our Governing Board is elected annually and serves until the next annual meeting of members or until his successor is elected or qualified. Set forth below is information concerning our executive officers and members of our Governing Board as of December 31, 2012.

Name	Age	Position
Gerald R. Dinkel	66	Chief Executive Officer and Manager
Scott B. Flaherty	47	Chief Financial Officer
J. Michael Magouirk	51	Chief Operating Officer
Jeffrey G. Grody	57	General Counsel and Secretary
Cynthia J. McNickle (1)	46	Chief Accounting Officer
Daniel J. Standen	44	Manager, Chairman of the Governing Board
Marc C. Baliotti (2)	42	Manager
General George W. Casey Jr., USA (ret.)	63	Manager
Gen. the Lord Guthrie of Craigiebank	73	Manager

Michael Holmes	47	Manager
Vincent Lu (2)	48	Manager
John P. Rigas	49	Manager
Philip A. Wheeler	70	Manager

(1) Cynthia J. McNickle resigned her position as Chief Accounting Officer effective January 11, 2013. Effective January 14, 2013, Leslie S. Striedel, our V.P. of Finance and Administration, assumed the responsibilities previously performed by Ms. McNickle.

(2) On March 22, 2013, we repurchased 31,165.589 common units from the Blackstone Funds for an aggregate purchase price of $14.0 million. Upon the consummation of this transaction, Marc C. Baliotti and Vincent Lu, the directors appointed by the Blackstone Funds, resigned from Colt Defense' s Governing Board.

Gerald R. Dinkel has been our Chief Executive Officer since October 2010 and a Manager since November 2010. Prior to joining our company, Mr. Dinkel served until April 2010 as President and Chief Executive Officer of White Electronic Designs Corporation, a Nasdaq-listed defense technology company acquired by Microsemi Corporation in April 2010. Prior to his service at White Electronics, Mr. Dinkel was a Senior Adviser with Washington DC-based Renaissance Strategic Advisors. From 2000 to 2007, he was President and Chief Executive Officer of Cubic Corporation' s defense segment. Before joining Cubic Corporation, Mr. Dinkel was an executive at Westinghouse Electronic Systems. Mr. Dinkel holds a Bachelor of Science degree in electrical engineering from the Rose-Hulman Institute of Technology in Indiana. Mr. Dinkel is qualified to serve as a Manager and member of our Governing Board due to his extensive experience working for defense contractors.

Scott B. Flaherty has been our Chief Financial Officer since October 2010. He served as our Chief Corporate Development Officer from May 2009 to October 2010. Prior to joining our company in 2009, Mr. Flaherty was a Managing Director at Banc of America Securities LLC where he ran the origination effort, within the equity capital markets group, for various industry verticals. Prior to joining Banc of America Securities in 2001, Mr. Flaherty was an investment banker at Credit Suisse First Boston. He worked as an engineer at the Pratt and Whitney division of the United Technologies Corporation from 1987 to 1995. Mr. Flaherty received a BS from Worcester Polytechnic Institute and an MBA from the Leonard N. Stern School of Business at New York University.

J. Michael Magouirk has been our Senior Vice President, Operations and Chief Operating Officer since November 2008. He is responsible for the day-to-day operation of the Company, including maintaining quality and delivery performance. He joined Colt' s Manufacturing Company in April 2000 following his retirement from the U.S. Marine Corps, and joined Colt Defense upon the reorganization of our predecessor company in 2002. Mr. Magouirk' s initial position at our Company was as Executive Director of Human Resources and Labor Relations. In 2008, he was selected as an Industry Fellow by the Industrial College of the Armed Forces, a school for Senior Military Officers and other Executive Branch executives. Mr. Magouirk graduated from that program as a Distinguished Graduate with an M.S. in National Resource Strategy. Mr. Magouirk enlisted in the U.S. Marine Corps in February 1980 and was commissioned a Warrant Officer in 1989 until his retirement in 2000. Mr. Magouirk also holds a BS/BA in Management from East Carolina University and an MS/BA from Boston University.

Jeffrey G. Grody has been our General Counsel since September 2005 and our Secretary since November 2010. Prior to joining our company in 2005, Mr. Grody was a partner at the law firm of Day, Berry & Howard LLP, where he chaired the 35-lawyer Business Law Department. Mr. Grody began practicing law in Hartford, Connecticut after graduating from Columbia Law School in 1980 and Princeton University, magna cum laude, in 1977. He is a member of the Connecticut bar.

Daniel J. Standen has been a Manager of Colt since 2007 and was appointed Chairman in 2011. He has been a partner of Sciens Capital Management, an alternative asset management firm headquartered in New York City, since 2000. He has been employed as an executive of Sciens Capital Management or its predecessors since 1999. Prior to 1999, he was an associate in the Mergers & Acquisition/Capital Markets group of Clifford Chance LLP. Mr. Standen received JD and LLM degrees from Duke University School of Law and a BA from New York University. Mr. Standen is qualified to serve as a Manager and member of our Governing Board due to his fifteen years of experience with the Company and his experience with the private equity and debt markets.

Marc C. Baliotti has been a Manager of Colt since 2009. He is a Managing Director of GSO Capital Partners, the credit investment business of The Blackstone Group, and focuses on investing in middle market private equity and private debt. Mr. Baliotti joined GSO Capital in 2005 and, prior to that, he was a Principal of AIG Highstar Capital. Before he joined AIG Highstar, Mr. Baliotti worked at DLJ Merchant Banking Partners and for one of its portfolio companies, Advanstar Communications. Mr. Baliotti graduated, With Distinction, from the U.S. Naval Academy with a BS in Economics. He received an MBA from Villanova University while on active duty in the U.S. Navy. Mr. Baliotti is qualified to serve as a Manager and member of our Governing Board due to his experience with private equity backed middle market companies and the credit markets.

George W. Casey Jr., General, United States Army (ret.), has been a Manager of Colt since December 2011. Prior to joining our Board, Gen. Casey served as Chief of Staff of the United States Army for four years from April 2007 to April 2011. In his previous assignment, he was Commander, Multinational Force − Iraq from July 2004 to February 2007. During his distinguished 41 year career in the U. S. Army, Gen. Casey received numerous awards and decorations including four Defense Distinguished Service Medals, two Army Distinguished Service Medals and three Legions of Merit. He holds a Masters Degree in International Relations from Denver University and has served as a Senior Fellow at the Atlantic Council of the United States. General Casey is qualified to serve as a Manager and member of our Governing Board due to his extensive management and leadership experience in the United States Army.

Lord Guthrie of Craigiebank, General (ret.), has been a Manager of Colt since December 2004. In addition to serving on our Governing Board, he also serves as a nonexecutive Director of N.M. Rothschild & Sons, a merchant bank, and Favermead, Ltd., a property management company, both headquartered in London, England. He is currently Colonel of the Life Guards, Gold Stick to Her Majesty Queen Elizabeth II and Colonel Commandant of the Special Air Service, or SAS. He served the Welsh Guard and the SAS throughout Europe, Malaysia and East Africa for over 40 years. Apart from holding several senior staff appointments and commanderships, he was Chief of the Defense Staff and the Principal Military Advisor to two U.K. prime ministers and three U.K. Secretaries of State for Defense. He retired from the British Army in 2001. Lord Guthrie is qualified to serve as a Manager and member of our Governing Board due to his extensive experience with the British Armed Services.

Michael Holmes has been a Manager of Colt since 2008 and has been a Colt employee since 1991. Currently, Mr. Holmes is the Shop Chairman of the UAW, which represents our West Hartford workforce. Mr. Holmes has been an active member of the UAW throughout his career at our Company and has served the UAW in several capacities, including two terms as a “top committee” member and service on the Joint Training, and Sub-Contracting Committees. He has also served as a department Steward and has participated in past negotiations over UAW’ s collective bargaining agreement. Mr. Holmes is qualified to serve as a Manager and member of our Governing Board due to his leadership position with the Company’ s union and by virtue of his designation by the union as its representative on the Company’ s Governing Board pursuant to the Company’ s limited liability company agreement.

Vincent Lu has been a Manager of Colt since 2009. He is a Managing Director of GSO Capital Partners, the credit investment business of The Blackstone Group. Mr. Lu joined Blackstone in 2001 and prior to that, worked in the investment banking and leveraged finance groups at J.P. Morgan and Warburg Dillon Read. Mr. Lu received a joint BS/BA degree from Duke University, where he graduated magna cum laude and was elected to Phi Beta Kappa, and received an MBA from the Wharton School of the University of Pennsylvania, where he graduated as a Palmer

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Scholar. Mr. Lu is qualified to serve as a Manager and member of our Governing Board due to his experience with private equity backed middle market companies and the credit markets.

John P. Rigas has been a Manager of Colt since 2003. He is the Chairman and Chief Executive Officer of Sciens Capital Management, an alternative asset management firm headquartered in New York City. He has been employed as an executive of Sciens Capital Management or its predecessors since 1988. Prior to 1988, he was an analyst at E.F. Hutton & Company. Mr. Rigas is qualified to serve as a Manager and member of our Governing Board due to his seventeen years of experience with the Company as an owner and director and his experience with the private equity and debt markets, particularly for companies in the defense industry.

Philip A. Wheeler has been a Manager of Colt since 2003. A Colt employee from 1964 until 2006, Mr. Wheeler has been active in union affairs throughout his career, starting as a steward in Local 376 of the United Auto Workers. He was elected shop chairman from 1967 and President of Local 376 in 1969. In 1986, he was appointed assistant director of Region 9A of the UAW, which covers New England, part of New York (including New York City) and Puerto Rico. From 1989 until 2006, he served as a Director of Region 9A of the UAW. He currently serves as President of Citizens for Economic Opportunity and volunteers on the campaign for Universal Health Care. Mr. Wheeler is qualified to serve as a Manager and member of our Governing Board due to his extensive history with the Company, as an employee and director, and by virtue of his designation by the union pursuant to our limited liability company agreement.

Code of Ethics

In June 2011, our Governing Board adopted the Colt Defense LLC Code of Ethics for Senior Officers ("Code of Ethics"). This policy supplements our existing Code of Business Conduct and Ethics policy, which applies to all employees, including senior officers. We will provide a copy of our Code of Ethics to any person, without charge, upon written request to: Chief Financial Officer, Colt Defense LLC, 547 New Park Avenue, West Hartford, CT 06110.

Audit Committee

As permitted under section 3(a)(58)(B) of the Exchange Act, our entire Governing Board is acting as our audit committee. Our Governing Board has not appointed a financial expert.

Director Independence

We are a privately-held limited liability company. Therefore, under current rules for public trading markets, we are not subject to the requirements for board composition and director independence.

Item 11. Executive Compensation

Compensation Discussion and Analysis

Introduction

The following discusses the executive compensation programs of Colt Defense, and the compensation of the Named Executive Officers for 2012. As used herein, the term "Named Executive Officers" refers to:

- Gerald R. Dinkel, President and Chief Executive Office since October 2010
- Scott B. Flaherty, Sr. VP and Chief Financial Officer since October 2010

- Jeffrey G. Grody, Sr. VP and General Counsel since September 2005

- J. Michael Magouirk, Sr. VP of Operations and COO since November 2008

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Compensation Program Objectives and Philosophy

The primary objective of the management compensation program has been to attract and retain highly qualified executive officers with the backgrounds, experience and skills necessary to successfully manage our business and to present our company and its products credibly to military, law enforcement and commercial customers worldwide. In support of these objectives, we:

- have sought to provide a total compensation package that is competitive with other companies in our industry and other companies of a similar size, based on institutional knowledge of our industry and informal research regarding the compensation practices typical of our industry and companies of similar size;

- evaluate and reward executive officers based on dynamic factors such as whether they are willing and able to accept and meet challenges and to work as a team to achieve corporate objectives; and

- reward all employees with cash bonuses when warranted by the company' s annual performance in order to more completely align individual performance with shareholders' objectives.

Compensation-Setting Process

The Governing Board annually determines the compensation of the Chief Executive Officer and, upon hiring, the initial compensation of the Chief Financial Officer. Currently, annual increases of the Chief Financial Officer and our other Named Officers are at the discretion of the Chief Executive Officer.

Under our limited liability company agreement, the Governing Board is ultimately responsible for the compensation of our executive officers and other employees. Directors designated by Sciens Management LLC play a lead role, on behalf of the Governing Board, in interacting with the Chief Executive Officer and Chief Financial Officer to assure that compensation is established at levels appropriate to achieving the company' s objectives. All components of compensations are considered and reviewed at least annually, including base salary, discretionary cash bonuses, equity-based awards, long-term incentive plans and contributions to company-sponsored defined contribution plans.

The Governing Board considers competitive market practices with respect to the compensation of our executive officers. It also reviews the market practices by speaking, as warranted, to compensation professionals and recruitment agencies and by reviewing annual reports and other available information of other companies within our industry and companies of a similar size. In addition, the Governing Board has the authority to engage outside compensation and benefits consultants to make recommendations relating to the overall compensation philosophy, comparable base salary levels, short-term and long-term incentive compensation plans, appropriate performance parameters for such plans, and related compensation matters.

The Governing Board has reviewed and discussed compensation of our executive officers and other employees, as well as this Compensation Discussion and Analysis, with our executive management. Based on this review and discussion, the Governing Board has determined that this Compensation Discussion and Analysis should be included in this Form 10-K

Components of Compensation

Our executive compensation programs consist of the following components, each of which is summarized below (although particular individuals may not be eligible for each component):

- Base salary
- Cash bonus incentive compensation
- Equity incentive awards
- Pension and retirement benefits
- Severance benefits

- Perquisites and other benefits

Base Salary

Base salary is used to attract and retain highly qualified executive officers. Base salary is designed to be competitive by position relative to the marketplace and to recognize the experience, skills, knowledge and responsibilities required of the executive officers in their roles. When establishing base salaries for the Named Executive Officers, the Governing Board and/or the Chief Executive Officer (other than for himself) consider a number of factors including the seniority of the individual, the individual' s prior salary, the functional role of the position, and the level of the Named Executive Officer' s responsibility. Base salaries are reviewed on an annual basis, as well as at the time of promotion or other changes in responsibilities. The leading factors in determining increases in base salary include the employment market for senior executives with similar levels of experience and skills, attainment of corporate and individual goals and objectives for the prior year, and our ability to replace the Named Executive Officer with an individual with similar skills and experience.

Cash Bonus Incentive Compensation

The annual cash bonus incentive compensation plan is designed as a retention tool and to reward participating individuals for individual and corporate achievement for the year. During 2012, consistent with our practice in prior years, the cash bonus incentive plan was informal, with cash bonuses awarded on a discretionary basis by the Chief Executive Officer, with oversight by the Governing Board. The Governing Board determines the cash bonus for the Chief Executive Officer. In evaluating the performance and setting the incentive compensation of the Named Executive Officers for 2012, the Governing Board took note of their success in achieving targeted Adjusted EBITDA goals and other operational, regulatory and financial milestones.

In the first quarter of 2013, the Governing Board granted cash bonus incentive awards for fiscal year 2012 in the amount of $200,000 to the Chief Executive Officer, $140,000 to the Chief Financial Officer, $110,000 to the Chief Operating Officer and $110,000 to the General Counsel.

Equity Incentive Awards

On March 1, 2012, the Governing Board approved the Colt Defense Long Term Incentive Plan ("LTIP"). The purpose of the LTIP is to advance the interests of Colt Defense and its equity holders by providing a means to attract, retain and motivate key employees, advisors and members of the Governing Board. Awards under the LTIP may consist of options, restricted units, restricted phantom units, performance units or other unit-based awards. A total of 18,878 common units have been reserved for issuance in connection with awards under the LTIP. Pursuant to commitments that were made in connection with their recruitment, in March 2012, options for 6,957 common units were granted to Mr. Dinkel, options for 2,854 common units were granted to Mr. Flaherty and options for 1,014 common units were granted to another executive officer and a member of the Governing Board. In March 2012, Mr. Magouirk also received an option grant for 500 common units as part of his incentive compensation. The exercise price of the options granted was $100.00, which exceeded the fair market value on the date of grant.

For information about common unit valuation assumptions, see Note 10 Common Unit Compensation in Item 8 of this Form 10-K.

Pension and Retirement Benefits

Defined Benefit Plans

The Colt Defense Retirement Plan (the "Retirement Plan") was established effective November 4, 2002 to provide retirement income and survivor benefits to Colt Defense' s employees and their beneficiaries through a tax-qualified program. Pension benefits under the Retirement Plan are limited in accordance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code") governing tax-qualified pension plans. Colt Defense approved an amendment to freeze benefit accruals under the Pension Plans as of December 31, 2008 (the "Freeze Date"). Years of Credited Service (as defined in the Retirement Plan) for benefit accrual will not be considered after the Freeze Date. However, Interest Credits will continue to accumulate on each Participant' s Account Balance (as defined in

the Retirement Plan) after the Freeze Date. Executive Officers participating in the Plan are Mr. Grody and Mr. Magouirk.

Defined Contribution Plan

Colt Defense maintains the Colt Defense 401(k) Plan (the "401(k) Plan"), a qualified defined contribution plan for non-union employees, pursuant to which employees may contribute pre-tax dollars to a qualified plan where employer will match 50% of tax-deferred contributions up to 6% of eligible compensation.

Severance Benefits

Colt Defense has entered into employment or severance agreements with the Named Executive Officers. The agreements provide for the payment of severance benefits to the Named Executive Officers under specified circumstances. In entering into these agreements, the company considered (1) the benefit of receiving confidentiality, non-competition and non-solicitation protections post-termination for a reasonable and measurable cost and (2) an estimated length of time for an individual to find comparable employment at a similar level. The amount and type of benefits under the agreements are described below under "− Potential Payments upon Termination or Change in Control."

Perquisites and Other Benefits

Living and Commuting Expenses Reimbursement

Colt Defense provided basic living and commuting expenses and income tax gross-ups with respect to such expenses for Mr. Dinkel. The expenses for Mr. Dinkel were incurred in connection with his fulfillment of duties and responsibilities, primarily with respect to the corporate offices in West Hartford, Connecticut. The primary residence for Mr. Dinkel is outside of the state of Connecticut. He was required to commute to the corporate office in West Hartford, Connecticut in connection with the fulfillment of his duties and responsibilities as Chief Executive Officer. Living and commuting expense reimbursements were utilized as an incentive during the recruiting and hiring process for Mr. Dinkel.

See the footnotes in the "Summary Compensation Table" for the amounts, including tax gross-up amounts, of these costs for Mr. Dinkel.

Role of Executive Officers in Executive Compensation

Although the Governing Board utilizes and considers comments, advice and recommendations of our Chief Executive Officer and Chief Financial Officer, the final decision with respect to compensation levels and components of the Chief Executive Officer, Chief Financial Officer and other Named Executive Officers remains with the Governing Board.

Compensation Tables

The following table summarizes the compensation paid by Colt Defense to the Named Executive Officers for services rendered in December 31, 2012.

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2012 Summary Compensation Table

Names & Principal Position	Year	Salary ($)	Annual Cash Bonus ($)(1)	Option Awards ($)	Change in Pension Value and NQDC Earnings ($)(2)	All Other Comp. ($)	Total ($)
Gerald R. Dinkel	2012	$ 495,192	200,000	$ 24,082	–	$ 153,410 (3)	$ 872,684
Chief Executive Officer	2011	450,000	250,000	–	–	103,251 (4)	803,251
	2010	103,846	–	–	–	2,673 (5)	106,519
Scott B. Flaherty	2012	415,692	140,000	9,879	–	7,500 (6)	573,071
Sr. VP and CFO	2011	360,000	170,000	–	–	59,448 (7)	589,448
	2010	–	–	–	–	477,932 (8)	477,932
Jeffrey G. Grody	2012	457,611	110,000	–	4,721	7,500 (6)	579,832
Sr. VP and General Counsel	2011	440,337	100,000	–	4,411	7,350 (6)	552,098
	2010	426,097	–	–	4,172	7,350 (6)	437,619
J. Michael Magouirk	2012	363,730	110,000	1,729	12,539	7,500 (6)	495,498
Sr. VP of Operations and COO	2011	350,000	140,000	–	4,366	7,350 (6)	501,716
	2010	288,802	50,000	–	11,123	7,350 (6)	357,275

(1) Annual cash bonuses are reflected in the year that they are earned, but they are generally paid in the first quarter of the subsequent year.

(2) Plan values are calculated annually as of December 31st.

(3) Other compensation for 2012 includes expenses related to living, commuting and personal use of a Colt-leased vehicle, a tax gross-up on living, commuting and vehicular lease expenses and Company matching contributions to the 401(k) Plan in the amounts of $83,220, $62,690 and $7,500, respectively.

(4) Amount reflects expenses related to living, commuting and personal use of a Colt-leased vehicle, a tax gross-up on living, commuting and vehicular lease expenses and Company matching contributions to the 401(k) plan in the amounts of $55,215, $40,686 and 7,350, respectively.

(5) Amount reflects living and commuting expenses and a tax gross-up on living and commuting expenses in the amounts of $1,545 and $1,128, respectively.

(6) Amount reflects Company matching contributions to the 401(k) Plan.

(7) Mr. Flaherty began receiving a salary on February 1, 2011. The Other compensation amount reflects consulting fees of $52,098 for January 2011 and the Company matching contributions to his 401(k) Plan of $7,350.

(8) Amount reflects consulting fees earned before Mr. Flaherty became an employee.

Grants of Plan-Based Awards

See "−Equity Incentive Awards" for information on grants of plan-based awards. The table has been omitted because it is immaterial.

Mr. Dinkel's Employment Agreement

Mr. Dinkel's employment agreement was amended in March 2013, with the changes effective April 1, 2013. Pursuant to his employment agreement, as amended, Mr. Dinkel will serve as Chief Executive Officer of the Company, reporting to the Governing Board or its designee. Mr. Dinkel's employment agreement provides for (i) a base salary of $550,000 as of April 1, 2013, (ii) a performance bonus, pursuant to the Company's Management Incentive Plan, (iii) reimbursement of certain reasonable business expenses, (iv) as of April 1, 2013, temporary living expenses consisting of a rental apartment and related utility expenses, on an after-tax basis, (v) the right to participate in such employee benefit programs for which senior executives of the Company generally are eligible and a leased car for business and personal use, and (vi) options to purchase 6,957 common units of the Company at an exercise price of $100.00 per common unit, which will vest beginning on the first anniversary of the employment agreement and continuing through the fifth anniversary if specified performance goals are met. The common unit option award was issued during 2012 and the tranches that would have vested had the option award been granted in 2011 became immediately vested upon issuance of the award.

In the event of a public offering or change of control within the first eighteen months of Mr. Dinkel's employment, pursuant to either of which the Company's units are valued at or above $1,000.00 per common unit, all unvested options will immediately vest upon the date of the public offering or change of control. In the event of a public offering or change of control after the first eighteen months of Mr. Dinkel's employment, all unvested options will immediately vest upon the date of the public offering or change of control.

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In the event that Mr. Dinkel' s employment is terminated for any reason other than cause, within ninety days before or eighteen months after a public offering or change of control (or, if earlier, the signing of a purchase and sale agreement that results in a change of control), pursuant to which Mr. Dinkel' s then-unvested options did not immediately vest, all unvested options will immediately vest upon such employment termination.

In the event that, within eighteen months after a public offering or change of control, pursuant to which Mr. Dinkel' s then-unvested options did not immediately vest, Mr. Dinkel is not the Chief Executive Officer of the Company or its successor, or reporting to the Governing Board of the Company or its successor, or his responsibilities are materially diminished, Mr. Dinkel may resign and a resignation under such circumstances will entitle him to be treated as if he had been terminated by the Company without cause. If, at any time during Mr. Dinkel' s employment, the Company materially breaches the employment agreement and does not cure such breach within 30 days after the Company' s receipt of written notice thereof in reasonable detail from Mr. Dinkel, he may resign and will be treated as if he had been terminated by Colt without cause.

Mr. Flaherty' s Employment Agreement

Pursuant to his employment agreement, Mr. Flaherty will serve as Chief Financial Officer and Senior Vice President of Finance of the Company, reporting to the Chief Executive Officer. Mr. Flaherty' s employment agreement provides for (i) a base salary of $400,000 in 2011, (ii) a performance bonus, pursuant to the Company' s Management Incentive Plan, (iii) reimbursement of certain reasonable business expenses, (iv) the right to participate in such employee benefit programs for which senior executives of the Company generally are eligible, and (v) options to purchase 2,854 common units of the Company at an exercise price of $100.00 per common unit, of which half of which will vest 25% per year, over a four year period, beginning on October 15, 2011 and ending on October 15, 2014 and the other half will vest on the earlier of a specified event or October 15, 2020. The common unit option award will be issued during 2012 and tranches that would have vested had the option award been granted in 2011 will become immediately vested upon issuance of the award.

In the event of a public offering or change of control prior to April 15, 2012, pursuant to either of which the Company' s units are valued at or above $1,000.00 per common unit, all unvested options will immediately vest upon the date of the public offering or change of control. In the event of a public offering or change of control from and after April 15, 2012, all unvested options will immediately vest upon the date of the public offering or change of control.

In the event that Mr. Flaherty' s employment is terminated for any reason other than cause, within ninety days before or eighteen months after a public offering or change of control (or, if earlier, the signing of a purchase and sale agreement that results in a change of control), pursuant to which Mr. Flaherty' s then-unvested options did not immediately vest, all unvested options will immediately vest upon such employment termination.

In the event that, within eighteen months after a public offering or change of control, pursuant to which Mr. Flaherty' s then-unvested options did not immediately vest, Mr. Flaherty is not the Chief Financial Officer of the Company or its successor, or his responsibilities are materially diminished, Mr. Flaherty may resign and a resignation under such circumstances will entitle him to be treated as if he had been terminated by the Company without cause. If, at any time during Mr. Flaherty' s employment, the Company materially breaches the employment agreement and does not cure such breach within 30 days after the Company' s receipt of written notice thereof in reasonable detail from Mr. Flaherty, he may resign and will be treated as if he had been terminated by the Company without cause.

Outstanding Equity Awards at Fiscal Year-End

As of December 31, 2012, there were 11,325 common unit options outstanding. The table detailing unexercised options has been omitted because the number of options outstanding is immaterial.

Option Exercises and Stock Vested

There were no common unit options exercised by the Named Executives in 2012. In addition, our Governing Board has not granted any restricted shares to the Named Executive Officers.

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Pension and Retirement Benefits

The following Pension Benefits table shows each Named Executive' s number of Years of Credited Service, present value of accumulated benefit and payments during the last fiscal year under the Retirement Plan. The Retirement Plan is a defined benefit pension plan. Accrual of future benefits under the Retirement Plan Ceased on December 31, 2008. Accordingly, a participant' s pension benefit does not credit service after December 31, 2008 and does not consider pay earned after December 31, 2008, but Interest Credits, as described below, continue to be made on the accumulated benefits.

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
Gerald R. Dinkel Chief Executive Officer	Salaried Retirement Income Plan	–	$ –	None
Scott B. Flaherty Sr. Vice President and Chief Financial Officer	Salaried Retirement Income Plan	–	$ –	None
Jeffrey G. Grody Sr. Vice President and General Counsel	Salaried Retirement Income Plan	3.3	$ 41,476	None
J. Michael Magouirk Senior VP of Operations and COO	Salaried Retirement Income Plan	8.75	$ 87,672	None

The Retirement Plan covers our executive officers, including the Named Executives (other than Messrs. Dinkel and Flaherty), and other salaried employees in the United States. It is subject to both the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code").

Benefits under the Retirement Plan are computed using a cash balance methodology that provides for credits to be made to a hypothetical account, and the benefits are subject to the limits imposed by the Internal Revenue Code. Prior to the cessation of accrual of future benefits under the Retirement Plan effective December 31, 2008, the hypothetical plan accounts were allocated basic credits equal to 3.5% to 5% (depending on Years of Credited Service) of base salary. Interest credits are made to the participant' s hypothetical account. The plan used a flat rate of 6.5% from inception of the plan through December 31, 2011 and 5.0% from January 1, 2012 forward. Participants are generally vested in their plan benefit after five years of service.

Benefits are payable as a life annuity (actuarially equivalent to the account balance), an actuarially equivalent 50%, 66- 2/3%, 75%, or 100% joint and survivor annuity or a 10-year certain and continuous annuity. Instead of receiving his or her entire benefit as an annuity, a Named Executive may elect to receive a portion of the benefit as a lump sum. The amount that may be paid as a lump sum is based on the benefit the Named Executive earned before January 1, 1993. All Named Executives were hired after 1993 and, therefore, the lump sum option is unavailable to them.

The benefits reported in the Pension Benefits table are the present value of the Named Executive' s cash balance accounts at December 31, 2012 with assumed growth due to Interest Credits until benefit payments commence, which is assumed to be on the participant' s normal retirement date, at age 65. The present value of the benefits was determined using interest rate and mortality rate assumptions consistent with those used in our consolidated financial statements; i.e., the RP-2000 combined mortality table for males and females and a discount rate of 6%. Retirement Plan accounts are assumed to grow with interest at 6.5% until commencement of pension benefits. No additional earnings or service after December 31, 2008 are included in the calculation of the accumulated benefits.

A Named Executive may receive his or her benefit following termination of employment, if he or she has attained early retirement age, and may defer benefit payments until any time between early retirement age and normal retirement age. Early retirement age is defined as age 55 or over with at least 10 years of service. As of December 31, 2012, Messrs. Grody, and Magouirk had not attained early retirement age.

Generally, a participant' s Years of Credited Service are based on the years an employee participates in the Retirement Plan. The Years of Credited Service for the Named Executives are based only on their service while eligible for participation in the Retirement Plan. Accruals under the Retirement Plan ceased on December 31, 2008, and accordingly, service performed after such date is not counted.

Benefits under the Retirement Plan are funded by Company contributions to an irrevocable tax-exempt trust. A participant' s benefits under the Retirement Plan are payable from the assets held by the tax-exempt trust.

Potential Payments upon Termination or Change in Control

Other than with respect to Mr. Dinkel and Mr. Flaherty, we do not have formal employment or change of control agreements with our Named Executives. Pursuant to Mr. Dinkel' s employment agreement, his employment is "at will" and it may be terminated by either party at any time and for any reason upon written notice. If the Company terminates Mr. Dinkel' s employment other than for "cause" (as defined in the employment agreement), the Company will provide Mr. Dinkel with monthly severance payments equal to one year' s base salary, commencing 30 days after termination of employment and subject to Mr. Dinkel' s delivery of an executed release. See "−Compensation Program Objectives and Philosophy" for the effect of a public offering or change of control on Mr. Dinkel' s stock options.

Pursuant to Mr. Flaherty' s employment agreement, his employment is "at will" and it may be terminated by either party at any time and for any reason upon written notice. If the Company terminates Mr. Flaherty' s employment other than for "cause" (as defined in the employment agreement), the Company will provide Mr. Flaherty with monthly severance payments equal to one year' s base salary, commencing 30 days after termination of employment and subject to Mr. Flaherty' s delivery of an executed release. See "−Compensation Program Objectives and Philosophy" for the effect of a public offering or change of control on Mr. Flaherty' s stock options.

We have offer letters with several of the Named Executives that provide for severance benefits as described below. We believe that these severance benefits were an important factor in our ability to attract the Named Executives to the Company. Our initial offer letter agreement with Mr. Grody provides for a lump sum severance benefit equal to his annual base salary to be paid to him if his employment is terminated by us not for cause or he ceases to be the general counsel of the Company at the Board' s written request and he therefore resigns, in either case after a change of control of the Company. In that event, the offer letter also provides that certain unvested stock options, if any, held by Mr. Grody would vest. These severance benefits are double trigger benefits, provided only after both a change of control and termination of employment as described above. We also have an offer letter with Mr. Magouirk that provides, in the event his employment is terminated by the Company not for cause, for the payment of severance benefits equal to up to twelve months' base salary, payable monthly so long as he remains unemployed and is actively searching for work.

Pension Plans

See "– Pension and Retirement Benefits" for the actuarial present value of the accumulated pension benefits payable to Named Executive Officers upon termination of employment.

Summary Tables for Potential Payments upon Termination or Change in Control

The following tables set forth potential payments to the Named Executive Officers upon termination of their employment or a change in control under their current employment agreements and other applicable agreements as of December 31, 2012.

Gerald R. Dinkel, President and Chief Executive Officer

	Death or Disability	Terminated with Cause	Terminated without Cause	Voluntary Termination	Resign for Good Reason After Change in Control (1)	Termination Without Cause After Change in Control
Severance (2)	$ –	$ –	$ 500,000	$ –	$ 500,000	$ 500,000
Common unit options (unvested and accelerated) (3)	$ –	$ –	$ –	$ –	$ 1,558,368	$ 1,558,368

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(1) For purposes of this column, "good reason" includes a resignation by Mr. Dinkel if, within eighteen months of a change in control, Mr. Dinkel is no longer the Chief Executive Officer of the Company or its successor, or reporting to the Governing Board or its successor, or his responsibilities are materially diminished.

(2) Per the terms of Mr. Dinkel' s employment agreement, under certain circumstances, the Company will pay Mr. Dinkel severance benefits equal to one year of his base salary. The severance benefits shall be paid out as follows: a lump sum equal to one twelfth of Mr. Dinkel' s base salary on the 30th day following such termination of employment and then continuing payments, made in accordance with the Company' s schedule for payment of its employees' salaries, for eleven months. Payment of severance benefits may be delayed until six months after separation from service, if necessary, to comply with Internal Revenue Code Section 409A. Mr. Dinkel must execute a release of claims acceptable to the Company in order to receive severance benefits.

(3) Amount reflects the difference between the exercise price of the option and the value of our common units, which was $420 as of December 31, 2012. Options that are fully vested by their terms as of December 31, 2012 are not included in the numbers above.

Scott B. Flaherty, Sr. VP and Chief Financial Officer

	Death or Disability	Terminated with Cause	Terminated without Cause	Voluntary Termination	Resign for Good Reason After Change in Control (1)	Termination Without Cause After Change in Control
Severance (2)	$ –	$ –	$ 416,000	$ –	$ 416,000	$ 416,000
Common unit options (unvested and accelerated) (3)	$ –	$ –	$ –	$ –	$ 684,960	$ 684,960

(1) For purposes of this column, "good reason" includes a resignation by Mr. Flaherty if, within eighteen months of a change in control, Mr. Flaherty is no longer the Chief Financial Officer of the Company or its successor or his responsibilities are materially diminished.

(2) Per the terms of Mr. Flaherty' s employment agreement, under certain circumstances, the Company will pay Mr. Flaherty severance benefits equal to one year of his base salary. The severance benefits shall be paid out as follows: a lump sum equal to one twelfth of Mr. Flaherty' s base salary on the 30th day following such termination of employment and then continuing payments, made in accordance with the Company' s schedule for payment of its employees' salaries, for eleven months. Payment of severance benefits may be delayed until six months after separation from service, if necessary, to comply with Internal Revenue Code Section 409A. Mr. Flaherty must execute a release of claims acceptable to the Company in order to receive severance benefits.

(3) Amount reflects the difference between the exercise price of the option and the value of our common units, which was $420 as of December 31, 2012. Options that are fully vested by their terms as of December 31, 2012 are not included in the numbers above.

Jeffrey G. Grody, Sr. VP and General Counsel

	Death or Disability	Terminated with Cause	Terminated without Cause	Voluntary Termination	Resign for Good Reason After Change in Control (1)	Termination Without Cause After Change in Control
Cash payment (2)	$ −	$ −	$ −	$ −	$ 457,950	$ 457,950

(1) For purposes of this column, "good reason" includes a resignation by Mr. Grody if he ceases to be General Counsel of the Company at the Governing Board' s written request after a change in control.

(2) Cash payment is one-time Mr. Grody' s annual base salary payable at the time of termination or resignation.

J. Michael Magouirk, Sr. VP of Operations and COO

	Death or Disability	Terminated with Cause	Terminated without Cause(1)	Voluntary Termination	Resign for Good Reason After Change in Control	Termination Without Cause After Change in Control
Severance (1)	$ −	$ −	$ 364,000	$ −	$ −	$ −

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(1) Severance is one-time Mr. Magouirk' s base salary, payable on a monthly basis while Mr. Magouirk is unemployed and actively searching for work.

Director Compensation

Our Governing Board establishes compensation of any or all members of the Governing Board for services to Colt Defense LLC. The Governing Board' s compensation policy calls for each member of the Governing Board who is not an employee of Colt Defense LLC, Sciens Management or the Blackstone Funds to receive a $40,000 annual retainer for Governing Board services payable in equal installments, quarterly. All directors will be reimbursed for reasonable travel and lodging expenses incurred in connection with their roles.

General Casey' s appointment agreement provides for options to purchase 300 non-voting common units of the Company at an exercise price of $100.00 per common unit and will vest immediately upon issuance. The common unit option award will be issued during 2012. In addition, General Casey has signed an advisory agreement with Colt Defense, under which he will receive per diem compensation to act as a strategic advisor.

The following table summarizes our director compensation for the 2012 fiscal year.

Director Compensation

Name	Fees Earned or Paid in Cash ($)	Option Awards ($) (1)	All Other Compensation ($)	Total ($)
General George W. Casey Jr., USA (ret.)	$ 40,000	$ 1,038	$ 5,000(2)	$ 46,038
General the Lord Guthrie of Craigiebank (Charles Guthrie)	40,000	–	–	40,000
Philip A. Wheeler	40,000	–	–	40,000

(1) Pursuant to a commitment made in connection with his recruitment, in March 2012, options for 300 non-voting common units were granted to General Casey. The exercise price of the options is $100.00, which exceeded the fair market value at the date of grant.
(2) Includes per diem compensation under the advisory agreement between General Casey and Colt Defense.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information regarding the beneficial ownership of our limited liability company interests as of December 31, 2012 for:

- each person who is known by us to own beneficially more than 5% of our limited liability company interests;
- each of our directors;
- each of our executive officers named in the Summary Compensation Table; and
- all of our directors and executive officers as a group.

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Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Interests issuable upon the exercise of options that are exercisable within 60 days of December 31, 2012 are considered outstanding for the purpose of calculating the percentage of outstanding shares of our common stock held by the individual, but not for the purpose of calculating the percentage of outstanding shares held by any other individual.

Name of Beneficial Owner	Number of Interests	Percent

Sciens Management LLC (1)	70,718.430	53.50%
Funds advised by The Blackstone Group (2)	31,165.589	23.58%
CSFB SP III Investments LP (3)	12,221.799	9.25%
Lt. General William M. Keys (ret.)	7,698.471	5.82%
Jeffrey G. Grody (4)	1,344.892	1.02%
Gerald R. Dinkel (4)	–	–
Scott B. Flaherty (4)	–	–
J. Michael Magouirk (4)	235.215	0.18%
Daniel J. Standen (4)	–	–
Marc Baliotti (4)	–	–
General George W. Casey Jr., USA (ret.) (4)	–	–
Gen. the Lord Guthrie of Craigiebank (4)	–	–
Michael Holmes (4)	–	–
Vincent Lu (4)	–	–
John P. Rigas (1) (4)	70,718.430	53.50%
Philip A. Wheeler (4)	–	–
All executive officers and directors as a group	72,298.537	54.70%

(1) Comprised of the following: (a) Colt Defense Holding LLC, or CDH, is the direct beneficial owner of 60,213.137 common units included in this table and (b) CDH II LLC, or CDH II, is the direct beneficial owner of 10,505.293 common units included in this table. Sciens Management LLC is the managing member of CDH and may be deemed to benecially own the common units of Colt Defense directly held by CDH and CDH II LLC, as CDH is a manager of CDH II LLC. A wholly owned subsidiary of Sciens International Investments and Holdings SA, or Sciens International, is also a manager of CDH II LLC and may be deemed to be the beneficial owner of the common units owned by CDH II LLC. Sciens Management disclaims beneficial ownership of the common units owned by CDH and CDH II, except to the extent of its indirect pecuniary interest therein. John P. Rigas is the managing member of Sciens Management and its sole member. Under applicable law, Mr. Rigas and his spouse may be deemed to be the beneficial owners of the securities of owned of record by CDH and CDH II by virtue of such status. Each of Mr. Rigas and Mr. Rigas' spouse disclaims beneficial ownership of all common units owned by CDH and CDH II, except to extent of their respective indirect pecuniary interest therein. The address of CDH and CDH II is c/o Sciens Capital Management LLC, 667 Madison Avenue, New York, New York 10065. The address of Sciens International is 10 Solonos Str., Kolonaki, Athens, Greece 106 73.

(2) The common units are held by Blackstone Mezzanine Partners II-A L.P. and Blackstone Mezzanine Holdings II USS L.P. Voting and investment control over the units held by Blackstone Mezzanine Partners II-A L.P is exercised by its general partner, Blackstone Mezzanine Associates II L.P. In addition, each of Bennett J. Goodman, J. Albert Smith III and Douglas I. Ostrover may have shared voting and dispositive power with respect to these units. Blackstone Mezzanine Management Associates II, L.L.C. is the general partner of Blackstone Mezzanine Associates II L.P. Blackstone Holdings II L.P. is the managing member of Blackstone Mezzanine Management Associates II L.L.C.

Voting and investment control over the units held by Blackstone Mezzanine Holdings II USS L.P. is exercised by its general partner, BMP II USS Side-by-side GP L.L.C. In addition, each of Bennett J. Goodman, J. Albert Smith III and Douglas I. Ostrover may have shared voting and dispositive power with respect to these units. Blackstone Holdings II L.P. is the sole member of BMP II USS Side-by-side GP L.L.C.

Blackstone Holdings I/II GP Inc. is the general partner of Blackstone Holdings II L.P. The Blackstone Group L.P. is the controlling shareholder of Blackstone Holdings I/II GP Inc. The general partner of The Blackstone Group L.P. is Blackstone Group Management L.L.C. Blackstone Group Management L.L.C. is controlled by Stephen A. Schwarzman, one of its founders. Each of the above, other than Blackstone Mezzanine Holdings II USS L.P and Blackstone Mezzanine Partners II-A

L.P, disclaims beneficial ownership of the units held by Blackstone Mezzanine Holdings II USS L.P and Blackstone Mezzanine Partners II-A L.P, except to the extent of such party' s pecuniary

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interest therein. The principal office address of The Blackstone Group L.P. is 345 Park Avenue, 31st Floor, New York, NY 10154.

On March 22, 2013, the Company purchased the 31,165.589 units from the Blackstone Funds for an aggregate purchase price of $14.0 million. For additionl information about this transaction, see " Note 18 Subsequent Events" in Item 8 of this Form 10-K.

(3) The principal office address of CSFB SP III Investments LP is 11 Madison Avenue, 13th Floor, New York, NY 10010.

(4) The address of each of our directors and executive officers listed above is c/o Colt Defense, 547 New Park Avenue, West Hartford, Connecticut 06110.

Item 13. Certain Relationships and Related Party Transactions

Lease agreement

On October 25, 2012, we signed an amendment to the operating lease for our corporate headquarters and primary manufacturing facility in West Hartford, Connecticut. The lease amendment with NPA Hartford LLC, a related party, extends our lease for three years to October 25, 2015. The terms of the lease agreement include monthly rent of $68,750 in the first year of the extension period and a 2% rent increase in each of the two subsequent years of the extension period. We are responsible for all related expenses, including, taxes, maintenance and insurance. For additional information about our West Hartford facility, see Item 2 of this Form 10-K. Certain of the principals of Sciens Management and certain of our managers, (including Messrs. Rigas and Standen) have a direct and/or indirect ownership interest in NPA Hartford LLC.

New Colt and Colt' s Manufacturing

We have several contractual relationships with New Colt and New Colt' s subsidiary, Colt' s Manufacturing, entities that are controlled largely by certain principals of Sciens Management and certain holders of membership interests in Colt Defense LLC. These contractual relationships consist of the following:

- *License Agreement*. We have an exclusive, worldwide, license right from New Colt to use the Colt® brand name for the sale of small arms, spare parts and other products and services for military use and to use the Colt brand name for the sale of firearms, except handguns, plus spare parts and related products for law enforcement use. This license also includes the right to use the Rampant Colt Logo and the Colt Logo trademarks. The trademark license is fully paid up for its initial 20-year term, and may be extended indefinitely at our option for successive five-year periods upon payment of $250,000 for each additional five-year period.

- *Memorandum of Understanding*. In May 2011, we signed a Memorandum of Understanding with Colt' s Manufacturing to jointly coordinate the marketing and sales of rifles into the commercial market. We had net sales to Colt' s Manufacturing of $73.3 million, $11.7 million and $0.9 million for 2012, 2011 and 2010, respectively.

- *Sublease*. We sublease portions of our West Hartford, Connecticut manufacturing facility and administrative offices to Colt' s Manufacturing in return for monthly rental payments of $29,110. The sublease expires on October 25, 2015.

- *Services Agreement*. In August 2012, we signed the Services Agreement − 2012 ("Services Agreement"), under which we will provide certain factory, administrative, and data processing services to Colt' s Manufacturing for an annual fee of $1.7 million. The Services Agreement will remain in effect until October 27, 2013 and will be automatically extended for additional one-year periods unless either party gives at least three months prior written notice of termination. The Services Agreement, which was effective July 1, 2012, supersedes the Intercompany Services Agreement dated June 26, 2007 between Colt Defense and Colt' s Manufacturing, under which Colt Defense received a $0.4 million annual fee.

- *Match Target® Supply Relationship*. We supply Match Target® rifles, a commercial version of our military and law enforcement model rifles, to Colt' s Manufacturing at a price that is intended to permit us and Colt' s Manufacturing to share the profit margin that would ordinarily be generated by a sale from manufacturer to distributor. We sold $0.9 million of Match Target® rifles to Colt' s

Manufacturing in 2010. In connection with this relationship, we have licensed the Match Target® technical data package and trademark to Colt' s Manufacturing.

- *Collective Bargaining Agreement*. Our union employees at our West Hartford, Connecticut facility are members of a single bargaining unit with the employees of Colt' s Manufacturing and a single collective bargaining agreement covers the union employees of both companies. Positions taken by Colt' s Manufacturing with respects to matters covered by the collective bargaining agreement could adversely affect our ability to enforce the collective bargaining agreement.

Distributions to members of Colt Defense LLC

As a limited liability company, we are treated as a partnership for federal and state income tax reporting purposes and therefore are not subject to federal or state income taxes. Our taxable income (loss) is reported to the members for inclusion in their individual tax returns. In accordance with our governing document, distributions have been made to members in an amount equal to 45% of the allocated taxable income. The amounts of these distributions to members to fund their allocable shares of taxable income were $3.3 million in 2012 and $5.0 million in 2010. In 2011, we made a $12.9 million special distribution to our members.

Historically, tax distributions to our members have been made in amounts equal to 45% of our taxable income for the applicable period. Under the terms of the Credit Agreement and the indenture governing the notes, we will be permitted to adjust our tax related distributions for tax years beginning after 2009 to fund the deemed tax liability of our members from their investment in the Company. As a result, the Company may make distributions for the payment of deemed tax liabilities of our members that are in excess of the amount that is 45% of our taxable income.

Financial advisory agreements

We entered into an agreement, effective July 9, 2007, with Sciens Management LLC, an affiliate of Sciens Capital Management, pursuant to which Sciens Management LLC provides us with investment banking, corporate and strategic advisory services in return for $350,000 per year paid monthly in advance and such other fees as Sciens Management LLC and we may agree in connection with a specific transaction, as well as the reimbursement of expenses. John P. Rigas, one of our Managers, is a partner and the sole manager and unit holder of Sciens Management LLC and the Chairman and Chief Executive Officer of Sciens Capital Management. Furthermore, Daniel J. Standen, one of our Managers, is a partner of Sciens Capital Management. We have agreed to indemnify Sciens

Management LLC for losses relating to the services contemplated by this agreement. The initial term of this agreement expires July 9, 2012. Thereafter, it will automatically renew for an additional twelve months, subject to mutual termination by either party upon 60 days notice. Sciens Management LLC receives from us from time to time additional investment banking and other fees for services provided, including in connection with our Leveraged Recapitalization transactions.

Colt Security LLC

Effective January 1, 2009, Colt Security LLC ("Colt Security"), a wholly-owned subsidiary of E-Plan Holding, assumed responsibility for providing security guards at our West Hartford, Connecticut facility pursuant to an employee leasing agreement with us. At the same time, Colt Security hired all of our security personnel. Colt Security invoices us for the gross payroll cost, without markup, for each leased employee and, in addition, we pay a management fee of $1,000 per month.

**Item 14.		Principal Accountant Fees and Services**

PricewaterhouseCoopers LLP has audited our consolidated financial statements annually since our 2009 fiscal year. The Chairman of our Governing Board has pre-approved all audit services provided by PricewaterhouseCoopers LLC.

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Principal Accountant Fees and Services

The following is a summary of the fees billed to Colt Defense by PricewaterhouseCoopers LLP for professional services rendered for the fiscal years ended December 31, 2012 and 2011 (in thousands):

	For the Year Ended	
	December 31, 2012	December 31, 2011
Audit Fees	$ 525	$ 682
Audit-related Fees	50	–
Tax Fees	15	–
Other Fees	143	–
Total	$ 733	$ 682

Audit Fees.   Audit fees consist of fees billed for professional services rendered for the integrated audit of Colt Defense' s consolidated financial statements, for review of the interim consolidated financial statements included in quarterly reports and for services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings or engagements.

Audit-related Fees. Audit-related fees consist of fees billed for professional services related to the review of our documentation and testing of our internal control over financial reporting in conjunction with our requirement to comply with Section 404 of the Sarbanes-Oxley Act.

Tax Fees. Tax fees consist of advisory services related to an income tax audit.

Other Fees. Other fees consist of fees billed for due diligence assistance provided in connection with potential mergers and acquisitions.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statement Schedules

(1) Financial Statements can be found under Item 8 of Part II of this Form 10-K

(2) All schedules have been omitted because they are not required, not applicable or the information is otherwise included.

(b) **Exhibits:**

The documents set forth below are filed herewith or incorporated herein by reference to the location indicated.

Exhibit Number	Exhibit	Location
3.1.1	Amended and Restated Limited Liability Company Agreement of Colt Defense LLC dated as of June 12, 2003 reflecting the amendments adopted as of July 9, 2007.	Exhibit 3.1 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
3.1.2	LLC Agreement of Colt Defense LLC, as amended and restated, as of August 11, 2011.	Exhibit 3.1 to the Company' s Current Report on Form 8-K dated August 17, 2011
3.1.3	Second Amendment to Amended and Restated Limited Liability Agreement of Colt Defense LLC, dated March 1, 2012	Exhibit 10.2 to the Company' s Quarterly Report on Form 10-Q dated May 2, 2012
3.2	Certificate of Incorporation of Colt Finance Corp., effective October 15, 2009.	Exhibit 3.2 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
3.3	By-Laws of Colt Finance Corp., effective November 7, 2009.	Exhibit 3.3 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
4.1	Indenture, dated as of November 10, 2009, by and among Colt Defense LLC, Colt Finance Corp. and Wilmington Trust FSB as trustee.	Exhibit 4.1 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
4.2	Registration Rights Agreement, dated as of November 10, 2009.	Exhibit 4.2 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
4.3	Form of 8.75% Senior Note due 2017 (included as part of Exhibit 4.1).	Exhibit 4.1 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
4.4	Form of Guarantee 8.75% Senior Note due 2017 (included as part of Exhibit 4.1).	Exhibit 4.1 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
10.1	Letter Agreement, between certain of the management companies associated with Sciens Management, L.L.C. and Colt Defense LLC, dated as of July 9, 2007.	Exhibit 10.1 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
10.2.1	License Agreement, dated as of December 19, 2003, between Colt Defense LLC and New Colt Holding Corp.	Exhibit 10.2 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
10.2.2	Match Target License Agreement, dated as of December 19, 2003 (effective as of January 1, 2004), between Colt Defense LLC and Colt' s Manufacturing Company LLC.	Exhibit 10.6 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011

10.3	Services Agreement – 2012, effective dated July 1, 2012, between Colt Defense LLC and Colt' s Manufacturing Company LLC	Exhibit 10.1 to the Company' s Current Report on Form 8-K dated August 20, 2012
10.4	Agreement between Colt Defense LLC and Colt' s Manufacturing Company LLC and Amalgamated Local No. 376 and the United Automobile, Aerospace, and Agricultural Implement Workers of America – UAW, dated April 1, 2012	Filed herewith
10.5	Memorandum of Understanding Regarding Distribution of Colt Law Enforcement and Commercial Rifles, dated as of May 1, 2011, between Colt Defense LLC and Colt' s Manufacturing Company LLC	Exhibit 10.1.1 to the Company' s Quarterly Report on Form 10-Q dated August 3, 2011
10.6.1	Net Lease by and between Landlord: NPA Hartford LLC and Tenant: Colt Defense LLC, dated October 26, 2005	Filed herewith
10.6.2	Amendment of Lease, by and between NPPA Hartford LLC and	Exhibit 10.1 to the Company' s Quarterly Report on

	Colt Defense LLC, dated October 25, 2012	Form 10-Q dated October 31, 2012
10.7.1	Employment Agreement dated as of October 4, 2010, between Gerald R. Dinkel and Colt Defense LLC.†	Exhibit 10.7.1 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
10.7.2	Amendment of Employment Agreement, between Gerald R. Dinkel and Colt Defense LLC†	Filed herewith
10.7.3	Letter agreement dated as of August 30, 2005, between Jeffrey Grody and Colt Defense LLC.†	Exhibit 10.7.2 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
10.7.4	Letter agreement dated as of April 28, 2003, between J. Michael Magouirk and Colt Defense LLC.†	Exhibit 10.7.4 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
10.7.5	Employment Agreement dated as of February 1, 2011, between Scott B. Flaherty and Colt Defense LLC.†	Exhibit 10.7.5 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
10.7.6	Colt Defense LLC Advisory Agreement between Colt Defense LLC and the Undersigned Senior Advisor General George W. Casey Jr., UAS (ret), dated December 16, 2011.	Exhibit 10.7.5 to the Company' s Annual Report on Form 10-K dated February 24, 2012
10.8.1	Colt Defense Salaried Income Plan effective November 4, 2002.†	Exhibit 10.8.1 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
10.8.2	First Amendment to the Colt Defense LLC Salaried Retirement Income Plan effective January 1, 2005†	Exhibit 10.8.2 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
10.8.3	Second Amendment to the Colt Defense LLC Salaried Retirement Income Plan effective January 1, 2004†	Exhibit 10.8.3 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
10.8.4	Third Amendment to the Colt Defense LLC Salaried Retirement Income Plan effective March 28, 2005†	Exhibit 10.8.4 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
10.8.5	Fourth Amendment to the Colt Defense LLC Salaried Retirement Income Plan effective January 1, 2008†	Exhibit 10.8.5 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
10.8.6	Fifth Amendment to the Colt Defense LLC Salaried Retirement Income Plan effective January 1, 2009†	Exhibit 10.8.6 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
10.8.7	Sixth Amendment to the Colt Defense LLC Salaried Retirement Income Plan effective December 31, 2008†	Exhibit 10.8.7 to the Company' s Registration Statement on Form S-4/A dated March 21, 2011
10.9	Colt Defense LLC Long-term Incentive Plan, dated March 1, 2012	Exhibit 10.1 to the Company' s Quarterly Report on Form 10-Q dated May 2, 2012

10.10.1	Credit Agreement, dated as of September 29, 2011, by and among Colt Defense LLC, as the US Borrower, Colt Canada Corporation, as the Canadian Borrower and Colt Finance Corp., as the Guarantor, Wells Fargo Capital Finance, LLC, as Agent, Sole Lead Arranger, Manager and Bookrunner	Exhibit 10.1 to the Company' s Current Report on Form 8-K dated October 4, 2011
10.10.2	Amendment No. 1 to Credit Agreement, dated February 24, 2012, by and among Colt Defense LLC, as the US Borrower, Colt Canada Corporation, as the Canadian Borrower and Colt Finance Corp., as the Guarantor, Wells Fargo Capital Finance, LLC, as Agent, Sole Lead Arranger, Manager and Bookrunner	Exhibit 10.9.2 to the Company' s Annual Report on Form 10-K dated February 24, 2012
10.10.3	Amendment No. 2 to Credit Agreement, dated March 22, 2013, by and among Colt Defense LLC, as the US Borrower, Colt Canada Corporation, as the Canadian Borrower and Colt Finance Corp., as a guarantor, the lenders party thereto and Wells Fargo Capital Finance, LLC, as Agent	Filed herewith
10.11	Unit Redemption Agreement, dated March 22, 2013, by and among Colt Defense LLC, as buyer, and Blackstone Mezzanine Partners II-A L.P. and Blackstone Mezzanine Holdings II USS L.P., as sellers	Filed herewith
12	Statement of ratio of earnings to fixed charges.	Exhibit 12 to the Company' s Registration Statement on Form S-4 dated January 5, 2011
14	Colt Defense LLC Code of Ethics for Senior Officers dated June 22, 2011.	Exhibit 14 to the Company' s Annual Report on Form 10-K dated February 24, 2012
21	Subsidiaries of Registrant	Filed herewith
24.1	Power of Attorney	Included on Page 90 of this Annual Report on Form 10-K
25.1	Form T-1 Statement of Eligibility of Wilmington Trust FSB, as Trustee for Indenture dated November 10, 2009.	Exhibit 25.1 to the Company' s Registration Statement on Form S-4 dated January 5, 2011
31.1	Certification of Gerald R. Dinkel pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Scott B. Flaherty pursuant to Section 302 of Sarbanes-Oxley Act of 2002	Filed herewith
31.3	Certification of Leslie Striedel pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document *	Furnished herewith
101.SCH	XBRL Taxonomy Extension Schema Document *	Furnished herewith

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101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *	Furnished herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *	Furnished herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *	Furnished herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *	Furnished herewith

† Management contracts and compensatory plans and arrangements.

* XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a Registration Statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

COLT DEFENSE LLC
COLT FINANCE CORP.
By: /s/ Scott B. Flaherty
Scott B. Flaherty
Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Gerald R. Dinkel and Scott B. Flaherty, jointly and severally, his true and lawful attorneys-in-fact, singly, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Gerald R. Dinkel Gerald R. Dinkel	Chief Executive Officer & Manager	March 25, 2013
/s/ Scott B. Flaherty Scott B. Flaherty	Chief Financial Officer	March 25, 2013
/s/ Leslie S. Striedel Leslie S. Striedel	Vice President of Finance and Administration	March 25, 2013
/s/ Gen. George W. Casey, Jr., USA (ret.) Gen. George W. Casey Jr., USA (ret.)	Manager	March 25, 2013
/s/ Gen. the Lord Guthrie of Craigiebank Gen. the Lord Guthrie of Craigiebank	Manager	March 25, 2013

/s/ Michael Holmes Michael Holmes	Manager	March 25, 2013
/s/ John P. Rigas John P. Rigas	Manager	March 25, 2013
/s/ Daniel J. Standen Daniel J. Standen	Manager	March 25, 2013
/s/ Philip A. Wheeler Philip A. Wheeler	Manager	March 25, 2013

Exhibit 10.4

AGREEMENT

between

COLT DEFENSE LLC

and

COLT' S MANUFACTURING COMPANY LLC

and

AMALGAMATED LOCAL NO. 376

and

UNITED AUTOMOBILE, AEROSPACE,

AND AGRICULTURAL IMPLEMENT

WORKERS OF AMERICA − UAW

APRIL 1, 2012

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AGREEMENT

AGREEMENT entered into as of the April 1, 2012 between Colt Defense LLC and Colt' s Manufacturing Company LLC its successor and assigns, hereinafter jointly referred to as "CDC and CMC" and AMALGAMATED LOCAL NO. 376 and UNITED AUTOMOBILE, AEROSPACE, AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, hereinafter referred to as the "Union". The Companies and Union agree that the ratified contract will apply in full force between UAW 376 and Colt Defense LLC and Colt Manufacturing Company LLC.

ARTICLE I

Purpose

SECTION 1. The purpose of this agreement is to provide orderly collective bargaining relations between CDC and CMC and the Union, to assure prompt and equitable disposition of grievances and to provide fair wages, hours and working conditions for employees covered by this agreement.

SECTION 2. CDC and CMC and the Union agree that they will not discriminate against any employee covered by this agreement because of race, creed, color, sex, age, religion, or national origin. Also covered in this nondiscrimination clause are Vietnam Veterans, Disabled Veterans and disabled individuals. CDC and CMC agree not to discriminate against an employee because of his Union membership, activities or office.

ARTICLE II

Management

SECTION 1. Nothing herein contained shall be construed as limiting the right of CDC and CMC to manage and direct the working forces, including the right to hire, transfer, promote, suspend or discharge for cause any employee in order to maintain discipline and efficiency in production, to relieve employees from duty because of lack of work or other cause deemed sufficient to the Companies to determine the methods, processes and means of manufacture, the speed of operations, the schedule of production, to introduce new or improved products, methods or facilities, and to extend, limit or curtail operations when in their sole discretion they may deem it advisable to do so, except as hereinafter modified.

ARTICLE III

Recognition

SECTION 1. CDC and CMC recognize the Union as the sole and exclusive representative of CDC and CMC' s employees, for purposes of collective bargaining. The term "employee" as used in this agreement shall exclude all supervisory employees with authority to hire, promote, discipline, discharge or otherwise effect changes in the status of employees or effectively recommend such action, all clerical employees (with the exception of stock clerks and timekeepers), engineers, draftsmen, time study and methodsmen, and all other professional employees, private chauffeurs, Main Office janitors, watchmen and guards.

ARTICLE IV

Union Security

SECTION 1. All present employees within the bargaining unit on the effective date of this agreement shall within thirty days thereafter, as a condition of employment, become and remain members of the Union in good standing.

SECTION 2. Employees in the bargaining unit who have not on the effective date of this agreement completed thirty days of employment with CDC and CMC shall, as a condition of employment, within thirty days after the effective date of this agreement or at the expiration of thirty days of employment, whichever period is longer, become and remain members of the Union in good standing.

SECTION 3. All new employees hired during the life of this agreement, shall, as a condition of employment, within thirty days after date of hire or thirty days after the signing of this agreement, whichever period is longer, become the remaining members of the Union in good standing.

SECTION 4. CDC and CMC agree that it will check off from the pay of each employee who is a member of the Union and authorizes CDC and CMC to do so by written authorization, monthly dues of [*] and, in addition, if such employee becomes a member of the Union after the execution of this agreement, an initiation fee. CDC and CMC shall transmit the monies so collected to a properly accredited representative of the Union on or before the fifteenth day of each month.

SECTION 5. CDC and CMC will give to each present employee and to all new employees as they are hired, a printed copy of this agreement.

ARTICLE V

Joint Program for Manufacturing Operations

SECTION A. Provisions with regard to the Joint Program for Manufacturing Operations are contained in Appendix, A which is attached to, and part of this Agreement.

ARTICLE VI

Hours of Work and Overtime

SECTION 1. The regular schedule of hours of work shall be eight (8) hours per day and forty (40) hours per week. Employees shall not be required to work more than eight (8) hours in any one day nor more than forty (40) hours in any one week except as hereinafter provided. The normal workweek shall be deemed to start on Monday at 6:42 a.m. and end one hundred and sixty-eight hours thereafter.

Work on Saturday beginning at 12:01 A.M. and the twenty-four hours thereafter will, in accordance with existing employment practices, normally be work on the sixth day worked by an employee in his regularly scheduled workweek for which hours so worked CDC and CMC shall pay overtime at the rate of time and one-half. Employees may be offered six (6) hours of overtime for Saturday work. Work performed on Saturdays will be during the following hours:

- Third Shift 11:00 p.m. (Friday Night) - 5:00 a.m.
- First Shift 5:00 a.m. - 11:00 a.m.
- Second Shift 11:00 a.m. - 5:00 p.m.

* These hours may vary due to production needs.

Work on Sunday beginning at 6:42 a.m. will, in accordance with existing employment practices, normally be work on the seventh day worked by an employee in his regularly scheduled workweek for which hours so worked CDC and CMC shall pay overtime at the rate of double time. For accounting purposes only, and for the third shift, the workweek will begin Sunday at 11:42 p.m. and end 168 hours later. All wages paid for Sunday work will be paid on the second Thursday after the Sunday that is worked. The only exception will be if that Thursday falls on a holiday, the wages will be paid on that Wednesday. For all other purposes, the workweek will remain in effect as outlined above. The time period for eligibility for Sunday overtime (double time) will be for hours worked between 12:01 a.m. Sunday and 6:42 a.m. Monday.

Except as provided in Section 4, below, for all time worked after each eight hours worked in any one day and after forty hours in the workweek, CDC and CMC shall pay overtime at the rate of time and one-half. There shall be no pyramiding of overtime premiums.

SECTION 2. All work performed in excess of eight (8) hours per day and on the sixth day by employees assigned to departments requiring seven-day operation shall be paid at the rate of time and one-half, and all work performed on the seventh day by such employees shall be paid at the

rate of double time.

It is understood that work performed by such employees on Saturday, Sunday or holidays mentioned in Article VII as such shall be paid at the rate of straight time.

In order to minimize the problem of absenteeism because of work performed on a weekend overtime basis, CDC and CMC and the Union agree that when it is found that an employee takes time off from work during the week without reasonable cause and repeatedly works weekend overtime, CDC and CMC will bring the employee and the Chief Steward together to discuss the situation. If the problem continues, the disciplinary procedure will be accelerated to expeditiously solve the problem.

SECTION 3. An employee who reports for work but is given less than four (4) hours work, although he/she is ready and willing to work, shall receive four (4) hours pay.

SECTION 4. Third Shift employees assigned to Heat Treat will work an eight (8) hour scheduled shift, and will be paid for nine (9) hours. Any work performed after eight (8) hours will be considered overtime. All hours worked on Saturday are considered overtime. All hours worked on Sunday are considered double-time. 10:42 p.m. on Sunday is considered Monday for payroll purposes.

Third Shift employees in all other departments work seven (7) hours, and are paid for eight (8) hours. 11:42 p.m. on Sunday is considered Monday for payroll purposes. Any work performed over seven (7) hours is considered overtime. Work beginning for the third shift at 11:42 p.m. on Friday night and for the twenty-four hours thereafter will normally be worked on the sixth (6th) day worked by an employee in his/her regularly scheduled workweek for which hours so worked.

Work beginning for the third shift at 11:42 p.m. on Saturday night and for the twenty-four hours thereafter will normally be work on the seventh (7th)

day worked by an employee in his/her regularly scheduled workweek for which hours CDC and CMC shall pay overtime at the rate of double time.

SECTION 5. When practicable, CDC and CMC will give notice of weekend overtime requirements before the end of the shift which starts forty-eight (48) hours before the start of the required overtime period provided that CDC and CMC may, without penalty, cancel or modify such notice at any time before the end of the lunch period on the day preceding the scheduled overtime work. If such notice is canceled or the overtime reduced at any time thereafter, CDC and CMC will pay each employee affected for the scheduled hours up to a maximum of eight (8) hours pay at the appropriate rate in accordance with Article VI, Sections 1 and 2 unless the reason for such cancellation or reduction is beyond the control of CDC and CMC.

SECTION 6. When CDC and CMC have made the decision to schedule service employees such as set-up man, trucker, inspector, etc., for overtime, their job assignments will be, as is practicable, consistent with their Group Level.

Under normal circumstances, CDC and CMC shall not require a greater workload on overtime than is normal for the assigned job on straight time.

SECTION 7. CDC and CMC shall assign overtime work to employees qualified to perform the work within the department, shift and group level. If no such person is available, the assignment will be given to a qualified employee within the department and shift in a different group level. If no such person is available, the assignment may be given to any qualified employee.

CDC and CMC shall make efforts to equalize overtime opportunities among the employees within a department, shift and group level. For the purposes of Overtime Equalization, all cell members by shift and group level within a cell will be grouped together and overtime will be distributed among cell members equally.

Once a thirty-five (35) hour threshold is reached between employees on the same shifts in the department, and such difference is brought to the attention of CDC and CMC by the Union, CDC and CMC will take corrective action within thirty (30) working days of receiving such notice. If unable to correct the problem within that time period, CDC and CMC will pay employees any difference over twenty (20) hours at their hourly rate.

When there is more than a 50-hour difference between the average overtime opportunities among the employees in the same group level and department/cell, but on different shifts, and such difference is brought to the attention of CDC and CMC by the Union, CDC and CMC shall reduce this difference to less than 50 hours within thirty (30) days after the notification. CDC and CMC will make every effort to insure that the difference be kept below 50 hours at all times. Where new operations or group levels are started, employees on such new operations or shifts shall be charged with the highest number of overtime hours from among the employees in the same group level and department/cell but on a different shift.

Rosters shall be maintained in each department by shift and classification showing the overtime hours charged to each employee. Each overtime hour shall be charged as one (1) hour for each hour worked except Sunday and Holidays, which shall be charged as one and one half (1 1/2) hours for each hour worked. Upon entering a classification in a department, an employee shall be charged with the same number of overtime hours as the then highest employee in the classification. Probationary employees shall not be placed on the overtime equalization rosters. Probationary employees shall not be asked to work overtime until all other employees in the same department, shift and classification have been asked.

A copy of these rosters shall be posted in glassed-in bulletin boards which CDC and CMC shall install at locations throughout the shop; the bulletin boards in some cases shall cover more than one department.

An employee who enters a department/cell in a classification containing no other employees shall be charged with the same number of overtime hours as the average of the then lowest and highest employee in the department/cell.

On the Monday following April 1st each year, each department/cell roster shall be adjusted so as to bring the lowest employee in each classification, irrespective of shift, down to zero.

It is the intent of the two Companies to live by the spirit of the Bargaining Agreement by ensuring that the administration of the overtime policy is carried out in accordance with the parameters of the agreement. The companies are obligated to insure that supervision has a clear understanding of how the overtime procedure works. To this end, the companies will conduct instructional meetings to review the overtime policy. It is agreed that when the sessions are held to instruct the Supervisors on the overtime equalization process that the Shop Chairman and Chief Stewards will be in attendance. It is agreed that if the company continually fails to insure that the overtime policy is administered in a correct manner to a point that there is cause to go to arbitration then the companies will absorb all arbitration costs. The parties must agree that this will not set precedence or prejudice in any other matters taken to arbitration.

SECTION 8. Under normal plant operations and subject to the following conditions, overtime assignments beyond 50 hours in any week shall be voluntary with each individual employee:

A. Employees must indicate at the time they are offered an overtime assignment that will exceed 50 hours, whether they will or will not accept the assignment. If the employees accept such hours, they shall be required to work the hours.

B. For purposes of overtime equalization, employees will be

charged with all hours they are offered.

C. The right to refuse overtime beyond 50 hours is a decision to be made by employees on an individual basis and shall not be used on a concerted basis in violation of Article XXI.

SECTION 9. Group levels for equalization of overtime are listed under Article X, Section 3.

ARTICLE VII

Holidays

SECTION 1. The following days will be recognized as holidays. All work performed on the following specified holidays, except as provided in Article VI, Section 2, shall be paid for at the rate of double time:

New Year' s Day	Thanksgiving Day
Good Friday	Friday following Thanksgiving
Memorial Day	Day before Christmas
Independence Day	Christmas Day
Labor Day	Day after Christmas
Martin Luther King Day	Day before New Year' s Day
Employee Birthday	

A. Two additional holidays will be designated during the week of Christmas. If the Christmas holiday shutdown requires that there be another day of shutdown beyond the floating holidays, the bargaining unit employees can elect to use a sick day, vacation day or neither to cover the additional day of shutdown.

SECTION 2. Each full time hourly paid employee on the payroll on each recognized holiday shall be paid for each of said respective holidays eight (8) times his/her hourly rate, including shift bonus, if any, regardless of his/her length of service with CDC and CMC provided that such employee works the workday previous to and the workday following such

holiday unless he/she is unable to do so for a legitimate reason, or has been excused by his/her supervisor in advance and without adversely affecting production operations in his/her department, in which event he/she must work at least four (4) hours on the day after the holiday.

A. Employees on personal leave of absence will not be paid for holidays during the period of their leave.

B. Employees on sick leave will be paid for holidays, which occur during the first year of such leave.

C. Employees laid off within two (2) weeks of a holiday shall receive holiday pay for that holiday provided that they work their last scheduled workday.

SECTION 3. Holidays that fall on Saturday shall be observed on Friday and holidays that fall on Sunday are to be observed on Monday.

SECTION 4. First shift employees required to report to work before the normal first shift starting time on the day following a holiday, shall receive double time for the time worked prior to the normal starting time. Premium pay under this provision shall not be pyramided with overtime provided in Article VI.

ARTICLE VIII

Vacations

SECTION 1. Vacations with pay allowance for 2012 and 2013 shall be granted to employees covered by this agreement and in the employ of CDC and CMC on June , 2012 and 2013 in accordance with the following schedule:

Pay Allowance

Continuous Service As of June 1st	Vacation with Leave	At Employee' s CMC/CDC Hourly Rate
6 months	5 days	40 hours
1 year	10 days	80 hours
6 years	11 days	88 hours
7 years	12 days	96 hours
8 years	13 days	104 hours
9 years	14 days	112 hours
10 years	15 days	120 hours
15 years	18 days	144 hours
16 years	19 days	152 hours
17 years	19 days	152 hours
18 years	20 days	160 hours
19 years	20 days	160 hours
20 years	20 days	160 hours

Employees are authorized to take vacation days at half-day increments. Earned vacation days or half days will require 48 hour notice and will be administered in accordance with the collective bargaining agreement.

Regarding payment for vacations for employees who did not complete six (6) calendar months of continuous service immediately prior to June 1, 2012 and 2013;

A. Employees must be on the payroll on June 1, 2012 and 2013 to be considered for vacation allowance.

B. Employees with seniority dates subsequent to December 1, 2011 and 2012 will not receive vacation pay.

C. Laid-off employees who are reinstated during a vacation year (June 1 - June 1), and qualify under section 1A above, shall receive their full vacation allowance for that vacation year.

D. All employees with fifteen (15) years of service as of the June

1st vacation eligibility date will be paid with their vacation pay a bonus of $[*]. All employees with twenty (20) years of service as of the June 1st eligibility date will be paid with their vacation pay a bonus of $[*]. All employees with twenty-five (25) years of service or more, as of the June 1st eligibility date will be paid with their vacation a bonus of $[*]. Payment for the vacation bonus will be made to eligible employees by separate check.

The Companies will pay for up to two weeks vacation to employees prior to the employee leaving for vacation.

It is agreed that Labor Relations will supply a bi-weekly vacation status report to the Union.

SECTION 2. The vacation allowance shall be paid at each employee' s average earned rate as established in the payrolls during February, March and April of the years, 2012, 2013, and 2014. The vacation AER is for the purpose of computation of the vacation pay only, CDC and CMC shall use a thirteen (13) week period beginning with the first full workweek in February. Average earned rate is defined as total gross pay during this period, including overtime and shift extra, holiday pay, funeral pay and military leave pay divided by total hours worked. Excluded from this calculation shall be any money received as jury duty pay and vacation pay.

Employees will be notified of their AER, as defined above for vacation pay calculations, as soon as it has been determined by CDC and CMC.

The AER will be not be calculated or applied for employees offered employment after April 1, 2012. Said employees vacation allowance will be calculated solely on their hourly wage.

SECTION 3. Exceptions to the above schedule are:

A. Employees laid off due to lack of work on or after December 1st in any vacation year will be entitled to a pro-rated vacation allowance which shall be paid with the normal distribution of vacation checks.

B. All employees who retire on or after the last scheduled work day prior to the Thanksgiving Holiday in each year will be entitled to holiday pay for the Thanksgiving and Christmas holidays, as well as full vacation pay allowance and vacation bonus if applicable, which they would be eligible to receive on the following June 1st. In addition to the foregoing, at time of retirement, employees shall be entitled to pay for their then unused sick days, and those employees retiring on or after the last scheduled work day, prior to the Thanksgiving Holiday each year, will be entitled to pay for those sick days which would have accrued to them on the following contract year.

SECTION 4. Employees shall receive their third and fourth week of vacation pay one week prior to the week that they actually start their vacation.

SECTION 5. Employees who under the terms of this contract are eligible under Section 1 for additional days of vacation leave of more than ten (10) days, or employees who have missed their scheduled vacation as a result of extended illness or injury, shall be required to take such additional days off as vacation leave as CDC and CMC shall approve as consistent with plant operations. Such eligible employees shall not be permitted to forego such vacation leave and receive pay allowances in lieu thereof.

SECTION 6. Employees must use all vacation time before the first Monday in June of each contract year. As there is not annual "vacation shutdown" the following system will be implemented for asking and effectively managing vacation time throughout the year.

- In the first year of the contract, the companies will ask employees for their vacation plans beginning April 1st through May 15th to allow for employee education on implementation of the new system. The company will meet with the committee at the end of the confirmation period to resolve any outstanding issues.

- In the 2nd year of the contract, the asking period will be from the first Monday in April and will last 30 days.
- Employees who are undecided will have 30 days to confirm their vacation time.
- After the 30 days, if an employee remains undecided, they will have to take their vacation when the time is available, as long as it does not cause 20% absenteeism in the department.

SECTION 7. In April 2012 and April 2013, CDC and CMC will offer bargaining unit employees the opportunity to sell back their unused vacation allowance, on the following terms:

Employees must submit their buyback request on a Buy Back form. In 2012, the form must be submitted between April 2, 2012 and April 13, 2012. In 2013, the form must be submitted between April 1, 2013 and April 12, 2013.

Employees may sell back increments of their unused vacation in full day (eight (8) hour) increments. (Fractional day sell back will not be allowed). There will be no cap on how much of an individual' s unused vacation allowance he/she can sell back.

The dollar amount of the payout will be calculated at $[*]on the dollar.

At the time the vacation buyback form is submitted, the individual will have his/her applicable vacation allowance reduced by the requested amount.

The 2012 vacation buy back checks will be issued on June 7, 2012. The 2013 vacation buy back checks will be issued on June 6, 2013.

ARTICLE IX

Wages

SECTION A. Provisions with regard to wages are contained in Appendix B that is attached to and a part of this agreement.

ARTICLE X

BUMPING

SECTION 1. All seniority rights hereunder are conditional upon the employee' s ability to do the job to which he/she may be transferred or recalled to work through the operation of provisions of this article and with reasonable skill.

SECTION 2. An extended layoff is defined as a layoff exceeding five (5) working days. A temporary layoff is defined as five (5) working days.

SECTION 3. In the event job eliminations are necessary, an employee has the right to exercise his or her seniority. Such seniority shall be exercised in the order shown below. Subject to the paragraph below:

Steps:

1. Open requisition before or after posting.

2. Bump least senior employee – same classification and job code as per bump card.

3. Bump least senior employee – highest in grade rating as per bump card.

4. Bump least senior employee Group 7, Level 1.

5. Elect voluntary layoff.

The job classification and code within the job group level for layoff and bumping purposes are as follows:

	Assembler – Group 1
Level I	Semi-skilled
Level II	Skilled
Level III	Highly skilled
Certified Level	Multi-Skilled

	Audit & Test – Group 2
Level I	Skilled
Level IA	Semi skilled
Level II	Advanced skilled
Level M	Advance skilled
Level III	Highly skilled

	Clerk/Material Mover – Group 3
Level I	Semi-skilled
Level II	Skilled
Level III	Multi-skilled
Level IIIA	Highly skilled
Level IV	Advanced Skilled

	Engraving – Group 4
Level I	Apprentice
Level II	Master
Level III	Advanced Master

	Environmental & Heat Treat–Group 5
Level I	Semi-skilled
Level II	Skilled
Level III	Highly-skilled

	Machine Operation – Group 6
Level I & IA	Semi-skilled

Level II	Skilled
Level III	Highly-skilled

Level IV	Advanced Skilled
Certified Level	Multi-skilled

	Machine Gun – Group 7
Level III	Highly-skilled
Level IV	Advanced Skilled

	Maintenance – Group 8
Level I	Semi-skilled
Level II	Skilled
Level III	Multi-skilled
Level IV	Highly-skilled

	Polishers – Group 9
Level I	Semi-skilled
Level II	Skilled
Level III	Highly-skilled
Certified Level	Multi-skilled

	Tool/Cutter – Group 10
Level I	Skilled
Level II	Advanced-skilled
Level III	Highly-skilled
Level IV	Multi-skilled

Gunsmith – Custom Shop
Custom Gunsmith
Custom Gunsmith II
All Gunsmith positions will be considered to be one group and would bump the least senior employee in Warranty Repair and thereafter bump accordingly.

Instructor/Coordinator/Leadman
Leadman – Toolmaking

Instructor/Coordinators/Leadman would bump least senior person in the applicable highest group.

Leadman –Toolmaking would bump least senior person in the Level III, Tool Cutters, and thereafter bumped accordingly.

A. Employees shall, on a form, hereinafter after known as a “bump card” provided by the company, indicate their preference relative to shift. Employees may change their designation annually, during open enrollment, except during the 72 hours before an impending layoff.

B. Regular employees who displace other employees under any of the foregoing provisions, and who fail for any reason to meet the requirements of the classification and job code as provided in Section 1 of this article, will not be permitted to exert seniority rights to displace any other employee at that time and will be laid off.

C. Employees who as a result of reduction in force or job elimination displace other employees in a classification and job code must meet acceptable job performance and continue to show progress.

D. No grievance arising out of a layoff of employees or their recall from layoffs or discharge shall result in any liability on the part of CDC and CMC for a period in excess of fifteen days prior to the time such grievance was first presented and in accordance with the regular grievance procedure.

E. Whenever CDC or CMC moves work on a permanent basis between manufacturing facilities covered by this agreement resulting in a job elimination, the employees specifically involved will have the right to (1) move with such work to another facility under the applicable conditions thereof, or (2) exercise their seniority rights under the contract to bump junior employees under this Section as if they were being permanently laid off.

When CDC or CMC moves work on a permanent basis within the same manufacturing facility, and such work constitutes a full time job, the employee specifically involved with that work will have the right to (1) move with such work, or (2) exercise their seniority rights under the contract to bump junior employees under this Section as if they were being permanently laid off.

RECALL

SECTION 1. Displaced (defined as those employees who have moved outside their classification, job code and/or shift) employees shall have the right to hold their current position rather than return to their previously held at time of layoff unless the employee moved to a lesser position.

Notwithstanding the provisions of the preceding paragraph, in any case where production requirements are such that in the opinion of CDC or CMC an emergency exists, and CDC or CMC is unable after reasonable effort to secure immediately the services of an employee entitled to recall or transfer on the basis of his/her seniority, CDC or CMC may recall or re-transfer the next employee with lesser seniority.

Employees returning from layoff shall, as per “bump card,” return to their classification and job code. However, the ability to return to their highest in grade rating or group level will be considered. Once a displaced employee has returned to their classification and job code, their recall rights shall be considered satisfied.

An employee shall be deemed to have his/her seniority in every occupation and level in which he/she has been awarded a bid, demonstrated proficiency requisites developed by the JTC and worked for at least three (3) months after entering the position and shall attain an in-grade rating; provided that an employee refusing an opportunity to return to any former occupation level pursuant to this section shall thereupon lose his/her seniority therein but will not by that fact alone be deemed to be no longer qualified for transfer to such occupation level in lieu of extended layoff.

CDC and CMC will provide the Union with a recall list current as of the date of this agreement, and will thereafter provide the Union with copies of all transmittals necessary for the Union to maintain their list on a current basis. The Union shall be permitted to periodically compare their list with the official CDC and CMC list in order to insure the accuracy of the Union list.

SENIORITY

SECTION 1. An employee shall forfeit all seniority rights in the event the employee:

A. Resigns,

B. Is discharged, for just cause,

C. Fails to acknowledge notice of recall by contacting the Labor Relations office within five (5) days of mailing certified letter,

D. Overstays a leave of absence,

E. Absence for three (3) consecutive days without notice unless there is a justifiable explanation for not giving such notice, and

F. Remains laid off for a period of twenty-four (24) calendar months from date of layoff, or for a period of thirty six (36) calendar months from date of layoff if they have five (5) or more years of seniority.

SECTION 2. It is agreed that when layoffs or transfers in lieu of layoffs are necessary, seniority rights shall be given to elected representatives of the Union over all other employees on the following basis:

A. To CDC and CMC employees duly elected to the seven (7) Amalgamated Local 376 offices, who have previously held positions in the

company. Namely, President, Executive Vice-President, Recording Secretary, Financial Secretary Treasurer, Sergeant-at-Arms, Guide and three (3) Trustees, on a Company-wide basis, and to the four (4) CDC and CMC Unit offices, namely Unit Recording Secretary, Executive Board members, Unit Guide and Unit Sergeant-at-Arms, on a Company-wide basis.

B. To the Shop Chairman, to the Vice Chairman, to all Chief Stewards and to each Top Committee and Shift Committee person on a shift basis in each case.

C. To each department steward with respect to the personnel whom he/she represents.

SECTION 3. Temporary layoffs shall be conducted in the following manner:

A. Employees with the lowest seniority in the department (by classification and job code) affected shall be sent home or transferred to available work in other departments, provided that the remaining employees in the department affected are able to perform the available work in the manner described in Section 1 of this article.

B. In the above instances, CDC and CMC will earnestly attempt to provide work elsewhere for such employees who are temporarily laid off from their own cell/departments.

C. Employees will be permitted the option of going home in lieu of a work assignment outside their classification and job code provided it does not adversely affect production operations.

D. No employee shall be sent home on a temporary layoff status for more than five (5) workdays in any calendar month.

SECTION 4. Except in an emergency or because of conditions,

over which CDC or CMC have no control, it is agreed that in the event of extended layoff, seventy-two (72) hours notice shall be given to employees directly affected. In the event an employee does not receive such notice, he/she shall be given eight (8) hours pay at his/her hourly rate for each full twenty-four (24) hours by which such notice is deficient.

SECTION 5. Employees promoted to positions in the employ of CDC or CMC, out of the bargaining unit shall retain their seniority for a period of ninety (90) days from the date of such promotion. Thereafter, the employee shall lose all seniority. If, during the ninety (90) day period, the employee is returned to the bargaining unit, it shall only be to an open job in which event they shall be credited with their seniority as of the date they are promoted out of the unit.

SECTION 6. The term "Department" as used in this agreement refers to the grouping as established by CDC or CMC which is in effect at the time of any layoff.

SECTION 7. CDC and CMC shall make any transfers required by layoff and recall-to-work provisions of this agreement as rapidly as possible under the circumstances existing at the time of layoffs or recalls.

SECTION 8. New employees shall be regarded as probationary employees for the first eight (8) working weeks of their employment and their retention during this period is at the sole discretion of CDC or CMC. There shall be no seniority rating among such probationary employees.

A. All new employees to be selected by work teams within the cell/department with the Business Unit and serve a 60 day probation period which could be extended by mutual agreement the Union and, CDC or CMC. After initial 30 days, an assessment of skill will be given and will result in assignment to appropriate level within occupational group through the Joint Training Committee.

B. CDC and CMC need not re-employ any probationary employee

laid off before completion of eight (8) weeks of service.

C. After completion of such probationary period such employees shall be given seniority ratings in their respective job classifications dating from the date of hire by CDC or CMC.

D. All employees, who were employed by Colt Industries, Firearms Division will have seniority ratings dating from their original date of hire with Colt Industries, Firearms Division including any time spent on strike except as may otherwise be provided herein.

SECTION 9. Seniority status lists shall be maintained in the Labor Relations department and will make available upon union' s request.

BIDDING

SECTION 1. Employees on layoff are eligible to make application.

When an opening exists in the bargaining unit because of a new job or vacancy in an existing job to which no employee has recall rights, such vacancy will be posted by CDC or CMC in an established location for not less than three (3) working days.

Employees, who are interested, may make application during the posting period in writing to the Labor Relations Department on forms supplied by CDC or CMC. Applicants shall be advised of the outcome by the Labor Relations department. Applicants may be required to demonstrate proficiency and may be required to participate in testing to ensure they possess the ability to perform the essential functions of the job. The testing will consist of verbal and/or written questions. In reviewing such applicants, past disciplinary records will be considered.

CDC/CMC will award a posted job within five (5) working days of the posting being taken down. Time limits of five (5) working days may be

extended by mutual agreement between CDC /CMC and the Union. The employee awarded the job will start the new position no later than the first Monday following two (2) weeks notification. It is agreed that the bid slips will be distributed in a timely manner once a bid has been awarded.

Ability is not to be interpreted as meaning the highest ability, but shall be construed to mean that the employee involved can fill the group level and perform the production requirements of the job at the time the employee fills the vacancy. However, employees must meet proficiency requisites developed and administered through the JTC prior to qualifying that individual for the position and pay.

Employees bidding will be allowed to a higher or lower level position. Lateral bidding will only be allowed to a different shift (same classification and job code).

Employees successfully bidding down into a lower level job will enter the position at the rate of the job and will at that time forfeit their right to any higher rate of pay.

A successful applicant shall not be eligible to apply for another opening hereunder for a period of eight (8) months from the date of his/her new assignment. When an employee has successfully bid in order to return to work from layoff or where the employee has been transferred in lieu of layoff, the eight (8) month time limit shall not be applied to his/her next bid but shall thereafter apply again.

Once a position has been awarded, the successful bidder shall have no right of refusal and must move in the prescribed manner.

New employees may not bid on open jobs until they have acquired ninety (90) days of continuous service.

After the previous procedures have been exhausted and a job opening remains unfilled, CDC and CMC shall be free to resort to new hires to fill

such job.

Notwithstanding the above, an employee who demonstrates a special hardship because of medical conditions, may apply for an opening which is a lateral transfer or a lower group level with the concurrence of CDC/ CMC' s Medical Department, Labor Relations and the UAW.

When an employee is on an extended medical leave of absence as provided in the Agreement, he/she shall have a right to return, subject to the appropriate medical and personnel clearances, to his/her former occupational level group, department and shift.

Should CDC or CMC choose to seek a temporary replacement, it may do so by posting the vacancy as a temporary vacancy. If there are no successful applicants, CD and CMC have the right to hire a temporary worker.

A temporary bidder shall be subject to the following:

1. Should the original incumbent return to the occupational group level, department and shift, he/she shall replace the temporary bidder regardless of relative seniority, and the temporary bidder shall have such bumping rights as if he/she were the least senior employee in the shift and occupational group level.

2. Should the original incumbent employee not be able to return to the job, the successful bidder shall automatically become the regular employee in the job.

A temporary worker shall be subject to the following:

1. Should the original incumbent return to the occupational group level, department and shift, the temporary worker will be removed from the position.

2. Should the original incumbent not be able to return to the job, the job will be subject to the bidding process.

3. The temporary workers shall not be asked to work overtime until all other employees in the same department, shift, and classification have been asked.

LAYOFF

SECTION 1. CDC and CMC may schedule overtime work where it deems necessary and without regard to employees on extended layoff from the bargaining unit as follows:

Where production requirements are such that overtime work is necessary in any occupational group, such overtime shall not exceed six (6) successive weeks in duration and such period shall be limited to two (2) non-consecutive occurrences in any one (1) calendar year.

Emergencies beyond the control of CDC or CMC in meeting production demands or which because of time and cost factors requires such overtime in order to operate on an efficient basis.

ARTICLE XI

Leaves of Absence

SECTION 1. An employee who directly enters or who has directly entered, service in the United States Armed Forces, either voluntarily or by induction, will be considered as being on leave of absence and will accumulate seniority during the entire length of such period of service. Upon termination of such service, any such employee shall be offered reinstatement in his/her previous position or to a position of like seniority, status and pay, unless CDC/CMC' s circumstances have so changed as to make it impossible or unreasonable to do so. If CDC/CMC' s circumstances have so changed as to make it impossible or unreasonable to so re-employ the person, he or she will be offered such employment as may be available for which he or she is capable of doing for the current

rate for such work.

SECTION 2. Such re-employment shall be offered only where the person has been honorably discharged and make application for re-employment within ninety (90) calendar days after he or she is discharged from the Service.

SECTION 3. Authorized leaves of absence, without pay, will be granted by CDC and CMC for emergency reasons such as serious illness, major operations, or compelling personal reasons, under the following conditions, without loss of seniority.

A. All requests for leaves of absence shall be made in writing on forms supplied by CDC and CMC for that purpose. All such requests shall be submitted to CDC/CMC' s Labor Relations Department. CDC and CMC will respond to all requests for leaves of absence within one (1) week.

B. Employees requesting leave for medical or health reasons shall be subject to prior examination and approval by the Medical Department of CDC/CMC, and such leaves shall not be granted for more than fifty-two (52) calendar weeks' duration.

C. Leaves of absence for pregnant employees shall be granted upon application to the Labor Relations Department on forms supplied by CDC and CMC. Such leaves once granted upon approval of the Medical Department, after consultation with the employee' s personal physician, will be without pay for a duration not to exceed one (1) year and seniority will accumulate during the period of the leave. Employees may return prior to the expiration of the leave upon approval of the Medical Department. At the expiration of such leave, employees are subject to the provisions of Article X.

D. Employees are eligible for leaves of absence under the "Family Medical Leave of Absence" laws. Family leaves will be approved for birth

or adoption of a child; serious health condition of a child, spouse, parent or the employee. Employees must have their leave approved in advance and submit proper medical documentation prior to the effective date of the leave. Employees will take their Family Medical Leave Act (FMLA) entitlement concurrently with other paid or unpaid absences taken to care for a family member or themselves. FMLA will be accrued and accounted on a calendar year basis. Employees may exercise their option to take sick/personal or vacation days while on FMLA.

E. Employees returning from leaves of absence shall be subject to prior examination and approval by CDC/CMC' s Medical Department. Such leave may be extended for reasonable periods upon recommendation of the Medical Department and approval by CDC/CMC' s Labor Relations Department.

F. Leaves of absence for compelling personal reasons shall be given only in emergencies on approval of the Labor Relations Department, for periods not to exceed thirty (30) calendar days, except by mutual agreement between the UAW, CDC and CMC, providing that this absence will not handicap CDC and CMC' s work schedules and that the employee presents adequate proof, if requested, of the compelling personal reason. A compelling personal reason shall be accident, sickness, death in family, emergency in the home, estate settlement, and such things that the employee has no control over.

G. Employees elected to full-time office in the Amalgamated Local Union, or appointed as full-time United Auto Workers Union International representatives, shall be granted leaves of absence by CDC and CMC upon written notice not less than seven (7) working days prior to the requested effective date. The Amalgamated Local Union President must certify to such election or appointment. In the event of expiration or termination of any such position, the provisions of this article regarding the obligations of persons returning from leave shall be applied as in other cases.

H. Upon the approval of both CDC/CMC and the local Union, employees shall be granted extended leaves of absence for reasons such as a specific civic activity or election to public office.

Employees on leave for specific civic activity shall cease to accrue seniority after the first six (6) months of leave. The maximum duration of any such leave shall be three (3) years and under no circumstances shall such a leave be extended beyond three (3) years.

Employees elected to public office shall be allowed to accrue seniority. The duration of such leave shall be the term of the elected office.

In all of the above situations, leaves shall be granted only for a specific reason, and should the reason for which the leave was granted cease, the leave shall immediately terminate.

SECTION 4. All of the above leaves of absence are granted subject to the following conditions:

A. Any employee on authorized leave of absence may return to work in line with his or her seniority before the expiration of his or her leave, providing not less than two (2) working days notice is given to CDC/ CMC. The return within the two (2) day period shall be at the option of CDC/ CMC.

B. Any employee who fails to report to work upon expiration of a leave of absence shall be considered as having voluntarily quit, unless prior to the end of such leave, the employee notifies CDC/ CMC of his/her inability to return with supporting reasons or is unable, for good cause, to give such notice. CDC/ CMC may require proof of the circumstances under which an employee seeks to be excused for his/her failure to report or give notice under this Section.

SECTION 5. If any employee on leave of absence is laid off, his/her leave of absence shall terminate as of the date of the layoff.

ARTICLE XII

Warnings and Discharges

SECTION 1. Other than in the case of an employee, who has not completed his/her probationary period, no employee covered by this agreement shall be suspended, disciplined or discharged except for just cause.

SECTION 2. When such action is taken, it may be appealed in accordance with the grievance and arbitration procedures of this agreement by the filing of a grievance within five (5) working days after CDC/CMC' s action.

SECTION 3. In the case of offenses where the application of progressive disciplinary steps would be appropriate, CDC and CMC shall endeavor to adhere to the following order.

a) Verbal Warning
b) Written Warning
c) Disciplinary Suspension
d) Discharge

In agreeing to the foregoing, however, CDC and CMC does not intend to waive the exercise of its right to discipline or discharge without following such order in any case where it determines that the seriousness of the particular offense involved warrants discipline of a different order, nor does it preclude CDC and CMC from imposing a second disciplinary suspension.

SECTION 4. Copies of written warning notices shall be given to the employee involved, and the Chief Steward as well as mailed to the Union Office at the time of such action. In cases involving disciplinary suspension or discharge, notice shall also be given to the Chief Steward and except for emergency situations, the employees involved shall be

given the opportunity to consult with the Chief Steward or his/her designated alternate, if available, before leaving CDC and CMC' s premises.

SECTION 5. Warnings and suspensions received by an employee shall not be used to justify subsequent discipline after a period of twelve (12) months has elapsed from the date of the warning or suspensions; except that in the event of discharge, all discipline within a prior sixteen (16) month period may be relied upon.

SECTION 6. When it is determined by CDC/CMC that the quantity and/or quality of work produced by an employee is not satisfactory, the Business Unit Managers shall notify in writing such employee with a copy to the steward. The employee shall be given a reasonable time limit within which to make his/her work satisfactory.

ARTICLE XIII

Attendance Policy

An employee will be charged with one half (1/2) point in the event they are tardy or leave work early.

An employee will be charged with one (1) point for consecutive days absent up to three (3) days. More than three (3) consecutive days absent will be charged two (2) points.

An employee will be charged two (2) points for each no call no show provided the employee doesn' t have a justifiable explanation for the no call no show.

Attendance points will be charged for all scheduled and agreed to days and hours (regular, overtime, weekends, and holidays).

Employees will not be disciplined twice for the same accumulation of points. If an employee clears their record of all negative points that

resulted in warning, this warning will be removed from their record.

Disciplinary action will be administered in the following manner:

Points accumulated	Action
5 Minus Points	Written Verbal Warning
8 Minus Points	Written Warning
12 Minus Points	Three Day Disciplinary Suspension
16 Minus Points	Discharge

Absence, tardiness or leaving work early for any of the reasons listed below shall not be charged:

1. Bereavement/Funeral Leave
2. Scheduled to work on a holiday
3. Earned Vacation (per day vacation will require 48 hour approval)
4. Jury duty
5. Subpoenaed Attendance at Legal Proceedings
6. Military Leave
7. Authorized Union Business
8. Furlough
9. Inclement Weather (Companies designation)
10. Disciplinary Suspensions
11. Sick/Personal Days
12. Short Term Disability
13. Workers' Compensation

No call no show of three (3) consecutive days without a justifiable explanation for the no call no show will constitute job abandonment.

Perfect Attendance

Employees shall earn one (1) plus point for each calendar month of perfect attendance which can be accumulated to offset future occurrences, or can be applied against prior occurrences as applicable.

Any sick/personal days beyond the allotted amount will affect perfect attendance.

Tardies and absences beyond those allotted will affect perfect attendance.

Absence due to disciplinary action will affect perfect attendance.

Those with perfect attendance from April 1st through March 31st will receive a $[*]bonus and paid in a separate check.

Employees will be required to notify their supervisors of their perfect attendance no later than the first Monday in June. Those who do not notify their supervisors by this time will not be paid. The supervisor will then notify Human Resources within 24 hours.

Employees' attendance records will be wiped clean effective April 1, 2012.

ARTICLE XIV

Bulletin Boards

SECTION 1. CDC and CMC agree to maintain a sufficient number of factory bulletin boards for the purpose of posting authorized Union notices, restricted to notices of Union elections, notices of Union appointments and results of Union elections, notices of Union meetings and notices of Union recreational and social affairs. The Union shall furnish CDC and CMC with a copy of each notice prior to its' posting on the bulletin boards.

ARTICLE XV

Representation - Stewards

SECTION 1. The number of chief stewards shall be limited to two (2) on first shift, one of whom shall be the Shop Chairperson. One (1) Chief Steward on the second shift and will be limited to ten (10) hours union time per week.

The Shop Chairman can be elected from any shift. Shop Chairman has the right to handle grievances on any shift.

Chief Stewards shall be paid for authorized time spent on grievances at their hourly rates. .

SECTION 2. The number of departmental stewards shall not exceed one (1) for each fifty (50) employees, but in all cases, it is agreed there shall be a steward for each Business Unit Specialist if there are less than fifty (50) employees under the Business Unit Specialist' s supervision unless otherwise mutually agreed. Cell/department stewards shall be paid for authorized time spent on conflict resolution under the following conditions:

A. The total time spent on grievances, exclusive of time spent at grievance meetings, shall not exceed four (4) hours per week.

B. Authorized time spent on grievances shall be paid at hourly rate.

SECTION 3. The privilege of cell/department stewards to leave their work during working hours without loss of pay is extended with the understanding that the time will be devoted to the prompt handling of legitimate grievances and will not be abused. Stewards shall continue to work at their assigned jobs at all times, except when permitted to leave their work to handle grievances as provided herein.

SECTION 4. On each shift in the manufacturing area designated in

Section 1 of this article, there shall be a shift grievance committee consisting of three (3) employees, including the Chief Steward, should one be assigned, for that shift with whom CDC and CMC agree to meet weekly if disputes are pending. Emergency meetings may be arranged on a day and time mutually agreed upon.

Each committee person shall be permitted up to two (2) hours with pay in order to meet with the appropriate chief steward in preparation for each divisional meeting.

SECTION 5. There shall be a General Top Committee consisting of six (6) employees who shall meet with the General Management Committee. The General Top Committee, together with the General Management Committee, shall handle all matters brought before them by either the General Top Committee or the General Management Committee.

Either CDC, CMC or the Union may request that the General Top Committee and the General Management Committee meet to discuss problems other than pending grievances.

SECTION 6. The names of the stewards in each department and the names of the chief stewards or their alternates, if any, shall be given to Management in writing by either the Shop Chairman or the Local Union President.

In addition, CDC and CMC shall be notified as to the employees designated by the Union to serve on the Divisional Grievance Committee and the General Top Committee, Safety Committee or other committees jointly approved.

Any changes in stewards of makeup of Divisional or Top Committee shall be promptly reported to the Management.

SECTION 7. A cell/department steward will be asked to work if fifteen percent (15%) of the employees in their cell/ departments are

scheduled to work, provided that there is work in his/her occupation or there is an alternate assignment which he/she is willing and able to perform and which is scheduled to be run. In order to provide the cell/department steward with a work assignment he/she shall first be permitted to bump the employee in his/her occupational group level with the highest number of overtime hours who is scheduled to work. If the cell/department steward' s occupational group level is not scheduled to work, the cell/department steward shall bump the least senior employee scheduled to work whose work the steward is capable of performing.

A chief steward will be asked to work if twenty-three percent (23%) of the employees in his/her area of representation are scheduled to work, provided that there is work in his/her occupation or there is an alternate assignment which he/she is willing and able to perform and which is scheduled to be run.

SECTION 8. Nothing herein contained shall be construed as depriving any person working for CDC and/or CMC, or any group of such persons, from the right to present grievances to CDC/ CMC.

SECTION 9. CDC/ CMC will pay employee/Union negotiators their hourly rate based on their scheduled work hours, on days when negotiations are scheduled regardless of the time actually spent in negotiations. CDC/ CMC will pay the cost of meeting rooms and refreshments for negotiations.

ARTICLE XVI

Grievance Procedure

SECTION 1. Should differences as to the application, or interpretation, of the terms of this agreement arise between CDC/ CMC and the Union or CDC/ CMC and any employee included in the bargaining unit, such difference or controversy shall be handled in the manner hereinafter set forth. It is the purpose of this section to provide procedure for prompt, equitable adjustment of grievances. It is understood and

agreed that grievances to be considered hereunder must be filed promptly after the occurrence thereof.

Step 1. If an agreement cannot be reached following a discussion between the grievant, Steward and Supervisor. The problem will be reduced to writing and submitted to the appropriate supervisor. The supervisor will have the responsibility of replying to the grievance promptly and with a complete explanation of why they disagree or what they recommend as a remedy. An answer in writing shall be given to the grievant by the supervisor within twenty-four (24) hours after presentation of the grievance unless such period is extended by mutual agreement between the supervisor and the Shop Chairman, Chief Steward, or the President of the Union. The grievance will then be returned to the appropriate Steward for the Union' s acceptance or rejection. If rejected it will be signed and numbered by the Steward, a copy of the numbered grievance will then be provided to the supervisor. The original will be retained by the Steward and then submitted to the second step for action within three (3) working days. If remedy is accepted it is signed and a copy is returned to the supervisor.

Step 2. The Labor Relations manager must schedule this meeting within five (5) working days from receipt of the grievance from first step. The Labor Relations Manager will meet with the appropriate manager and the Divisional Grievance Committee. If an agreement is reached then it will be answered as completely as possible by the Labor Relations Manager and signed off by the Divisional Grievance Committee at the time of the meeting. If an agreement is not reached then the reason will be given to the Divisional Grievance Committee within three (3) working days. The Divisional Grievance Committee will sign off that it has not been accepted and submit it to the third step.

Step 3. This meeting must be scheduled within five (5) working days from the receipt of the grievance from the second step. The Top Committee will meet with the Director of Human Resources and Labor Relations and the appropriate Management designees to discuss a remedy

to the problem. If a remedy is found and agreed to, it will be the Company' s responsibility to answer the grievance and the Union to sign off at the time of the meeting. In the event a final agreement is not reached the reasons will be answered by the Companies and given to the Top Committee within five (5) working days.

Pre-Arbitration Meeting. If a remedy cannot be found then either party has the right to take the problem to arbitration as outlined in this agreement. If requested by either party, a pre-arbitration meeting will be arranged to discuss the matters before arbitration. The attendees at this meeting will be; the Presidents of the Company and the UAW Local, 376 and the Director of Human Resources and Labor Relations and the Shop Chairman.

If a remedy cannot be found then either party has the right to take the problem to arbitration as outlined in this agreement.

After the third step meeting the Company will supply a status report to the Local Union Office.

To insure that the process moves as quickly as it should the Union and Companies agree to the following:

In the event the Union fails to process a grievance as outlined in the

Agreement then the grievance will be considered as dropped and will not be processed.

In the event the Companies fail to follow the time frames as outlined in the agreement then the Companies will forfeit the award of the grievance. It is also agreed that if the grievance is serious enough the parties can agree to skip a step to bring the grievance to resolution.

It is agreed that the Steward will give the grievance to the Chief Steward or Shop Chairman to be logged and numbered after the 1st step.

SECTION 2. Should the Union need a further explanation of CDC and/or CMC' s answer as provided in either Step 2 or Step 3 of the procedure, they may request further explanation which shall be given by CDC/CMC within three (3) working days of their request. The additional explanation shall be considered, along with the answer, as representing CDC/CMC' s position.

It is agreed that no grievance shall remain outstanding without having been heard at Step 3 of the procedure for more than four (4) months from its date of filing. In order to comply with such a time limit, the parties agree that grievances are to be considered in order of their date of filing unless otherwise mutually agreed, and the parties further agree that sufficient third step meetings will be scheduled.

Grievances heard by the Top Committee which are not answered within the time limit as provided in Step 3 above, may be referred at the option of the Union to the Connecticut State Board of Mediation and Arbitration or the Union may proceed under the regular provisions of Article XVII. It is the right of the Union to refer grievances to the Connecticut State Board of Mediation and Arbitration, without CDC/CMC' s agreement to such referral.

Any arbitration arising under this section shall be subject to the provisions and limitations of Article XVII below.

ARTICLE XVII

Arbitration

SECTION 1. In the event that the parties to this agreement fail to make a satisfactory adjustment of any dispute arising under Article XVI of this agreement after following the procedures outlined therein, either party may, within fifteen (15) calendar days after a decision under Article XVI Section 1, Step 3, notify the other party in writing that the dispute is to be submitted to arbitration.

SECTION 2. The dispute shall then promptly be submitted to:

(a) A mutually acceptable arbitrator, or

(b) If mutually acceptable, the Connecticut State Board of Mediation and Arbitration, whose decision shall be final and binding on both parties.

SECTION 3. In the event the parties fail to agree upon an arbitrator within ten working days after delivery of the written notice prescribed by Section 1 of this article, the dispute shall thereupon be submitted to a single arbitrator who shall be selected and proceed under the voluntary labor arbitration rules of the American Arbitration Association.

SECTION 4. The arbitrator shall be confined in the decision to be rendered to the meaning and interpretation, or the application of an interpretation, of the particular provision or provisions of the contract that gave rise to the grievance or grievances. There shall be no power to add to, subtract from or modify this agreement or to establish or change any part of the basic wage structure.

SECTION 5. Compliance with the decision of the arbitrator shall begin immediately after receipt of notice thereof.

SECTION 6. CDC and CMC agree to pay one grievant for time spent at the arbitration hearing. Where the grievant has been discharged or is otherwise no longer an employee of CDC/CMC, CDC/CMC will pay any one bargaining unit employee who appears as a witness for time spent at the arbitration hearing.

ARTICLE XVIII

Armed Forces Separation Pay Allowance

SECTION 1. Each employee leaving CDC/CMC' s employ after more than six (6) calendar months' service with CDC/CMC immediately prior to his/her departure to directly enter the United States Armed Forces, shall, upon receipt by CDC/CMC of official notice of his or her

assignment into such service, be granted a sum of [*] ($[*]) Dollars.

SECTION 2. Each employee who shall leave CDC/CMC' s employ subsequent to October 1 in any year and prior to the following June 1, and who shall have had at least twelve (12) months of service with CDC/CMC immediately prior to leaving, shall receive by separate check:

A. An additional sum based on the employee' s scheduled workweek during the last three (3) full weeks immediately prior to leaving CDC/CMC. This sum shall be not less than [*] hours' pay nor more than [*] hours' pay at the employee' s hourly rate in effect during the last three (3) full weeks of employment prior to leaving. Average earned rate is defined as total gross pay earned during the three week period, including overtime and attendance bonus, if any, divided by total hours worked, and

B. A further sum equal to [*] hours' pay at the same rate for each full year of service with CDC/CMC immediately prior to the employee' s departure, the total of such hours pay not to exceed [*].

ARTICLE XIX

General

SECTION 1. Adequate medical and sanitary facilities will be provided and maintained at all times.

SECTION 2. CDC and CMC will not assign supervisory employees to Bargaining Unit work except for training purposes, for machine and assembly tryouts, or in situations involving production difficulties and in other emergency circumstances.

SECTION 3. Apprentices included as "employees" within the bargaining unit as defined in Article III of this agreement shall be governed by the provisions of special apprenticeship agreements as agreed to by the parties.

Formal training programs, other than apprenticeship programs, shall be subject to joint agreement of the parties. Provisions for formal training programs are contained in Appendix E that is attached to and part of this agreement.

SECTION 4. Employees will be permitted three (3) days off with pay because of the death of their father, mother, spouse, sister, brother, son, daughter, mother-in-law, father-in-law, daughter-in-law, son-in-law, brother-in-law, sister-in-law, grandmother, grandfather, grandson or granddaughter, and shall receive pay at their hourly rate for the scheduled time lost on any such days when they were scheduled to work by CDC and CMC including overtime days.

Holidays, which fall on any of these days of absence, will be paid for at the hourly rate.

Should a death in the family as defined herein occur while the employee is on a paid holiday, or while on vacation as provided in this agreement, the employee shall receive the three (3) days with pay as provided in this section in addition to such holiday or vacation.

SECTION 5.

A. Annually, commencing on the first Monday in April employees with at least one (1) year seniority shall be entitled to sick/personal leave with pay, up to a maximum of five (5) days per Contract year. For each such day, they shall receive pay for hours they would have been scheduled to work at their hourly rate. Unused sick/personal leave shall be paid the 2nd Thursday in July.

B. Unless there is a satisfactory reason for not giving such notice, employees must notify CDC/CMC of their absence in accordance with established procedures no later than one hour after the beginning of the shift on the first day they are sick/personal to receive sick leave pay.

At the time the employee notifies CDC/CMC, he/she shall indicate the

number of days they expect to be absent. Such notification shall not constitute the granting of a leave of absence by CDC/CMC.

The Companies and the Union agree that when an employee is eligible for Sickness & Accident benefits, the Human Resources Department will mail the appropriate paperwork to the employee within five (5) business days of being notified the employee is out.

SECTION 6. CDC and CMC agree to pay employees the loss, if any, between their hourly rate, for their scheduled work week, including shift bonus, and the total payment received during two (2) weeks National Guard or Military Reserve summer training.

To receive this benefit, the employee must submit to CDC/CMC a copy of his/her signed military pay voucher for this period as evidence of his/her attendance and amount paid provided that any employee may be paid under this provision for only one single period of up to two consecutive weeks in any one calendar year.

SECTION 7. An employee who is on jury duty shall be paid the difference between his/her hourly rate and his/her remuneration as a juror for each day on which he/she reports for or performs jury duty and on which he/she otherwise would have been scheduled to work for CDC/CMC

In order to receive payment, the employee must provide CDC/CMC with the necessary verification of jury duty service by 12:00 noon on Monday of the week that the employee will receive payment.

SECTION 8. It is the policy of CDC and CMC that no employee (including Production Specialists or management personnel) shall touch, or in any way physically abuse or address other employees (whether or not members of the bargaining unit) in a profane or abusive manner.

SECTION 9. When new Production Specialists and Business Unit Managers are appointed, CDC/CMC shall post the Production Specialists' and Business Unit Managers' name and area of responsibility on

appropriate bulletin boards.

SECTION 10. CDC, CMC and the Union recognize the importance and desirability of establishing and maintaining an effective and timely communications program for all employees.

SECTION 11. A procedure has been set up to have all emergency phone calls handled by the front desk between the hours of 8am to 5pm.

Emergency Call procedure:
In the event of an emergency the caller is required to supply the following information:
Name of Employee
Nature of Emergency
Department Number
Name of Supervisor

The correct number to use is (860) 236-6311.

The switchboard operator will process the emergency phone call using the information provided, first they will contact the supervisor and have them get the employee to respond. If this is not successful then we will contact the employee directly by paging them in the shop and then transferring the call to where the employee may receive the call (i.e. the extension they called from), if all else fails the Union will be contacted with the information received by the operator from the emergency call, and they can contact the employee.

SECTION 12. It is agreed that the New Park Ave. gate will be open each weekday for the change of shift between the hours of 2:30 p.m. to 3:45 p.m.

SECTION 13. The Companies will make every reasonable effort to provide adequate quantities of shop supplies in order to allow employees to satisfactorily perform their work tasks. Including, but not limited to:

shop rags, eyeglass cleaner, wipers, paper towels and tooling.

SECTION 14. In an effort to improve and maintain good housekeeping standards in CDC and CMC' s bathrooms one individual on the first shift will be added to fill the general cleaning classification, whose primary job will be to clean the bathrooms.

The Union will be involved in joint scheduling for the cleaning of the bathrooms.

SECTION 15. It is agreed in order to insure that all parties understand the concept of Bargaining Unit work separate information sessions will be held for the commercial, military and support units. In attendance will be all supervisors, business unit manager, chief steward and Shop Chairman.

ARTICLE XX

Cost of Living Provision
[*].

ARTICLE XXI

No Strike − No Lockout

SECTION 1. CDC and CMC agree that during the term of this agreement, there shall be no lockouts. The Union agrees that there shall be no strikes, slowdowns or stoppages of work and any employee participating in such action shall be subject to disciplinary action.

ARTICLE XXII

Occupational Safety & Health

SECTION 1. CDC and CMC shall comply with the "Occupational

Safety and Health Act of 1970" and all other required legal standards of safety, health and sanitation. Adequate medical and sanitary facilities will be provided and maintained at all times.

SECTION 2. Accident records shall be kept and maintained by CDC and CMC and shall be made available on request to the Safety Committee. The "Recording and Reporting of Injuries and Illnesses" shall be as required by the "OSHA of 1970". Report shall be posted by CDC and CMC at least quarterly. An annual report shall be furnished to the Social Security Department, UAW.

SECTION 3. CDC/ CMC agree to maintain a joint Labor-Management Safety Committee. The Committee shall be composed of at least one (1) representative of management, including the safety official, and one (1) representative on the Union for all locations. The Local Union shall select the Union representative.

The designated safety representative shall perform the following duties:

- Shall, with CDC/ CMC' s safety representative, conduct safety tours of the plant.

- Meet with CDC and CMC' s safety representative on a monthly basis to work out solutions to those problems noted on the safety tours or brought to the attention of the safety committee.

Time spent on the above, as well as any other time spent on safety matters, shall be compensated for up to twenty (20) hours per week.

SECTION 4. CDC, CMC and the Union recognize the importance and desirability of establishing and maintaining a safe working environment and positive safety attitude among all employees.

SECTION 5. The Safety Committee may seek the advice, opinion and suggestions of experts, authorities and official agencies. The Union representative thereon shall have the right to call such experts, authorities and official agencies, as well as safety and industrial hygiene

representatives of the International Union of the UAW into the plant, and they shall be permitted to make such examinations, investigations and recommendations as shall be reasonably connected with the purpose of the committee.

SECTION 6. CDC and CMC agree to inform the Safety Committee of the names and natures of substances used in the plant, exposure to which may be unhealthful or dangerous, and upon request of the Union Safety Representative to reveal the names and natures of any substance or compound used in the plant.

SECTION 7.

A. The Union agrees to participate on the committee and will endeavor to have its members observe all safety rules and use all equipment and safeguards provided including safety eyewear and footwear.

B. The Companies agree to provide each employee one pair of prescription safety glasses per two years for those employees requiring the use of prescription eyewear. The Companies will continue to provide non-prescription safety eyewear for all other employees. Exceptions to the two-year limit are:

(1) Eyewear is damaged and rendered ineffective as a result of work-related incident through no fault of the employee.

(2) Significant changes to employee' s prescription requirements.

C. The Companies agree to provide $[*] per year to reimburse each employee for the purchase of safety footwear.

D. This agreement, and the Union' s participation on the various safety committees, shall not be deemed to impose upon the Union, or any official or agent of the Union, any legally enforceable duty or standard of care with respect to work-place safety that would not otherwise exist under

Federal or State Law.

SECTION 9. Employees injured on the job and receiving Worker' s Compensation payments may, with consideration of union input and the approval of CDC/ CMC Medical Department, be placed on jobs consistent with their medical limitations in accordance with the following procedure:

The employee may be placed on an open job.

Employees may, with the approval of CDC/ CMC Medical Department, exercise one (1) bid which shall not count for purposes of the eight (8) month bid limitation in Article X, Bidding, Section 1. Such bids may be to a job that is higher, lower, or in the same labor grade.

ARTICLE XXIII

Duration of Agreement

SECTION 1. This agreement shall be in full force and effect from April 1, 2012 to March 31, 2014.

SECTION 2. Should either CDC, CMC or the Union wish to amend, modify or terminate this agreement at the expiration date hereof, said party shall, at least sixty (60) days prior to the expiration date, notify the other party by certified letter of said desire to amend, modify or terminate this agreement, whereupon, not later than five (5) days after receipt of such notice a conference shall be held between the representatives of CDC, CMC and the Union for the purpose of discussing amendment, modification or termination of this agreement.

SECTION 3. Should neither parties so notify the other of a desire to amend, modify or terminate this agreement, it shall automatically extend itself for an additional period of one year when the procedure for amendment, modification or termination shall be outlined in Section 2 of this article; this agreement shall be automatically extended from year to year should neither party notify the other of a desire to amend, modify or

terminate this agreement.

ARTICLE XXIV

Complete Agreement

This Agreement contains all the terms of agreement existing between the Company and Union. Neither party can claim there are any other binding past practices, understandings, side letters, or other Agreements between them − all such past practices, understandings, side letters, and other agreements are hereby revoked and eliminated, unless they are specifically included in writing in this Agreement. Any future changes to this Agreement (or the continued provision of a benefit not specifically set forth in this Agreement will only be binding on the parties if agreed to in writing and signed by the Vice President of Human Resources (or his/her designee) and the President of the Union.

If either party believes that a prior agreement or understanding, whether written or oral, continues following the execution of this Agreement, they shall produce or describe with specificity such prior agreement or understanding for acceptance or rejection by the other side prior to July 1, 2012. All such prior agreements and understandings shall be null and void and deemed not to exist unless signed to by the Company and the Union and reduced to writing as part of this Agreement.

ARTICLE XXV

Past Practices

1. Under normal operating conditions, the President of UAW Local 376 is permitted to enter the factory at any time when the factory is in operation, provided he/she causes no disruption in operations.

2. Colt Defense and Colt Manufacturing agree to inform UAW Local 376 of scheduled meetings the Human Resource Manager is having with union represented employees concerning their plans for retirement. The purpose of this notice will be to afford the Shop

Chairperson or his/her delegate the opportunity to be present in these meetings. Said employee will be paid for time spent in the meeting during scheduled working hours.

3. In the event there is a question about the quality of parts manufactured in the factory, the discrepant parts will be held until a Union representative and Human Resources reviews the parts and traceability, not to exceed 4 hours from time of discovery when such occurrence is on the 1st shift. For occurrences on 2nd or 3rd shift, the parts will be held no more than 4 hours of the start of the following 1st shift. One part will then be held for evidence at third step and the rest will be moved to the next stage of production (i.e. scrap or rework) as determined by Colt Defense or Colt Manufacturing.

4. As copies of the recreation fund checks are available to the Human Resources department, a copy will be provided to the Shop Chairperson.

5. A free cafeteria lunch will be provided to each employee on his or her birthday.

6. Prior to lunch breaks on first and second shift, employees will be afforded five (5) minutes of wash up time.

7. The elected officials of UAW Local 376 (President, Shop Chairman and Chief Steward) will be provided the opportunity to return to the factory positions they held prior to their election (shift, department, job code and occupational group level) not later than 30 days after the end of their term. If shift, department, job code or occupational group level is no longer available at the end of their term, he/she will have the right to exercise seniority under Article X of the 2012 Collective Bargaining Agreement.

8. The Shop Chairperson and 1st Shift Chief Steward (if an elected, full time Union Official) will be given the opportunity to attend the

UAW' s Annual Leadership Conference and compensated up to a maximum of four (4) consecutive days, eight (8) hours a day, at their hourly rate for attendance at this meeting. Attendance during the weekend will NOT be compensated. The request for this time must be made to the Human Resources department no later than three (3) weeks prior to the conference date.

9. Newly appointed union stewards who are employees of Colt Defense or Colt Manufacturing will be provided the opportunity to attend the UAW Local 376 sponsored grievance training, to be conducted once every three (3) years, upon election to the steward' s position. The Company agrees to pay for time so spent not to exceed six (6) hours as long as the time is within the

employee' s scheduled work hours. The request for this time must be made to the Human Resources department no later than two (2) weeks prior to the day of training along with a list of the stewards attending the training.

10. The M4 Instructor/Programmer Swiss Machine CHC Operator, job code 839 will be eliminated effective immediately. The 4 incumbents, Joseph Capello, Roosevelt Foster, Melvin Little and Michael Holmes will be "grandfathered" at their current rate of M4 and be entitled to appropriate increases. The job classification for the Swiss Machine CNC will be changed to reflect M3, Setup and Operate CNC and future hires and or bids for the Swiss Machine CNC will be for the M3 position.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed by their respective officers and representatives as of April 1, 2012.

COLT DEFENSE LLC

By: /s/ Howard Weinstein
Howard Weinstein

/s/ Sal Malignaggi
Sal Malignaggi
Director of Manufacturing

/s/ Gina Cordeira
Gina Cordeira
Senior HR Manager

/s/ Penny Smart
Penny Smart
Labor Relations Manager

/s/ Gerald Lancour
Gerald Lancour
General Manager

COLT' S MANUFACTURING COMPANY LLC

By: /s/ Jim Tipton
Jim Tipton
VP of Human Resources & Employee Relations

/s/ Deneen Silvers
Deneen Silvers
HR Manager

AMALGAMATED LOCAL UNION NO. 376

By: /s/ Carmen Burnham
Carmen Burnham, President

/s/ Mike Holmes
Mike Holmes, Shop Chairperson

/s/ John Palmer
John Palmer

/s/ Jeff Bifolck
Jeff Bifolck

/s/ Martin Sholes
Martin Sholes

/s/ Henrietta Green
Henrietta Green

/s/ Gerard Deveau
Gerard Deveau

UNITED AUTOMOBILE, AEROSPACE AND
AGRICULTURAL IMPLEMENT WORKERS OF AMERICA
–UAW

By /s/ Julie Kushner
Julie Kushner, Director Region 9A

/s/ Barry Bayly
Barry Bayly, International Representative

APPENDIX A

Joint Program for Manufacturing Operations

Mission Statement

We believe that the principles expressed in our World Class Operations philosophy are fundamental to human nature and should be constructive and consistently practiced in our work environments. The success of our organization is based on a sound foundation of mutual respect and trust. Every employee is responsible and worthwhile and is due the respect the rights and privileges of others. We also believe the organization has a right to meet and exceed its goals.

Within this environment of mutual respect and trust, we believe that the acknowledgment and application of each employee' s abilities and the introduction and delivery of the skills enhancement processes for all employees will provide an avenue for a prosperous future. Also the process of open discussion and problem solving through various joint operations committees between the UAW, CD and CMC will allow the achievement of our common goal, survival and prosperity.

Business Structure and Decision-Making Process

The structure of CD and CMC reflects certain basic principles, e.g., recognition of the stakes and equities of everyone in the organization; full participation by the Union; use of a joint decision-making process; placement of authority and decision-making in the most appropriate part of the organization, within emphasis on the Work Cell; and, free flow of information and clear definition of the decision-making process.

As guided by these principles, the organization will be structured in the following way:

Structure

CELL MEMBER

The individual CD and CMC employee.

CELL TEAM

An integrated group of approximately 3-15 Work Cell members.

UAW CELL STEWARD

Will be elected by the members of the Cell and will represent the Union on the Cell Team; the manner and process for such election to be determined by the Union. The Cell Steward is a working member of the Cell Team.

UAW CHIEF STEWARD

Will be elected at large the manner and process for such election to be determined by the Union. The Chief Steward will serve the needs of the members throughout the plant.

UAW SHOP CHAIRPERSON

Will be elected at large from all CD and CMC members; the manner and process for such election will be determined by the Union. The UAW Shop Chairman represents the Union and its members and serves as the highest local administrator of the Agreement.

Function

CD and CMC will be unique in the manner in which the basic Work Cells will operate. Joint decision-making will be utilized. The Work Cells will have responsibilities such as producing to schedule, producing a quality product, housekeeping, safety, maintenance of equipment, material and inventory control, and training.

It is for the mutual benefit of all bargaining unit members that work assignments to be rotated when possible. This rotation is designed to accomplish production goals and to enhance the skills of each member. CD and CMC agree that supervision in each department will, at the beginning of each shift, assign available work based on scheduled needs with consideration to seniority.

Recruitment and Selection

The CD and CMC organization will require people who can fully commit to the philosophy and effectively contribute to its mission.

Both parties recognize the critical importance of a process for recruitment and pre-selection that accurately and objectively assesses candidate qualification. The complexity of such a process supports the establishment of a joint team to work on the development and ultimate implementation of such process in accordance with guidelines to be established by the parties.

Training

The success of CD and CMC in meeting its mission in an internationally competitive environment is dependent upon the continuous development and implementation of new tools, methods and cutting edge technology. Training and education provide the tools necessary for all CD and CMC team members to meet these ongoing challenges, and programs to meet these goals will be jointly developed and administered. To help assure CD and CMC' s long-term viability, jointly developed competency-based training of all CD and CMC members is strongly endorsed by both parties.

Classifications have been combined and or created to support flexible operation of work cells. Individuals who have been chosen to progress will be given an opportunity to be trained in the classifications needed in the particular cell in which they work.

1. Individuals will not be forced to learn new skills. Before an individual starts skill enhancement, he/she will sign up indicating their desire for a commitment to learn skills for further level progression blocks and their willingness to work as a team member to perform any work that is needed in the team and which they are now qualified.

2. A bargaining unit member will receive a new job level within the occupational group when he/she has demonstrated skills equal to that level.

Code of Conduct

The code of conduct for CD and CMC is established in its mission statement, which is set forth the basic operating principles of the organization. Actions or behaviors that are contrary to these principles or Company Rules may be subject to the Grievance and Arbitration Procedure.

APPENDIX B

Wages

SECTION 1. Minimum and maximum rates for occupational group level, the number of levels in each occupational group and the rate within each level, and specialist rates shall be in accordance with pay for knowledge wage group schedule as set forth in Appendix B.

SECTION 2. The principle of equal pay for equal work shall apply among all employees, male and female.

SECTION 3. Jobs shall be classified in their appropriate group levels by the Wage Administration Department of CDC and CMC using the NMTA program.

During the life of this agreement there shall be no revision of existing job descriptions except as justified by change in job content. Any job description so revised or any new job description will be discussed with the Union prior to its implementation. If the Union disagrees with the description or evaluation or any changed or new job, CDC and CMC may place it into effect, and the Union shall have the right to protest it under the grievance procedure.

Differences of opinion between CDC, CMC and the Union on the proper work level for any occupational grouping shall be handled as follows:

A rating may be protested on the grounds that the job has been incorrectly defined or that, given a correct definition, the application of point values, as set forth in the Plan, has been inaccurately made.

A rating may be protested on the grounds that, because of the peculiar nature of the job, the application of the NMTA program to such job creates substantial inequities and that such job should therefore be considered as not subject to the provisions of the Plan. In such cases, however, it shall be understood that a clear demonstration that the Evaluation Plan is not applicable shall be required if a particular job is to be exempted from the Plan.

C. The following method will be used in determining the work level to be assigned a job, which is a predominately clerical or non-manual position:

The job will be carefully analyzed and reviewed by CDC and CMC' s job analysts who will write up a description of the duties so as to definitely describe the work. They will then assign a work level to the job on the basis of judgment as to the difficulty of the job in relation to jobs that have been evaluated under the NMTA program.

In the event CDC and CMC adopts a formal evaluation plan for predominantly clerical or non-manual jobs, each plan will be used in the rating and discussion of these jobs.

SECTION 4. A night shift premium shall be paid on the following basis:

- bonus of [*] for employees scheduled to work on the second shift or third shift.

SECTION 5. Employees temporarily transferred for the convenience of CDC and CMC will be paid on such assigned job at the same hourly rate of the work of that job or their regular hourly rate, whichever is higher. Temporary transfers in excess of two (2) full consecutive workweeks will not be made except for abnormal production conditions.

SECTION 6.

A. All occupational group levels listed which are currently inactive or have been consolidated into a new combined classification will be removed from the listing of classifications that will be effective with the ratification of the new agreement. The classifications not listed in the new agreement will be on permanent hold and will not be reintroduced by either party without discussions and agreement by both to reintroduce the classification in question.

B. The incentive language has been removed from the agreement due to the pay system changes that were agreed upon to replace the incentive system. The incentive language was removed from the contract and put aside, in tact. If, in the future, it become necessary to reintroduce an incentive system, this same incentive system will be reintroduced and must be mutually agreed upon by both parties.

SECTION 7. It is agreed that the following wage schedules will be in effect during the term of the agreement. These changes will go into effect the first Monday of the month. <u>New employees offered employment after April 1, 2012 at Skill Level I and Skill Level II job classifications will be paid at [*]% of the established wage scale</u>.

<u>Wage Scales</u>

Group	Level	Employees offered employment prior to 4/2012		Employees offered employment after 4/2012	
		4/2/2012	4/1/2013	4/2/2012	4/1/2013
Assembly	**I**	$[*]	$[*]	$[*]	$[*]
	II	$[*]	$[*]	$[*]	$[*]
	III	$[*]	$[*]	$[*]	$[*]
Audit &	**I**	$[*]	$[*]	$[*]	$[*]
Testing	**IA**	$[*]	$[*]	$[*]	$[*]

	II	$[*]	$[*]	$[*]	$[*]
(job code 418H)	**M**	$[*]	$[*]	$[*]	$[*]
	III	$[*]	$[*]	$[*]	$[*]
Clerk/Material	**I**	$[*]	$[*]	$[*]	$[*]
Mover	***II**	$[*]	$[*]	$[*]	$[*]
	III	$[*]	$[*]	$[*]	$[*]
	IIIA	$[*]	$[*]	$[*]	$[*]
	IV	$[*]	$[*]	$[*]	$[*]
Engravers	**I**	$[*]	$[*]	$[*]	$[*]
	II	$[*]	$[*]	$[*]	$[*]
	III	$[*]	$[*]	$[*]	$[*]
	IV	$[*]	$[*]	$[*]	$[*]
Environmental/	**I**	$[*]	$[*]	$[*]	$[*]
Heat Treat	**II**	$[*]	$[*]	$[*]	$[*]
	III	$[*]	$[*]	$[*]	$[*]
	IV	$[*]	$[*]	$[*]	$[*]
Machining*	**I**	$[*]	$[*]	$[*]	$[*]
	IA	$[*]	$[*]	$[*]	$[*]
	II	$[*]	$[*]	$[*]	$[*]
	III	$[*]	$[*]	$[*]	$[*]
obselete	***IV***	*$[*]*	*$[*]*	*$[*]*	*$[*]*
Machine Gun	**III**	$[*]	$[*]	$[*]	$[*]
	***IV**	$[*]	$[*]	$[*]	$[*]
Maintenance	**I**	$[*]	$[*]	$[*]	$[*]
	II	$[*]	$[*]	$[*]	$[*]
	IV	$[*]	$[*]	$[*]	$[*]

Add $[*] per skill as defined.

Polishers*	**I**	$[*]	$[*]	$[*]	$[*]
**	**II**	$[*]	$[*]	$[*]	$[*]
	III	$[*]	$[*]	$[*]	$[*]
Tool Cutter	**I**	$[*]	$[*]	$[*]	$[*]
	II	$[*]	$[*]	$[*]	$[*]
	III	$[*]	$[*]	$[*]	$[*]
	IV	$[*]	$[*]	$[*]	$[*]

Add $[*] per skill as defined.

*Certification available - $[*] per hour upon attainment
**Previous certification for inspecting work was available to polishers. Effective 4/4/11, $[*] was worked into their base pay, and a new certification for rollmark became available.

Rates Outside Levels

Instructor/ Coordinator*	$[*]	$[*]	$[*]	$[*]
Instructor/ Coordinator - Audit & Test	$[*]	$[*]	$[*]	$[*]
Leadperson - Toolmaking	$[*]	$[*]	$[*]	$[*]
Custom Shop				
Custom Gunsmith	$[*]	$[*]	$[*]	$[*]
Custom Gunsmith II	$[*]	$[*]	$[*]	$[*]
Custom Gunsmith - Competition	$[*]	$[*]	$[*]	$[*]

General Wage Rate Increases:

04/12	[*]%
04/13	[*]%

Learners Rate

The learners rate of pay is established at $[*], not to exceed the new rate.

Red Circle

In a continuing effort to bring all Colt Employees under a single pay system, red circle employee' s pay will be frozen for the first year of this contract. Red Circle employees that would meet the base rate of pay due to scheduled raises will assume the base rate and removed from red circle. Those employees will receive a lump sum payment at the end of each quarter for the first year of the contract equal to [*].

After the first year of the contract employees still above scale will be continued at that higher rate and receive scheduled wage increases agreed upon, providing they maintain their current skill set.

APPENDIX C

Insurance and Pension Benefits

CDC and CMC will pay for and provide insurance and pension benefits as fully described in the certificates of insurance and the pension plan for employees and their dependents (where applicable) in accordance with the Contract Settlement Agreement between CDC and CMC and the Union dated April 1, <u>2012</u> which is made part of this Agreement.

The Company(s) agree to maintain the current Health Care Plan <u>through March 31, 2013. Effective April 1, 2013, plan design will change to a Consumer Driven Health Plan as outlined in the table below. This is only a brief explanation of benefits. For more information, please see Human Resources for the Summary Plan Document. Please note that the document will not be available until after April 1, 2013</u>.

[*]

CDC and CMC will continue to provide life insurance, accidental death and dismemberment, medical, dental coverage for current and future employees who are receiving workers compensation benefits due to their total disability up to five years after total disability

It is agreed that the Companies will provide the Union with a copy of the health insurance and dental plan documents as soon as they receive it.

<u>Summary Plan Documents</u>

The Companies agree to have the Union review and approve all Summary Plan Documents brought up to date and approved by the Union prior to implementation.

The Company representative on the Insurance Review Committee will be the Director of Human Resources Department Resources and/ or his or her designee.

The Union will appoint two representatives to the Committee.

The Committee will meet as soon as possible on any denials of insurance claims. The Company will notify the Union Committee within seven (7) days of any denials by the insurance carrier.

<u>Dental Plan</u>

- <u>CD and CMC will continue to pay a monthly premium of $[*] per bargaining unit employee to the Local UAW 376 for the administration and claims of the UAW Dental Insurance Plan</u>

APPENDIX D

Severance Pay

CDC and CMC and the Union hereby agree that in the event CDC and

CMC relocates to another facility, the manufacture of any of the products presently unit at its plant covered manufactured at its plant covered under this agreement, the bargaining unit employees whose jobs are eliminated as a result of the relocation shall be eligible for severance pay in accordance with the terms and conditions set forth below:

SECTION 1. The following rules and conditions shall govern an employee' s eligibility for severance pay:

A. To be eligible for severance pay an employee:

(1) Must be actively at work at the time CDC and CMC announces the decision to relocate the manufacturing operations. An employee on layoff at the time of such announcement will not be eligible for severance pay. CDC and CMC agree that it shall not withhold such announcement in order to deprive any employee of severance pay who would otherwise be eligible.

(2) Must have been continuously in the service of CDC/ CMC at least one year as of the date the employee' s services are actually terminated.

(3) Must remain at work so long as specified by CDC/ CMC. However, an employee who terminates his employment earlier with the specific approval of CDC/ CMC shall remain eligible for severance pay. CDC and CMC agree to discuss with the Union the shutdown procedures including the possible application of inverse seniority.

B. An employee who is offered and accepts employment with CDC/ CMC and actually works at least thirty (30) days shall not be entitled to or eligible for severance pay.

C. An employee whose employment relationship with CDC/ CMC is terminated for any of the reasons set forth in Article X, Section 5 of this agreement shall not be entitled to or eligible for severance pay.

SECTION 2. Severance pay shall be based upon the formula of [*].

For example:
[*]

Each week of severance pay shall be computed based upon the employee' s straight time hourly rate in effect at the time the relocation is announced, multiplied by [*].

SECTION 3. Payment of severance pay by CDC/ CMC to an employee and his/her acceptance thereof shall constitute a complete termination of the employment relationship between CDC and CMC and such employee and shall fully discharge all seniority obligations of CDC and CMC under this agreement. Such severance pay shall constitute consideration for waiver by the employee of his/her seniority rights under the collective bargaining agreement and his/her willingness to remain at work so long as required by CDC/ CMC.

APPENDIX E

Training

As training needs are determined, they will be reviewed by the Joint Training Committee.

There will be a Joint Training Committee (JTC) established consisting of two (2) salaried employees, two (2) union employees and subject matter experts as needed.

The charter of the Committee is to ensure cross training on job opportunities. The Committee will review the Collective Bargaining Agreement and jointly develop measures to ensure compliance.

The Companies agree to provide qualified trainers. Once the provider is selected, the creation of actual program(s) will be the responsibility of the Training Committee with input from the Training providers.

Any training will be offered to employees based on seniority. Employees can participate in training programs that are for movement between levels of a classification.

Any employee who is in training during his/her regularly scheduled work hours will be paid his/her regular rate of pay.

Training time limits:

Job classification and code moving to same job classification and code in same company, not to exceed two weeks.

Job classification and code moving to same job classification and code, inter-company will be two weeks; and providing he/she is demonstrating satisfactory progress may be allotted another two weeks.

Job classification and code moving to a different job classification and code will be assessed at two weeks for training needs. If the individual is not making satisfactory progress at four (4) weeks, he/she will be disqualified. If he/she is making satisfactory progress, an additional two weeks may be allotted.

Section 1. Certification

A. Once an employee has reached the certification level of the Machine Operator, Assembly or Polisher classifications, he or she will maintain that level unless they are unable to perform at an acceptable level. This will be measured with periodic audits of the employee' s workmanship. If the employee has a problem he or she will be warned the first time.

  (1) In the event it is found that the employee cannot continue at the certified level, the employee will lose their certification.

(2) The employee will be afforded the opportunity to earn back their certification.

APPENDIX F

CDC and CMC agree to provide to any Union designated member of CDC/ CMC' s Board of Directors who is an employee of CDC/ CMC (and is not already eligible for sufficient lost time or Union business time) paid time off from that employee' s regular duties sufficient to attend all Board of Directors meetings and adequate preparation time, not less than one full day prior to each Board Meeting.

APPENDIX G

Gainsharing and Profit Sharing Program

Effective January 1,1995, CDC and CMC shall established a gain sharing program (the "Gain Sharing Program") to provide quarterly and annual payments to hourly and salaried employees based on the achievement of specified cost reduction targets and a profit sharing program (the "Profit Sharing Program") to provide annual payments to hourly and salaried employees based on the achievement of specified levels of profitability (together the "Programs"). The Programs shall include the following elements:

General-

(a) All hourly employees shall participate in the Programs. It is the intent of CDC and CMC that the maximum number of salaried employees shall participate in the Program (together with hourly employees, the "Participants") by (i) minimizing the number of support personnel and (ii) maximizing the percentage of such personnel assigned directly to a Product Line, Business Unit or group of Business Units.

Notwithstanding the foregoing, the parties agree that the following individuals shall not participate in the Programs (i) a minimum number of support personnel as described above, and (ii) outside

salespeople, (iii) Business Unit Managers and (iv) the Chief Executive Officer ("CEO") and his/her direct reports.

Any bonus program for those individuals described in (i) above shall (a) be of a similar magnitude to the programs and (b) be based, in part, on the achievement of the Corporate Performance Target (as defined) below.

(b) The Participants shall participate in no other bonus programs except those described herein or programs unanimously approved by CDC and CMC' s Board of Directors.

Gain Sharing Program

(a) Each participant will receive payment based on [*]
(b) [*]
(c) Payments

1. Payments will be made within 20 days of the end of each of CDC and CMC' s four quarters to each participant within a Performance Unit as follows:

Percentage of Performance

Target Achieved	Payment
100%	$[*]
110%	$[*]

[*]

2. In addition to any payments received as a result of the achievement of the Performance Targets described above, in the event a Participant' s Performance Unit achieves the Following Performance Targets during the fourth quarter, they will receive the following payments less any amount paid during the four quarters:

Percentage of Performance

Targeted Achieved	Payment
95%	$[*]
100%	$[*]
110% or more	$[*]

3. The Companies will make every effort to ensure that the controlling factors of Gain Sharing, Labor and Expense, will be properly managed towards achieving the established Gain Sharing Targets.

Profit Sharing Program

The Profit Sharing Program shall provide Participants with payments, within 45 days of the end of each year, from a pool of 10% of annual Profits above levels to be determined.

1998	$[*] million

Payments shall be distributed to all participants based on regular straight-time hours paid (including all paid leaves such as holidays, vacations, paid sick-leave, S&A, and workers' comp, etc.) with each Participant' s payment reduced by [*] of any amount received through the Gain Sharing Program. Any amounts thus reduced will be removed from the profit sharing pool.

For the purposes of the Profit Sharing Program, Profit shall be defined as earnings (inclusive of Gain Sharing Payments) before interest, taxes, depreciation, amortization and all other non-cash charges including special charges, extraordinary expenses and other one-time charges.

APPENDIX H

401-k Plan

Employees covered by the collective bargaining agreement are eligible to receive an employer match of [*] of their tax-deferred contributions up to [*] of eligible compensation as defined by the terms of the Plan. Matching contributions will be made each payroll period. All employees represented by the UAW shall be permitted to participate in CD/CMC' s 401(k) plan under the same terms and conditions as the non-represented employees.

Employees hired after April 1, 2012 will be able to contribute to the 401(k) and receive the above referenced employer match as they will not be participants in the pension plan. All other employees will not be allowed to participate until the pension plan is frozen on December 31, 2012.

The Companies agree to assume payment of the Plan Annual Base, Plan Annual Audit, Participant Base and Participant Web Fees for the 401(k) Plan. Employees are to assume payment of occasional fees (Check Fee, 1099 Fee, Loan origination Fee, Loan Annual Maintenance and Distribution Fee).

The Union will have input in any future changes in administration of the plan.

All of the above will be in effect so long as the 401(k) plan is in effect.

APPENDIX I

Successorship

For the duration of the agreement, CDC and CMC will require a potential purchaser of CDC and CMC or a substantial portion of its assets or operations to assume the Collective Bargaining Agreement.

APPENDIX J

Retiree Benefits

If the spouse obtains alternate coverage as described in this agreement, the Colt plan will continue to pay such benefits as may be required in order to provide the spouse with benefits which, when combined with the benefits paid by the spouse' s alternate coverage, are least equal to the benefits payable by the Colt plan. For example, if the spouse' s alternate coverage requires deductibles or co-payments greater than those required under the Colt plan, the Colt plan will reimburse the spouse for the difference between the deductibles or co-payments required under the alternate coverage and those required under the Colt plan.

If the alternate coverage available to the spouse requires that the spouse pay a premium or any other periodic charge as a condition of enrollment in that alternate plan, the spouse will not be required to enroll in the alternate coverage and the Colt Plan will be the primary Medicare coordinated coverage for such spouse. If the retiree and the spouse consent in writing, Colt may reimburse the spouse for the cost of such premiums and the spouse may enroll in the alternative coverage and the plan may provide tertiary coverage. Any such agreement is terminable by the retiree and /or the spouse will and, in the event that the retiree and/or spouse terminate such agreement, the Colt Plan will become the primary source of Medicare coordinated coverage for the spouse immediately.

In the event that the spouse participate in alternate coverage as described in this agreement and after ceases participation in such coverage (as a result of lack of availability of such coverage, termination of the agreement described in paragraph 2, or for any other reason permitted by this agreement), the Colt Plan will become the primary Medicare coordinated coverage for the spouse. In that circumstance, there shall be no pre-existing condition limitations or any other restriction imposed on the Medicare coordinated coverage provided by Colt to the spouse.

In the event that the spouse participates in alternate coverage as described in this agreement, and such alternate plan refuses to pay or unreasonably delays payment of any benefit which Colt believes should be covered under the alternate coverage, Colt will pay such claim (to the extent covered by the Colt plan) and will pursue the provider of the alternate coverage for reimbursement. The spouse and the retiree will be held harmless from any refusal or unreasonable delay in payment by the provider of alternate private coverage.

The Companies will provide a Group Retiree Health Benefit Plan for current and future Medicare Part A and Part B enrollees.

The Post Retirement Health Benefit is a lifetime benefit for future and past

retirees and Spouses.

For future retirees effective April 1, 2010 the companies will provide retiree health insurance not to exceed $[*] per month.

The Companies and the Union agree that retirements will be processed in the following manner:

- The Company will produce a form to be completed by employees who wish to receive retirement information.

If the employee indicates on the form that he/she wishes to receive an "estimate only", the estimate will be sent to the employee within two weeks of the date the form was received by the Human Resources Department.

If the employee indicates that he/she wishes to retire, the Human Resources Department will schedule as appointment with the employee and a Union rep within two weeks of receiving the form. The form must be received by Human Resources Department at least thirty days prior to the retirement date in order to ensure timely processing by the carrier.

Human Resources will explain all entitlements to the employee upon their retirement, including ESOP.

Human Resources will provide a UAW Form 1221 (Retired Employee' s Authorization for Check-off Dues) during retiree processing, and will further forward the completed form to the Pension Fund Trustee for processing.

Future retirees will be given a choice of a Retirement gift at the time of their actual retirement from Colt' s. The choice will be one of the following:

1. Savings Bond
2. Watch
3. Standard production Colt Gun of their choice within legal limits

The choice of the gun will be subject to availability and the employee having the proper permits. If the employee elects to choose a gun but does not have the proper permit, the employee will have a period of one year from the date of retirement to obtain a permit. If they do not have the permit at the end of the year' s time they must accept one of the other two gifts.

The Companies agree to provide an updated listing of all retired employees and the retirement gifts they have chosen. The list will also indicate when the gift was received. The list will be provided on a quarterly basis.

It is agreed that any Retirement letter sent out will be copied and sent to the Union.

It is agreed that the Companies will provide a Life Insurance Policy to all future retirees with at least ten (10) years of continuous service. The amount of the policy will be $[*].

Coltec Credited Service

The Companies agree to provide a best estimate of Coltec credited service to each employee. The Company' s and the Union understand hat this is an estimate only and a true calculation of Coltec credited service can only be obtained from Coltec.

Coltec Pension Processing

The Companies agree to work with the Union and Coltec to establish procedures for processing Coltec retirements.

APPENDIX K

Subcontracting and Maintenance of Operations

<u>General</u>

It is the intent of CDC and CMC (i) to maintain and enhance its operations at the West Hartford Facility (the "Facility") and (ii) to make the necessary investments in the skills of its workforce, in both cases so that the Facility

can be a long-term competitive producer of the maximum number of different products/weapons and parts within each product/weapon.

<u>Subcontracting</u>

The parties agree that it is in their mutual interest that CDC and CMC produce parts and products in-house and minimize the need to purchase parts or products from outside vendors. A committee (the "Sourcing Committee") will ensure that all work is properly evaluated as to where the work will be accomplished − outside vendors or inside CDC and CMC. The committee shall have three (3) permanent members per side. In addition, the Local union President or his/her designee shall also receive notice of and may attend meetings.

CDC and CMC will keep the Sourcing Committee informed regarding existing or potential arrangements and outside vendors and will work with the Committee with the objective of bringing in-house any work currently or prospectively performed by outside vendors.

A notice of desire, need or intent to subcontract any bargaining unit work must be given to the Union with sufficient advance notice to allow for a meeting of the committee to occur at least two weeks prior to any action taking place regarding subcontracting. All relevant information shall be made available to said committee, including but not limited to; associated costs, vendor quotes, feasibility study for completion in-house, intended length of outsourcing, number of parts, impact on bargaining unit work, and any other necessary documentation. Additionally, requests for participation from in-house expertise regarding a specific operation and/or operations shall be honored.

No work being performed in-house will be moved to an outside vendor absent the approval of the Sourcing Committee. Work that has temporarily been brought in will be exempted from this restriction. In the event the Sourcing Committee cannot agree over the whether or not to use an outside vendor, a meeting will be called and will not be adjourned until an agreement has been reached.

In an emergency situation, Management will be permitted to act on a temporary basis. An emergency situation that occurs three or more times during a twelve-month period or five or more times during the term of the Agreement is no longer an emergency situation but is reviewed by the Executive Committee to see why it was done and to answer what will be done in the future. After three or five such emergencies as the case may be, the work will be returned in-house and the issue will be resolved by the Executive Committee.

The Companies recognize their responsibility to work with the Union to preserve jobs and jointly recognizes with the Union the need to establish and maintain immediate and reliable sources for backup for critical components in the event of failure or interruption of operations.

In order to meet its obligations to the Union and establish a process to source only the minimum quantities to provide the excess capacity to meet demand, the Companies agrees to the following:

- To notify the Union in writing of those suppliers selected to supply the necessary manufacturing back up for critical components.
- Purchased orders involving the ordering of parts, which are normally manufactured within the facility, are to be considered "outsource orders" and will require the review and initials of the designated union representative. The review will be indicated by the individuals initials on the original purchase order. This will be accomplished prior to the order being sent to the supplier.
- Copies of approved purchased orders will be provided to the union.
- Outstanding Purchase Orders which require Union consent will be reviewed monthly at the ISO steering committee meeting, to validate the continued necessity of maintaining the supplier.

Maintenance of Operations

For the duration of this Agreement, no material part of CDC and CMC' s operations operating at the Facility on the Consummation Date will be

moved from the Facility, except as follows: (CDC and CMC will not be required to obtain the Sourcing Committee' s approval for the following exceptions unless specifically noted).

a) Contracts with foreign buyers that specifically stipulate local content requiring production outside the Facility.

b) Joint Contracts with non-affiliated entities where (i) the choice of the partner substantially enhances CDC and CMC' s likelihood of securing a piece of business and (ii) local content requiring production outside the Facility is an explicit requirement of the Joint Contract and (iii) there is not intent either explicit or implicit to evade or avoid the spirit of this agreement.

c) To the extent that the workforce is operating at maximum practical capacity on a temporary basis, CDC and CMC may subcontract work to the minimum extent required. It is understood that CDC and CMC would not normally increase its workforce capacity unless the projected need for the incremental capacity exceeds six months.

d) To the extent that the Facility is operating at maximum practical and physical capacity, additional work required to meet CDC and CMC' s needs may be performed outside the Facility only after CDC and CMC has met and discussed this matter with the Union with the objective of adapting the Facility to accommodate such additional work.

e) In the event of any unauthorized work stoppage, force major or other reasons beyond the control of CDC and CMC that causes the Facility to be unable to operate, this provision shall not prohibit CDC and CMC from performing the work at another location.

f) Work resulting from the introduction of New Products, such as Private Label production of Shotguns, shall be excluded from this provision. For this purpose, the term New Products shall not include modifications, defined very broadly, of existing product platforms. If it

economically feasible to perform any portion of the work associated with the Production of New Products, either initially or eventually, at the Facility, CDC and CMC will make every effort to do so.

g) Ability to benefit from newly developed manufacturing processes or materials that CDC and CMC cannot afford to implement in West Hartford as a result of capital considerations (for example, metal injection molding technology and Polymer technology).

APPENDIX L

ESOP

The Companies have established an Employee Stock Ownership Plan ("ESOP") for bargaining unit employees. The Companies agree that the ESOP will not be amended or terminated during the life of this Agreement without the Union' s consent. The rights of participants in the ESOP carefully described in the ESOP. Disputes regarding operation of the ESOP shall not be subject to the grievance procedure.

It is agreed that the Companies will provide the Union with a copy of the ESOP plan evaluation as soon as the Companies receive it.

If the Companies provide any new stock option, stock purchase, stock bonus or any similar plan for any employees outside the bargaining unit, the same plan shall be offered to the bargaining unit on terms no less favorable than the terms offered to employees outside the bargaining unit.

The Companies and the Union agree to discuss, at the request of either parties, establishment of an appropriate program to allow bargaining unit employees to maintain or increase their level of stock ownership as such ownership is reduced by distribution from the ESOP to individual participants. Selection of the ESOP Trustee, attorney, valuation firm or any other professional rendering service to or on behalf of the ESOP shall be by mutual agreement of the Companies and the Union.

The Companies and the Union agree that the ESOP Committee will meet to discuss any open issues including the percentage ownership of the corporation.

APPENDIX M

BOARD OF DIRECTORS

The UAW will have two (2) representatives (sharing one (1) vote) on Colt' s Board of Directors as long as the ESOP holds stock in Colt.

APPENDIX N

Letters of Agreement

Fair Day' s Work

It is agreed that the Company has a right to require a fair day' s work from its employees. A fair day' s work is defined as a reasonable rate of production agreed to by both the Union and the Company.

Contract Administration

The Administration of the contract for the Company will be the responsibility of the Director of Labor Relations or his/her designate in his/her absence.

The Administration of the Pension is the responsibility of the Human Resources Manager or his/her designate in his/her absence.

The Administration of the Health Insurance is the responsibility of the Senior Human Resources Representative and the Human Resources Administrative Assistant.

Charity & Recreation

It is agreed that the Company' s will provide the Union with quarterly status reports for the both Charity and Recreation fund balance.

The Company' s agree to separate the Recreation Fund Account away from the General Fund.

Grievances

It is agreed by both the Union and the Company that all of the final settlements of grievances reached during contract talks will not set precedence or prejudice either by the Union or the Company' s in future cases of this nature.

Cleaning of Fans

It is agreed that the Union and Company will work together to ensure that the fans in the plant are properly cleaned before the summer seasons. It is the Company' s responsibility to set up the schedule to ensure the work is done in a timely manner. The Companies agree to install appropriate exhaust fans, or make repair to exhausting fans in restrooms within the manufacturing facility.

Credit Prescriptions

It is agreed that any Health Billings on the subjects of Credit and Prescriptions considered as emergency problems will not have to wait until the Tuesday or Thursday insurance hours. These items can be brought up at anytime.

Model P

The Companies agree to continue to meet with the Union Top Committee to discuss the Model P work currently being outsourced, with an aim to bring the work back "in house" if financially feasible.

Combining Departments

The company agrees that it will notify the Union Shop Chairman as soon as practicable but no less than fourteen (14) days prior to the combination of manufacturing departments that directly involve bargaining unit members.

Shortly after notification, the Company and the Union agree to meet to discuss the implications and effects of the manufacturing department combination has upon the conditions of employment of bargaining unit members.

V-Cap Check-Off

The Companies agree to deduct weekly from the pay of each employee voluntary contributions to UAW V-CAP, provided that each such employee executes or has executed an authorization for assignment and check off of contributions to UAW V-CAP. The deductions shall continue for the life of this agreement for each employee who signs a check off authorization form unless the employee revokes the authorization in writing.

The Companies agree to transmit UAW V-CAP deductions to UAW V-CAP, care of International Union.

The Union agrees to hold the Companies harmless against any claims, demands, suits, or other forms of liability that shall arise out of or by reason of actions taken by the Company for the purposes of complying with the provisions of this Article. In the event that any employee receives no pay on a payday in which the Union dues and/or initiation fees are to be deducted, the deductions shall be made from the next regular pay issued.

Thanksgiving Turkey

The Companies agree that when turkeys are presented as gifts during the Thanksgiving Day Holiday they will be paid separately from the Recreation Fund.

Smoking Room/Mens Locker Room

The Companies have repaired and agree to maintain the heating system in the men' s locker room through the following means.

- An independent thermostat control has been installed and is dedicated to the room.

- An independent contractor has been consulted and evaluated the pace with the goal of providing adequate heat.
- The companies agree to proceed with the contractor' s recommendation and provide additional ductwork to the locker room and utilize existing heaters from the manufacturing floor to assist in the heating of the room.

Vending

The companies agree to meet within sixty (60) days of ratification of the agreement to discuss the continued use of Canteen and Eurest for vending and cafeteria services. The purpose of the meeting will be the exploration of alternative vendors in order to provide improved service to our employees. Once identified and mutually agreed upon the companies will take the necessary steps to procure the service.

West Hartford Facility

In order to reaffirm our ongoing commitment the following has been updated and is republished and included in the 2012 Bargaining Agreement.

This letter is written to our employees who are members of UAW Local 376 (the "Union") to confirm the intention of both Colt Defense LLC and Colt' s Manufacturing Company LLC (the "Companies") to continue to make those products manufactured at the West Hartford Facility within the State of Connecticut through April 2015. In the event that circumstances change the Company agrees that it shall bargain with the Union over any such decision before any final decision is made. It shall be the objective of such negotiations to reach an agreement that would enable the Company or Companies to remain in the state at least through April 1, 2015.

This commitment may only be modified or amended by a writing signed by the Company and the UAW and specifically referencing this "republished" letter.

Life Insurance Increase

CDC and CMC will maintain current levels of benefits for Basic Life Insurance and Basic Accidental Death & Dismemberment policies at $[*] each.

The Life Insurance and Accidental Death Benefit will be reduced when employees reach a certain age.

The following schedule reflects the life insurance and accidental death dismemberment benefit available at the following ages:

70-74 - $[*]
75-79 - $[*]
80-84 - $[*]
85+ - $[*]

Short Term Disability

CDC and CMC will maintain the current level of Short Term Disability at $[*] per week.

Job Security

CDC and CMC re-state their intent to provide "job security" consistent with the Subcontracting and Maintenance of Operations provisions of the labor agreement as follows:

- CDC and CMC will maintain and as economically feasible continue to enhance its operations at the West Hartford Facility.

- The Parties agree that it is in their mutual interest to produce parts and products in-house and minimize the need to purchase parts or products from outside vendors.
- For the duration of the Agreement, no material part of CDC and CMC operations operating at the Facility will be moved without engaging the Union as provided for in the contract.
- Hourly Staffing
  - Staffing for CDC and CMC will be benchmarked manufacturing levels necessary to produce at maximum practical capacity and demand, following capital

improvements, cost reductions and manufacturing improvements in 2007.

  - CDC and CMC will keep the maximum employees at work in the current facility to commensurate with the build requirements.
  - The Industrial Engineer Manning and Standards table will be used to determine that staffing level.
- Staffing for CDC and CMC will be revisited when other circumstances arise that may affect the staffing below these benchmarks such as other capital improvements, cost reduction and manufacturing improvements.

In the event that there is any material downturn in production, potential loss of jobs or other factors that effect the business operations at CDC, those similar and/or operations which can be performed at the West Hartford facility will be drawn from our Canada subsidiary to prevent loss of jobs in West Hartford.

UAW Leave of Absence

The Company(s) affirm the seniority date of the following Bargaining Unit Employee currently on "leave of absence" for Union Business, and affirm that she is entitled to normal benefits of employment such as employer provided pension and pension vesting, Health & Welfare insurance, ancillary insurances and ESOP membership.

Carmen Burnham
DOB: 6/1/1947
Seniority Date: 1/28/74

Exhibit 10.6.1

NET LEASE

By and Between

LANDLORD:

NPA HARTFORD LLC

and

TENANT:

COLT DEFENSE LLC

Property Address:

545 New Park Avenue
West Hartford, Connecticut

NET LEASE

THIS NET LEASE ("Lease"), dated as of October 26, 2005, is made and entered into by and between **NPA HARTFORD LLC,** a Delaware limited liability company **("Landlord")** and **COLT DEFENSE LLC,** a Delaware limited liability company **("Tenant")** upon the terms and conditions which follow. Landlord and Tenant are hereinafter sometime referred to individually as a "**Party**" and collectively as the "**Parties**".

ARTICLE 1

REFERENCE DATA and DEFINITIONS

When used in this Lease, the following terms will have the meanings and incorporate the data specified in this Section 1:

1.1 **Premises.** The land in **West Hartford, Hartford County, Connecticut** commonly referred to as **545 New Park Avenue,** more particularly described in **EXHIBIT A** and shown on the Plan attached hereto as **EXHIBIT B,** together with the buildings (the "**Buildings**") and other improvements, easements and appurtenances thereto and any fixtures and equipment thereon belonging to Landlord.

1.2 **Term.** The period of Seven (7) Lease Years, plus any partial calendar month at the beginning of the Term, beginning on the Commencement Date and ending on the Termination Date, as the same may be from time to time extended. The Term ending on the originally stated Termination Date, without extension, is hereinafter sometimes referred to as the "**Initial Term**".

1.3 **Commencement Date.** The execution date of this Lease, as appearing in the first paragraph of this page.

1.4 **Termination Date.** October 25, 2012, as duly extended or earlier terminated.

1.5 Lease Year. The period of twelve full (12) calendar months beginning on the Commencement Date, if such Date is the first day of a calendar month and if not, on the first day of the first full calendar month thereafter and each consecutive period of twelve full (12) calendar months.

1.6 Extension Term(s). NONE

1.7 Tenant' s Permitted Use. Manufacturing, testing, receiving, warehousing and shipping of arms and other equipment, with related administrative and ancillary activities and any other uses for which the Premises is currently used.

1.8 Fixed Rent.

Lease Year	Annual Fixed Rent	Monthly Installment
Year 1 through 5	SEVEN HUNDRED FIFTY THOUSAND and 00/100 Dollars ($750,000.00)	SIXTY TWO THOUSAND FIVE HUNDRED and 00/100 Dollars ($62,500.00).
Year 6 and 7	EIGHT HUNDRED TWENTY-FIVE THOUSAND and 00/100 Dollars ($825,000.00).	SIXTY EIGHT THOUSAND SEVEN HUNDRED FIFTY and 00/100 ($68,750.00) Dollars

1.10 Additional Rent. All payments other than Fixed Rent required from Tenant hereunder, whether to Landlord or to any taxing authority, utility provider or otherwise, will constitute Additional Rent. Fixed Rent and Additional Rent are sometimes referred to collectively as "**Rent**".

1.11 Security Deposit. TWO HUNDRED FIFTY THOUSAND and 00/100 DOLLARS ($250,000.00).

1.12 Broker. NONE

ARTICLE 2

**LEASE AND ACCEPTANCE OF PREMISES,
TENANT' S RIGHT TO EXTEND AND TO LANDLORDS RIGHT TO
TERMINATE EARLY**

2.1 Lease of Premises; Quiet Enjoyment. Landlord leases the Premises to Tenant, and Tenant leases the Premises from Landlord, for the Term, at the Rent and upon the other terms, covenants and conditions of this Lease. Upon paying the Rent and observing the other obligations of Tenant hereunder, Tenant may peaceably occupy the Premises during the Term, without disturbance by Landlord or persons claiming through or under Landlord but subject to Permitted Title Exceptions set forth in **EXHIBIT C.**

2.2 Condition of Premises; Acceptance. Tenant acknowledges that Landlord has not made any representation or warranty with respect to the condition of the Premises or with respect to the suitability or fitness of the Premises for the conduct of

Tenant' s Permitted Use or for any other purpose. Prior to entering into this Lease, Tenant has occupied and used the entire Premises as assignee of the interest of Colt' s Manufacturing Company, Inc. as tenant under lease with Colt Industries Inc. dated March 22, 1990, (the "**Original Lease**")**,** and has investigated and examined and is fully familiar with the Premises. Based upon the foregoing, Tenant accepts the Premises "**AS-IS**"**,** with all defects and encumbrances and without any agreements, representations, understandings, or obligations on the part of the Landlord as to or in connection with the Premises, to perform any repairs, remediation, alterations, or improvements (or to provide any allowance for same) or otherwise.

ARTICLE 3

RENT

3.1 Fixed Rent. Tenant covenants and agrees to pay the Annual Fixed Rent to Landlord at the Notice Address of Landlord specified in Article 19 below or at such other place or to such other person or entity as Landlord may by notice to Tenant from time to time direct, in equal installments of 1/12th of the Annual Fixed Rent in advance on the first day of each calendar month included in the Term; and, for any partial calendar month at the beginning or end of the Term, prorata on a per diem basis, calculated using 360 day year and paid based upon the actual number of days in such partial month, in advance on the Commencement Date or on the first day of any partial month at the end of the Term.

3.2 Fixed Rent Absolutely Net. It is the intention of Landlord and Tenant that this Lease be an **ABSOLUTELY NET LEASE,** and that Landlord will not be obligated to pay any charge or bear any expense whatsoever against or with respect to the Premises, and that the Fixed Rent payable hereunder be absolutely net to Landlord, without any reduction or offset whatsoever on account of any such charge or otherwise.

3.3 Additional Rent. In order that the Fixed Rent will be absolutely net to Landlord, Tenant covenants and agrees to pay, as Additional Rent, all costs and expenses for or related to the ownership, operation, maintenance, repair and replacement of the Premises, including, without limitation, the items specified in this Section 3.2 and excluding only those reconstruction costs imposed upon Landlord under Articles 12 (Casualties) and Articles 13 (Condemnation) below.

3.2.1 Property Taxes.

3.2.1.1 Definition and Payment. Tenant will pay directly to the taxing or other authority by whom imposed all Property Taxes as herein defined. The term "**Property Taxes**" means the aggregate amount of all real estate taxes, assessments (whether general or special), sewer rents and charges, governmentally mandated transit taxes, taxes based upon the receipt of rent and any other federal, state or local governmental charge, general, special, ordinary or extraordinary, and any tax or imposition upon the Premises by any governmental authority, in

lieu of, or as a substitute for, Property Taxes assessed on the Premises, whether any of such Property Taxes are currently in effect or applicable to the Premises or are hereafter enacted or imposed (but not including income or franchise taxes, capital stock, inheritance, estate, gift, or any other taxes imposed upon or measured by Landlord' s gross income or profits, unless the same is imposed in lieu of real estate taxes or other ad valorem taxes), which Landlord or Tenant becomes obligated to pay in connection with the Premises, or any part thereof and will also include any personal property taxes imposed upon the furniture, fixtures, machinery, equipment, apparatus, systems and appurtenances of Landlord or Tenant used in connection with the Premises, including fixtures and equipment serving the Premises and situated on adjacent properties within easements appurtenant to the Premises. Property Taxes will also include all fees and costs, including attorneys' fees, appraisals and consultants' fees, (collectively "Landlord' s Tax Reduction Expenses") incurred by Landlord in seeking to obtain a reassessment or reduction of Property Taxes, but only to the extent of actual savings to Tenant as a result of such reassessment or reduction. If the amount of savings in the first year after the reduction or reassessment in question, is less than the total amount of Landlord' s Tax Reduction Expenses, such Expenses may be included in Property Taxes incrementally to the extent of the savings in each succeeding year until fully amortized. Subject to the provisions of Article 6 below relating to Permitted Contests, all such Property Taxes will be paid when due and prior to the date on which interest or penalties would begin to accrue and Tenant will provide to Landlord at the address to which Tenant pays Fixed Rent, not more that ten (10) days after the due date, a receipted tax bill or other evidence of payment reasonably acceptable to Landlord.

3.2.1.2 Mortgagee Property Tax and Insurance Escrow. Notwithstanding the foregoing, if Landlord is at any time required to make payments to a mortgagee of the Premises to establish a fund for the payment of some or all Property Taxes, or insurance premiums which Tenant would otherwise be required to pay under this Lease, upon notice from Landlord, Tenant will, as Additional Rent, make payments for Property Taxes and/or insurance premiums in the amounts and to the address required by such mortgagee as specified in Landlord' s notice. Payments made by Tenant to a mortgagee hereunder in accordance with Landlord' s notice will constitute a satisfaction of Tenant' s obligations under Section 3.2.1.1 above and/or Section 3.2.3 below, to the extent of such payments.

3.2.1.3 Partial Tax Periods. Further notwithstanding the foregoing, Property Taxes for any tax year or installment period which falls in part within and in part outside of the Term, will be prorated based on the number of calendar falling within and outside of the Term and Tenant will pay to Landlord, within ten (10) days after Landlord' s invoice therefor, Tenant' s prorata share of such Property Taxes.

3.2.2 Utility Charges. Tenant will pay directly to the provider all charges for heat, water, sewer, gas, electricity, telephone and other utilities or services of whatever nature used or consumed on the Premises, whether denominated a charge, tax, assessment, fee or otherwise, including, without limitation, municipal electric, water and sewer use charges, if any (collectively "**Utility Charges**"**).** Subject to the provisions of Article 6 below relating to Permitted Contests, all Utility Charges are be paid as the same from time to time become due and prior to the date on which interest or penalties begin to accrue. Tenant will make its own arrangements for utilities directly with the provider, and Landlord will be under no obligation to

furnish heat or any utilities to the Premises and will not be liable for any interruption or failure in the supply of any other utilities to the Premises, nor will any such interruption constitute a cause or justification for any failure by Tenant to comply with its obligations hereunder, including its obligation to pay Rent when due, or for termination of this Lease. Upon request of Landlord (which may be an ongoing request) Tenant will provide to Landlord a receipted bill or other evidence of payment reasonably acceptable to Landlord, for any or all Utility Charges.

3.2.3 Insurance Premiums. Tenant will pay directly to the insurer all premiums and other charges for insurance which is required to be carried under this Lease.

3.3 Late Payment of Rent. If any installment of Fixed Rent or any Additional Rent payable to Landlord, is paid after the date the same was due, Tenant will pay to Landlord, to defray Landlord' s administrative expenses, a processing charge equal to five (5%) of such delinquent payment and, in addition, such payment will bear interest from the due date at the Default Rate specified in Section 21.5 below, which interest will be deemed Additional Rent, but in no event will Tenant be required to pay in the aggregate with respect to any delinquent payment more than the maximum rate of interest allowed by law.

ARTICLE 4

USE OF PREMISES

4.1 Tenant' s Permitted Use. Tenant may use the Premises only for Tenant' s Permitted Use, as set forth in Section 1 above, and will not use the Premises or permit the Premises to be used for any other purpose. Tenant will, at its sole cost and expense, obtain all governmental licenses and permits required to allow Tenant to conduct Tenant' s Permitted Use.

4.2 Compliance With Laws and Other Requirements. Tenant will not use the Premises, or permit the Premises to be used, in any manner which: **(a)** violates any laws, ordinances, regulations and directives of any governmental authority having jurisdiction including, without limitation, any certificate of occupancy and any law, ordinance, regulation, covenant, condition or restriction affecting the Premises on the Commencement Date or which may be enacted or become applicable to the Premises in the future and with any current or future order, rule, regulation or requirement of the local Board of Fire Underwriters and any Regional Fire Insurance Rating Association or any other body having similar function and exercising jurisdiction over the Premises (collectively "**Legal Requirements**"**)** or which **(b)** is improper or excessively noisy, overloads or defaces the Premises or constitutes strip or waste, or fail to provide heat and utilities at levels sufficient to protect and preserve the Premises and for proper and effective operation of sprinkler, alarm and other health and safety systems. If Tenant receives written notice of any violation of any Legal Requirement relating to the Premises or the use of the Premises, it will promptly forward to Landlord, in the fashion herein provided for notices, a copy of such notice and of any materials received in connection therewith.

4.3 Hazardous Materials.

4.3.1 Definitions Relating to Hazardous Materials

4.3.1.1 "**Environmental Laws**" means and includes all presently existing and hereafter enacted or promulgated statutes, laws, ordinances, codes, regulations, rules, rulings, orders, decrees, directives, policies and requirements by any Regulatory Authority, as hereinafter defined, regulating, relating to, or imposing liability or standards of conduct concerning Hazardous Materials, as also hereinafter defined, or public health and safety or the environment generally.

4.3.1.2 "**Hazardous Materials**" means: **(a)** any material or substance: (i) which is defined or becomes defined as a "hazardous substance," "hazardous waste," "infectious waste," "chemical mixture or substance," or "air pollutant" under Environmental Laws; (ii) containing petroleum, crude oil or any fraction thereof, (iii) containing polychlorinated biphenyls (PCB' s); (iv) containing asbestos; (v) which is radioactive; (vi) which is infectious; or **(b)** any other material or substance displaying toxic, reactive, ignitable or corrosive characteristics, as all such terms are used in their broadest sense, and are defined, or become defined by Environmental Laws; or **(c)** materials which cause a nuisance upon or waste to the Premises.

4.3.1.3 "**Handle,**" and any grammatical variation of that term, means any installation, handling, generation, storage, treatment, use, disposal, discharge, release, manufacture, refinement, presence, migration, emission, abatement, removal, transportation, or any other activity of any type in connection with or involving Hazardous Materials.

4.3.1.4 "**Regulatory Authority**" means any federal, state or local governmental agency, commission, board or political subdivision having jurisdiction over the Premises and Tenant' s use of the Premises.

4.3.1.5 "**Environmental Damages**" means **(a)** all claims, judgments, damages, penalties, fines, costs, liabilities, and losses arising from, caused by or related to the Handling of Hazardous Materials (including, without limitation, diminution in the value of the Premises, damages for the loss of or restriction on use of rentable or usable space or of any amenity of the Premises, and/or any adverse impact on Landlord' s marketing of the Premises for relet upon the expiration of the Term or earlier termination of this Lease; **(b)** all reasonable sums paid for settlement of claims, attorneys' fees, consultants' fees and experts' fees in connection with the matters covered by the preceding clause (a); and **(c)** all costs incurred by Landlord in connection with investigation or remediation of Hazardous Materials, whether or not required by Environmental Laws, necessary for Landlord to make full economic use of the Premises.

4.3.2 Handling of Hazardous Materials. No Hazardous Materials will be Handled upon, about, above or beneath the Premises or any portion of the Buildings by or on behalf of Tenant, a Transferee, as defined in Section 4.3.2 below, or their respective contractors, clients, officers, directors, employees, agents, or invitees **(“Tenant Related Persons”).** Notwithstanding the foregoing, normal quantities of Hazardous Materials customarily used in the conduct of Tenant’ s Permitted Use may be Handled at the Premises. Any Hazardous Materials Handled by Tenant or by any Tenant Related Person, whether or not permitted hereunder or otherwise allowed by Landlord, and whether or not Handled during the Term of this Lease or Handled by Tenant or by its predecessors as Tenant under the Original Lease, are referred to herein as “**Tenant’ s Hazardous**

Materials”**.** Tenant’ s Hazardous Materials will be Handled at all times in compliance with the manufacturer’ s instructions therefor and all applicable Environmental Laws, as defined herein. In recognition of the difficulty of identifying the source of certain Hazardous Materials believed to exist on the Premises and the fact the Tenant has been the sole occupant and in control of the Premises for over ten years, and in consideration of the favorable Rent and other provisions of this Lease, Landlord and Tenant have agreed that, without limitation, those Hazardous Materials as to which actions may be required under the Connecticut Transfer Act C.G.S. 22a-134 et seq. **(“Transfer Act”)** will be deemed to be Tenant’ s Hazardous Materials and that Tenant will execute all documents and be the certifying and responsible party for compliance with the Transfer Act in connection with the transfer of the Premises to Landlord and will pay all fees, costs, and expenses, including without limitation any Environmental Damages, associated with compliance with the Transfer Act.

4.3.3 Tenant Response Actions. Without limitation on any other obligation which Tenant may have under this Lease or under any Legal Requirement, Tenant will take any actions required by any Regulatory Authority, as a result of or arising out of the Handling of Tenant’ s Hazardous Materials upon, about, above or beneath the Premises or any portion of the Building **(“Tenant Response Actions”),** at Tenant’ s sole cost and expense. Tenant will provide to Landlord in advance of submission, copies of any materials relating to Tenant’ s Response Actions which Tenant intends to submit to any Regulatory Agency and will provide such additional information as Landlord may request to permit Landlord to reach an independent judgment as to the adequacy and likely impact of such actions, and no such actions shall be taken without Landlord’ s approval, which approval will not be unreasonably withheld or delayed. Without limitation on the foregoing, Landlord may, but without any obligation to do so, elect, by written notice to Tenant, to take any or all Tenant Response Actions for the account of Tenant, in which event, Tenant will take any or all Tenant Response Actions that Landlord has not elected to take. Tenant will reimburse Landlord, as Additional Rent, for any and all costs incurred by Landlord in performing Tenant Response Actions and any and all other charges, fees, or penalties (civil or criminal) imposed as a result of or arising out of the Handling of Tenant’ s Hazardous Materials (collectively “**Tenant Response Costs**”**).** Tenant Response Costs will include, without limitations, the Costs of investigation of environmental conditions related to the Premises, the preparation of any feasibility studies or reports and the performance of any cleanup, remedial, removal or restoration work and any other actions necessary to restore the Premises to a condition permitted by applicable Environmental Laws to the extent that such failure results from the Handling of Tenant’ s Hazardous Materials. Without limitation on any other rights or recourse which Landlord may have against Tenant or otherwise, Tenant will reimburse Landlord for Tenant Response Costs periodically (which may be as often as once every two weeks) upon the submission by Landlord to Tenant of Landlord’ s invoice for such Costs, accompanied by reasonable supporting documentation (a “**Landlord Invoice**”**).** Tenant will pay to Landlord the amount stated in each Landlord Invoice within fourteen (14) days of receipt, provided that if Tenant believes in good faith that some or all of the amounts stated in a Landlord Invoice are not properly payable by Tenant, Tenant may make such payment under protest and will be entitled to a credit for any over payments subsequently acknowledged in writing by Landlord or finally determined by a court of competent jurisdiction, against subsequent Landlord Invoices and any balance after the full payment of Tenant Response Costs will be reimbursed to Tenant.

If Landlord possesses a right to recover, by contract or under applicable law, from a prior owner of the Premises on account of any condition requiring Tenant to take Tenant Response Actions or to incur Tenant Response Costs, Landlord agrees, upon request by Tenant, to pursue such claims for Tenant' s sole benefit (provided Tenant has satisfied all obligations to Landlord hereunder) and at Tenant' s sole expense, provided that Tenant shall indemnify Landlord against and hold Landlord harmless from any and all loss, liability or damage occurring as a result of Landlord' s pursuit of such claims on Tenant' s behalf.

4.3.4 Tenant Affidavits and Inventories. Tenant agrees, from time to time to at Landlord' s request, to execute and deliver affidavits, representations, inventories and the like, in form reasonably acceptable to Landlord, setting forth, to Tenant' s knowledge and belief, the Hazardous Materials which are being or which have been Handled on the Premises.

4.4 Signage. Tenant may affix to the Building and otherwise erect or situate on the Premises such signs and emblems as Tenant customarily uses to identify its business **("Signs"),** provided that such Signs are in full compliance with all Legal Requirements and any applicable private restrictions or covenants and Tenant obtains and maintains in effect all permits, licenses and approvals required for the installation and maintenance of such Signs. No such Sign will be installed which causes or threatens to cause material damage to the Premises and all such Signs will be removed upon expiration or earlier termination of this Lease subject to the provisions of this Lease as govern Tenant' s trade fixtures.

ARTICLE 5

REPAIR, MAINTENANCE AND REPLACEMENT OF PREMISES
CONDITION AT TERMINATION OF LEASE

5.1 Repair and Maintenance. Except as otherwise provided in Section 2.4.2 above and in Articles 12 and 13 below, Tenant will keep the Premises including, without limitation, the exterior, the roof and structure of the Buildings and all other improvements thereon and all heating, plumbing, hot water, ventilating, electrical, air-conditioning, security, alarm, elevator, mechanical and other fixtures and equipment now or hereafter on the Premises or forming a part thereof, and all lines, pipes and conduits through, under and over the Premises for the transmission of electricity, gas, water, sewage or any other utilities, (to the extent not maintained by the utility provider; but Tenant shall pay directly to the provider all fees and charges payable to such provider in connection with such maintenance) including, without limitation, any of the foregoing located within or on properties adjacent to the Premises by virtue of appurtenant easements, in at least as good order, condition and repair as they are in on the Commencement Date or may be put in during the Term, will maintain in good condition all lawns and planted areas of the Premises, will keep in good repair and clean and neat and free of snow and ice all surfaced roadways, walks, and parking and loading areas of the Premises will keep the exterior areas of the Premises generally in neat and orderly condition; and will make all repairs and replacements to any of the foregoing, whether the same are ordinary or extraordinary, foreseen or unforeseen, capital or non-capital. Tenant will secure, pay for and keep in force contracts with appropriate and reputable service companies providing for the regular and proper maintenance of

the security, alarm, heating, ventilating, and air-conditioning systems and copies of such contracts will be furnished to Landlord upon request. It is expressly understood and agreed that, except as otherwise provided in Article 12 and 13, Landlord will not be obligated during the Term of this Lease, to make any repairs, alterations, or replacements, whether structural or otherwise, of any kind whatsoever to the Premises.

5.2 Compliance with Law. Subject to the provisions of Article 6 below relating to Permitted Contests, Tenant will make all repairs, alterations, additions or replacements to the Premises necessary to comply with Legal Requirements, will keep the Premises equipped with all required safety equipment and will comply with the orders, regulations, variances, licenses and permits from any governmental authorities with respect to zoning, building, fire, health and other codes, regulations, ordinances or laws applicable to the

Premises, and the condition, use or occupancy thereof, except that Tenant may defer compliance with a Legal Requirement which it is contesting in strict accordance with the provisions of Article 6 to the extent permitted therein.

5.3 Condition of Premises on Termination. Except as provided in Articles 12 and 13 below, upon expiration of the Term or earlier termination of this Lease for whatever reason, Tenant will surrender the Premises to Landlord in the same condition as Tenant is required to maintain the Premises during the Term. All Alterations will become a part of the Premises and will become the property of Landlord upon the expiration of the Term or earlier termination of this Lease without compensation, unless Landlord, by written notice to Tenant, requires Tenant to remove some or all of Tenant' s Alterations, in which event Tenant will promptly remove the designated Alterations and will repair any resulting damage, all at Tenant' s sole expense, prior to the scheduled Termination Date or any Early Termination date and as soon as is reasonably possible (and in all events, within thirty (30) days), after the effective date of any earlier termination. All business and trade fixtures, machinery and equipment used in Tenant' s business which is not part of the systems of the Premises, furniture, movable partitions and items of personal property owned by Tenant or installed by Tenant at its expense in the Premises will be and remain the property of Tenant upon the expiration or earlier termination of this Lease, and Tenant will, at its sole expense, remove all such items and repair any damage to the Premises caused by such removal. If Tenant fails to remove any such items or repair such damage prior to the Termination Date or Early Termination Date or promptly after the earlier termination of the Lease, Landlord may, but need not, do so, with no liability to Tenant, and Tenant will pay Landlord the cost thereof upon demand. The provisions of this Section will survive the expiration or earlier termination of this Lease.

ARTICLE 6

PERMITTED CONTESTS

6. Permitted Contests. Tenant, at Tenant' s expense, after prior written notice to Landlord, may contest, by appropriate legal proceedings conducted in good faith and with due diligence, the amount or validity or application, in whole or in part, of any Property Tax or Utility Charge or any Legal Requirement, provided that Tenant will first make all contested payments, under protest if Tenant desires, unless Tenant has commenced proceedings which legally suspend the collection thereof, provided that neither the Premises, nor any part thereof or interest therein,

nor any Rent would be in any danger of being sold, forfeited, lost or interfered with, nor would Landlord be subjected to any collection proceedings as a result of such non-payment. In the case of a Legal Requirement, Tenant may delay compliance only if such delay would not result in a risk to safety or health or place Landlord at risk, as a result of such delay, of any civil or criminal liability or penalty for failure to comply therewith or subject the Premises to the imposition of any lien as a result of such failure; and Tenant will have furnished such security as may reasonably be requested by Landlord for the payment or performance of the contested obligation in the event that Tenant' s contest is not successful.

ARTICLE 7

TRANSFERS;
ASSIGNMENT AND SUBLETTING

7.1 Restriction on Transfers. Without the prior written consent of Landlord, which consent Landlord may grant or withhold in its sole and absolute discretion, Tenant will not, either voluntarily or by operation of law, assign, mortgage, pledge, hypothecate, sell, encumber, or otherwise transfer this Lease or any interest herein, or sublet the Premises or any part thereof, or permit the Premises to be occupied by anyone other than Tenant or Tenant' s employees (any such assignment, encumbrance, subletting, occupation or transfer being hereinafter referred to as a "**Transfer**", and the party to which such Transfer is made as a "**Transferee**"). For purposes of this Lease, the term "**Transfer**" will also include **(i)** any transfer by operation of law, merger or consolidation of Tenant into any other firm, corporation or other entity, the dissolution, division, liquidation or other reorganization of Tenant, or, if Tenant is not a publicly traded entity (i.e. not an entity whose stock, membership or other equity ownership interests are publicly held and traded through an exchange or over the counter), the sale or other transfer of a controlling interest in Tenant whether such sale or other transfer occurs at one time or in a series of related transactions, **(ii)** if Tenant is a partnership, the withdrawal or change, voluntary, involuntary or by operation of law, of a majority of the partners, or a transfer of a majority of partnership interests, within a twelve month period, or the dissolution of the partnership, and **(iii)** the sale, mortgage, hypothecation or pledge of more than an aggregate of fifty percent (50%) of Tenant' s net assets other than in connection with one or more commercial loans or comparable financing transactions with entities engaged in the business of making commercial loans, or **(iv)** any change by Tenant in the form of its legal organization under applicable state law. Any Transfer in violation of the foregoing will be void and will constitute an Event of Default under this Lease.

Notwithstanding the foregoing: Landlord' s consent will not be required for **(i)** a Transfer to any entity which is owned and controlled by, in common ownership and control with or which owns and controls Tenant (in each case, an "**Affiliate**"**),** or **(ii)** a Transfer arising from a merger or consolidation of Tenant, provided that the surviving entity has a net worth, determined in accordance with generally accepted accounting principals consistently applied, at least equal to the net worth of Tenant on the Commencement Date or at the time of such Transfer, whichever is

greater, and otherwise meets the criteria set forth in Section 7.3 below. If an entity which is an Affiliate of Tenant at the time of Transfer thereafter ceases to be an Affiliate, the transaction by virtue of which such entity ceases to be an Affiliate will constitute a Transfer hereunder.

7.2 Notice to Landlord. If Tenant wishes to Transfer this Lease or any interest herein, at least thirty (30) days, but not more than one hundred eighty (180) days, prior to the effective date of the proposed Transfer, Tenant will submit to Landlord in connection with Tenant' s request for Landlord' s consent:

(a) A statement containing the name and address of the proposed Transferee; and the type of use proposed for the Premises, and will thereafter provide to Landlord such additional information as Landlord may requests; and

(b) A copy of the assignment, sublease and/or other instrument intended to be used to affect a Transfer (the "**Transfer Documents**"**),** on a form which the parties thereto have agreed to execute, together with a statement of any material terms of the Transfer not apparent from the instrument of Transfer.

7.3 Landlord' s Consent; Standards. Without limitation, it will not be deemed unreasonable for Landlord to withhold its consent to a proposed Transfer if, in Landlord' s opinion: **(a)** the proposed Transferee does not have the financial strength to perform its obligations under this Lease or any proposed sublease; **(b)** the business and operations of the proposed Transferee are not of comparable quality to the business and operations being conducted on the properties in the vicinity of the Premises; **(c)** the proposed Transferee intends to use any part of the Premises for a purpose not permitted under this Lease; **(d)** the use of the Premises by the proposed Transferee would, in Landlord' s reasonable judgment, negatively impact the Premises to a degree or in a fashion which is materially greater than Tenant' s use of the Premises, including, without limitation, by requiring Alterations to the Premises to comply with Legal Requirements which Landlord does not deem to be in its interest; **(e)** if less than the entire Premises, the space subject to such proposed Transfer is regular in shape with appropriate means of ingress and egress suitable for normal renting purposes; **(f)** the Transferee is a governmental body (or agency or instrumentality thereof); or **(g)** Tenant has failed to cure an Event of Default under this Lease or an event or condition as to which Tenant has received a Notice of Default at the time Tenant requests consent to the proposed Transfer or at the time of the effective date of the proposed Transfer.

7.4 Landlord' s Costs. If Tenant requests Landlord' s consent to a Transfer, Tenant will pay to Landlord upon demand as Additional Rent all of Landlord' s costs related thereto, including, without limitation, Landlord' s reasonable attorneys' fees.

7.5 Continuing Liability of Tenant. Notwithstanding any Transfer, by assignment, sublet or otherwise, whether or not Landlord has consented thereto, and excluding only a Transfer to Landlord, Tenant will remain as fully and primarily liable for the payment of Rent and for the performance of all other obligations of Tenant contained in this Lease to the same extent as if the Transfer had not occurred, Tenant and Transferee to be jointly and severally liable for the

payment and performance of all such obligations and Tenant to be directly and personally liable for any act or omission of any Transferee, other than Landlord, that violates the terms of this Lease will be deemed a violation of this Lease by Tenant.

7.6 Non-Waiver. The consent by Landlord to any Transfer will not relieve Tenant, or any person claiming through or by Tenant, of the obligation to obtain the consent of Landlord pursuant to this Article 7, to any further Transfer. In the event of Transfer, Landlord may collect Rent from the Transferee without waiving any rights hereunder and collection of the Rent from a person other than Tenant will not be deemed a waiver of any of Landlord' s rights under this Article 7, acceptance of a Transferee as Tenant, or a release of Tenant from the performance of Tenant' s obligations under this Lease. If there is an Event of Default by Tenant under this Lease and for so long as such Event of Default remains outstanding, Landlord is hereby irrevocably authorized, as Tenant' s agent and attorney-in-fact, to direct any Transferee to make all payments under or in connection with the Transfer directly to Landlord (which Landlord will apply towards Tenant' s obligations under this Lease).

7.7 Documentation of Transfer As a condition to Landlord' s consent to any Transfer, the parties thereto will make any changes and additions to the Transfer Documents as Landlord reasonably requests and will execute and deliver to Landlord at least one (1) original copy of the Transfer Documents and at least one (1) original copy of a Consent to Transfer and Assumption of Lease, in the form required by Landlord, which, without limitation, will include some or all of the terms and conditions of this Article 7, as Landlord deems appropriate.

7.8 Landlord' s Recapture Rights. At any time within twenty (20) business days after Landlord' s receipt of all (but not less than all) of the information and documents described in Section 7.2 above, Landlord may, by written notice to Tenant, elect to: (a) sublease the Premises or the portion thereof proposed to be sublet by Tenant upon the same terms as those offered to a proposed subtenant; (b) take an assignment of the Lease upon the same terms as those offered to a proposed assignee; or (c) terminate the Lease in its entirety or as to any portion of the Premises proposed to be sublet, with a proportionate adjustment in the Rent payable hereunder if the Lease is terminated as to less than all the Premises. If Landlord does not exercise any of the options described in the preceding sentence, then, during the above-described twenty (20) business day period, Landlord will either consent or deny its consent to the proposed Transfer.

ARTICLE 8

ALTERATIONS, ADDITIONS AND IMPROVEMENTS

8.1 Landlord' s Consent, Conditions. Tenant will not make or permit to be made any alterations, additions, improvements or other changes in or to the Premises **("Alterations")** without the prior written consent of Landlord. Landlord may impose as a condition to its consent such requirements as Landlord reasonably deems necessary or desirable including without limitation: **(a)** Tenant' s submission to Landlord, for Landlord' s prior written approval, of all plans and specifications for the Alterations; **(b)** Landlord' s prior written approval of the time or times when the Alterations are to be performed; **(c)** Landlord' s prior written approval of the contractors and subcontractors performing work in connection with the Alterations; **(d)** employment of union or other contractors and subcontractors who will not cause labor disharmony; **(e)** Tenant' s receipt of all necessary permits and approvals from all governmental authorities having jurisdiction over the Premises prior to the construction of the Alterations; **(f)** Tenant' s delivery to Landlord of such bonds and insurance as Landlord reasonably requires; and **(g)** Tenant' s payment to Landlord of all costs and expenses incurred by Landlord because of Tenant' s Alterations, including but not limited to costs incurred in reviewing the plans and specifications for the Alterations and for reviewing work in progress. Tenant is required to provide Landlord written notice of whether the Alterations include the Handling of any Hazardous Materials and whether these materials are of a customary and typical nature for industry practices. At the request of Landlord, Tenant will provide to Landlord as-built plans of any Alterations within thirty (30) days of Landlord' s request. Neither the approval by Landlord of plans and specifications relating to any Alterations nor Landlord' s monitoring and inspection of any Alterations will constitute a warranty or acceptance by Landlord of the adequacy of the design for Tenant' s intended use or the proper performance of the Alterations.

8.2 Performance of Alterations Work. All work relating to the Alterations will be performed in a diligent, first class manner, in accordance with the plans and specifications approved by Landlord and in compliance with all Legal Requirements. No asbestos-containing materials or any Hazardous Materials will be used or incorporated in the Alterations. No lead- containing surfacing material, solder, or other construction materials or fixtures where the presence of lead might create a condition of exposure not in compliance with Environmental Laws will be incorporated in the Alterations.

8.3 Liens. Tenant will pay when due all costs for work performed and materials supplied to the Premises. Tenant will keep Landlord, and the Premises free from all liens, stop notices and violation notices relating to the Alterations or any other work performed for, materials furnished to or obligations incurred by or for Tenant and Tenant will protect, indemnify, hold harmless and defend Landlord, and the Premises of and from any and all loss, cost, damage, liability and expense, including attorneys' fees, arising out of or related to any such liens or notices. During the progress of such work, Tenant will, upon Landlord' s request, furnish Landlord with sworn contractor' s statements and lien waivers covering all work theretofore performed. Tenant will satisfy, otherwise discharge all liens, stop notices or other claims or encumbrances within ten (10) days after Tenant first receives knowledge of any such item. If Tenant fails to pay and remove such lien, claim or encumbrance within such ten (10) days, Landlord, at its election, may pay and satisfy the same and in such event the sums so paid by Landlord, with interest from the date of payment at the Default Rate set forth in **Section 21.5** will be deemed to be Additional Rent due and payable by Tenant upon demand.

ARTICLE 9

INDEMNIFICATION AND RISK OF LOSS

9.1 Agreement to Indemnify. Tenant agrees to protect, indemnify, hold harmless and defend Landlord and any Mortgagee, as defined herein, and each of their respective partners,

directors, officers, agents and employees, successors and assigns, which indemnity will survive the expiration of the Term or earlier termination of this Lease, for whatever cause occurring, from and against: **(a)** any and all loss, cost, damage, liability or expense (collectively, "**Costs**") as incurred (including but not limited to reasonable attorneys' fees and legal costs), arising out of or related to any claim, suit or judgment (collectively, "**Claim**") brought by or in favor of any person or persons for damage, loss or expense due to, but not limited to, bodily injury, including death, or property damage sustained by such person or persons which arises out of, is occasioned by or is in any way attributable to the Premises or the use and occupancy of the Premises, whether or not arising from the acts or omissions of Tenant or its agents, employees, contractors, clients, invitees or subtenants. Such loss or damage will include, but not be limited to, any injury or damage to, or death of, Landlord' s employees or agents or damage to the Premises; and **(b)** any and all Environmental Damages, as hereinabove defined. Tenant' s obligations to the Landlord and the other indemnitees will be without regard to fault on Tenant' s part, except that such indemnity will not extend to Environmental Damages which result from the Handling of Hazardous Materials which occurred prior to the commencement date of the Original Lease (a "**Pre-existing Condition**"), but will extend to Damages arising from the actions of Tenant, a predecessor tenant under the Original Lease or a Tenant Responsible Party subsequent to the commencement date of the Original Lease which exacerbate a Pre-Existing Condition.

9.2 Personal Property at Tenant' s Risk. Without limitation, all of the furnishings, fixtures, equipment, effects and property of every kind, nature and description of Tenant and of all persons claiming by, through or under Tenant which, during the continuance of this Lease or any occupancy of the Premises by Tenant or anyone claiming under Tenant, may be on the Premises, will be at the sole risk and hazard of Tenant and if the whole or any part thereof is destroyed or damaged by fire, water or otherwise, or by the leakage or bursting of water pipes, steam pipes, or other pipes, by theft or from any other cause, no part of said loss or damage is to be charged to or to be borne by Landlord.

9.3 Limitations on Indemnity and Assumption of Risk. Any other provision of this Lease to the contrary notwithstanding, in no event will the provisions of this Article 9 or any other provision of this Lease: **(a)** be deemed to require Tenant to indemnify Landlord or to hold the Landlord harmless or release Landlord from liability for any omission, fault, negligence, misconduct, or for any other act, in a manner which is void as a matter of applicable law, or **(b)** be interpreted or in any way deemed to affect, limit, reduce or abrogate any insurance coverage provided by any insurers or any indemnity obligations undertaken by any other person to either Tenant or Landlord, or **(c)** be construed to infer or imply that either party hereto is a partner, joint venturer, agent, employee, or otherwise acting, by or at the direction of the other party hereto.

ARTICLE 10

INSURANCE

10.1 Property Insurance. At all times during the Term and while Tenant is otherwise in occupancy of the Premises, Tenant will procure and maintain, at its sole expense, "special causes of loss" property insurance, for damage or other loss caused by fire or other casualty or

cause including, but not limited to, vandalism and malicious mischief, theft, water damage of any type, including sprinkler leakage, bursting of pipes, explosion, and covering the Buildings and all other insurable improvements, including all alterations made by Tenant and Tenant' s trade fixtures equipment and other personal property in the Premises, in an amount not less than one hundred percent (100%) of the replacement cost of the buildings and other insurable improvements which form a part of the Premises, together with business interruption insurance in such amount as will reimburse Tenant for direct or indirect loss of earnings attributable to all perils insured against in Section 10.1.

10.2 Liability Insurance. At all times during the Lease Term, Tenant will procure and maintain, at its sole expense, commercial general liability insurance applying to the use and occupancy of the Premises and the business operated by Tenant. Such insurance will have a minimum combined single limit of liability of at least One Million Dollars ($1,000,000.00) per occurrence and a general aggregate limit (combined primary and excess) of at least Two Million Dollars ($2,000,000.00). All such policies will be written to apply to bodily injury, property damage, and personal injury losses.

10.3 Workers' Compensation and Employer' s Liability Insurance. At all times during the Lease Term, Tenant will procure and maintain Workers' Compensation Insurance in accordance with the laws of the State of Connecticut, and Employer' s Liability insurance in accordance with the greater of limits required by law or One Million Dollars ($1,000,000.00); Bodily Injury Each Accident One Million Dollars ($1,000,000.00); Bodily Injury By Disease - Each Person One Million Dollars ($1,000,000.00); and Bodily Injury by Disease - Policy Limit.

10.4 Policy Requirements. All insurance required to be maintained by Tenant will be issued by insurance companies authorized to do insurance business in the State of Connecticut and rated not less than A-VIII in Best' s Insurance Guide, or, if Best' s Insurance Guide is no longer published, an equal or better rating by a generally accepted substitute rating agency. A certificate of insurance (and, at Landlord' s option, copies of the applicable policies when available) evidencing the insurance required under this Article 10 will be delivered to Landlord not less than thirty (30) days prior to the Commencement Date. Such policies will be endorsed to include Landlord and its agents (including, without limitation, any property manager) beneficiaries, partners, members, employees, and any deed of trust holder or mortgagee of Landlord or any ground lessor as additional insureds and will contain only deductibles in amounts which are customary in Tenant' s industry and reasonably acceptable to Landlord. No such policy will be subject to cancellation or modification without at least thirty (30) days prior written notice (ten (10) days for non-payment of premiums), to Landlord and to any Mortgagee designated by Landlord to Tenant. Tenant will furnish to Landlord a replacement certificate with respect to any insurance not less than ten (10) days prior to the expiration of the current policy. Tenant will have the right to provide the insurance required by this Article pursuant to blanket policies, but only if such blanket policies expressly provide coverage to the Premises, Landlord and any such mortgagee or ground lessor. In no event will Tenant self-insure against any risks required to be covered by insurance hereunder without Landlord' s prior written consent.

ARTICLE 11

DEFAULT AND REMEDIES

11.1 Tenant Defaults. The occurrence of any one or more of the following will constitute a material default and breach of this Lease (an "**Event of Default**") by Tenant:

(a) Failure by Tenant to pay Fixed Rent or Additional Rent, as and when due, if such failure continues for five (5) business days after written notice (a "**Notice of Default**") from Landlord to Tenant, provided that Tenant shall not be entitled to more that one (1) such notice in any twelve (12) month period or three (3) such notices during the Term of this Lease, and thereafter, any failure to pay such Fixed Rent or Additional Rent as and when due will constitute an Event of Default without notice.

(b) A Transfer, except as expressly permitted under Article 7, of this Lease.

(c) The making by Tenant of any general assignment for the benefit of creditors, the filing by or against Tenant or any Guarantor of a petition under any federal or state bankruptcy or insolvency laws (unless, in the case of a petition filed against Tenant, the same is dismissed within ninety (90) days after filing); the appointment of a trustee or receiver to take possession of substantially all of Tenant' s assets at the Premises or Tenant' s interest in this Lease or the Premises, if possession is not restored to Tenant within ninety (90) days; or the attachment, execution or other seizure of substantially all of Tenant' s assets located at the Premises or Tenant' s interest in this Lease or the Premises, if such seizure is not discharged within ninety (90) days.

(d) Vacation and abandonment of the Premises by Tenant.

(c) Failure by Tenant to observe or perform any provision of this Lease to be observed or performed by Tenant, other than those described in Sections 11.1 (a), (b), (c) and (d), above, if such failure continues for thirty (30) days after Notice of Default from Landlord to Tenant; provided, however, that if the nature of Tenant' s failure is such that it cannot be cured within such thirty (30) day period, no Event of Default will be deemed to exist if Tenant commences the cure of such failure within such period and thereafter diligently prosecutes the same to completion. The thirty (30) day notice described herein will be in lieu of, and not in addition to, any notice required under any law now or hereafter in effect requiring that notice of default be given prior to the commencement of an unlawful detainer or other legal proceeding.

11.2 Landlord' s Remedies. If an Event of Default by Tenant occurs, Landlord will have the right: **(a)** to re-enter and take possession of the Premises or any part thereof and repossess the same as of Landlord' s former estate and expel Tenant and those claiming through or under Tenant, and remove the effects of both or either without being deemed guilty in trespass or of a forcible entry or detainer and without prejudice to any remedies for arrears of rent or preceding breach or covenants, or **(b)** to terminate this Lease and recover possession of the Premises by giving written notice to Tenant of Landlord' s election to terminate this Lease, in either such event, Landlord will be entitled to receive from Tenant:

(a) The Worth at the Time of Award, as hereinafter defined, of any unpaid Rent which had been earned at the time of such termination; plus

(b) The Worth at the Time of Award of the amount by which the unpaid Rent for the balance of the Term exceeds the fair market value rent for the Premises during the same time period; plus

(c) All costs to Landlord of regaining possession of the Premises, of preparing the Premises for reletting and of reletting, including without limitation, brokers fees and new tenant concessions plus any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant' s failure to perform its obligations under this Lease or which in the ordinary course would be likely to result therefrom; and

(d) At Landlord' s election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

As used in clause (a) above, "Worth at the Time of Award" will be computed by allowing interest on such amounts at two percent (2%) over the **Prime Rate** (the base rate on corporate loans posted by at least 75% of the 30 largest U.S. banks) as published by the *Wall Street Journal* at the time of the award. As used in clause (b) above, "worth at the time of award" will be computed by discounting such amount at a discount rate of three percent (3%).

In lieu of the damages recoverable under clause (b) above, Landlord may recover, as liquidated damages and sole remedy for damages recoverable under clause (b), an amount equal to the total of Fixed Rent, and Additional Rent payable by Tenant to Landlord with respect to the twelve (12) full calendar months preceding termination.

11.3 Landlord' s Right To Continue Lease Upon Tenant Default. If an Event of Default by Tenant occurs, and Landlord does not elect to terminate this Lease as provided in Section 11.2 above, Landlord may from time to time, without terminating this Lease, enforce all of its rights and remedies under this Lease. Without limiting the foregoing, Landlord may continue this Lease in effect after an Event of Default by Tenant and recover Rent as it becomes due. In the event Landlord re-lets the Premises, to the fullest extent permitted by law, the proceeds of any reletting will be applied first to pay to Landlord all costs and expenses of such reletting (including without limitation, costs and expenses of retaking or repossessing the Premises, removing persons and property therefrom, securing new tenants, including expenses for redecoration, alterations and other costs in connection with preparing the Premises for the new tenant, and if Landlord will maintain and operate the Premises, the costs thereof) and receivers' fees incurred in connection with the appointment of and performance by a receiver to protect the Premises and Landlord' s interest under this Lease and any necessary or reasonable alterations; second, to the payment of any indebtedness of Tenant to Landlord other than Rent due and unpaid hereunder; third, to the payment of Rent due and unpaid hereunder; and the residue, if any, will be held by Landlord and applied in payment of other or future obligations of Tenant to Landlord as the same may become due and payable, and Tenant will not be entitled to receive any portion of such revenue.

11.4 Right of Landlord to Perform Tenant' s Obligations. All covenants and agreements to be performed by Tenant under this Lease will be performed by Tenant at Tenant' s sole cost and expense. If Tenant fails to pay any Additional Rent or fails to perform any other act or observe any other covenant on its part to be performed or observed hereunder, Landlord may, but will not be obligated to, make any payment or perform any such other act on Tenant' s part to

be made or performed, without waiving or releasing Tenant of its obligations under this Lease. Any sums so paid by Landlord or costs incurred, together with interest thereon at the Default Rate as hereinafter defined, from date paid or incurred by Landlord and will be payable to Landlord as Additional Rent on demand and Landlord will have the same rights and remedies in the event of nonpayment as in the case of failure by Tenant in the payment of Rent generally.

11.5 Security Deposit. If Tenant shall default with respect to any covenant or provision hereof, Landlord may use, apply or retain all or any portion of the Security Deposit to cure such default or to compensate Landlord for any loss or damage which Landlord may suffer thereby. If Landlord so uses or applies all or any portion of the Security Deposit, Tenant shall immediately upon written demand deposit cash with Landlord in an amount sufficient to restore the Security Deposit to the full amount hereinabove stated. Landlord shall maintain the Security Deposit in an account separate from its general accounts and shall make withdrawals from such account only in accordance with the terms of this Lease. Interest, if any, on the Security Deposit, shall be deemed to form a part of the Security Deposit, and shall be disposed of in the same fashion as the original amount deposited. Within thirty (30) days after the expiration of the Lease Term and the vacation of the premises by Tenant, the Security Deposit, or such part as has not been applied to cure the default, shall be returned to Tenant

11.6 Remedies Cumulative. The specific remedies to which Landlord may resort under the terms of the Lease are cumulative and are not intended to be exclusive of any other remedies or means of redress to which it may be lawfully entitled in case of any breach or threatened breach by Tenant of any provisions of the Lease. In addition to the other remedies provided in the Lease, Landlord will be entitled to a restraint by injunction of the violation or attempted or threatened violation of any of the covenants, conditions or provisions of the Lease or to a decree compelling specific performance of any such covenants, conditions or provisions.

11.7 Prejudgment Remedy Waiver. TENANT, FOR ITSELF AND FOR ALL PERSONS CLAIMING THROUGH OR UNDER IT, HEREBY ACKNOWLEDGES THAT THIS LEASE CONSTITUTES A COMMERCIAL TRANSACTION AS SUCH TERM IS USED AND DEFINED IN SECTION 52-278(A) OF THE CONNECTICUT GENERAL STATUTES, OR ITS SUCCESSOR PROVISIONS IF AMENDED, AND HEREBY EXPRESSLY WAIVES ANY AND ALL RIGHTS WHICH ARE OR MAY BE CONFERRED UPON THE TENANT BY SAID ACT TO ANY NOTICE OR HEARING PRIOR TO A PREJUDGMENT REMEDY OR TO REQUIRE THE POSTING OF A BOND OR OTHER SURETY UNDER SECTIONS 52-278(A) TO 52-278(G), OR THEIR SUCCESSOR PROVISIONS IF AMENDED, INCLUSIVE OF SAID STATUTES. SUCH WAIVER IS INTENDED AS A WAIVER IN ACCORDANCE WITH SECTION 52-278(F) OR ITS SUCCESSOR PROVISIONS IF AMENDED, OF SAID STATUTES.

ARTICLE 12

CASUALTIES

12.1 Total-Destruction. If all or substantially all of the Buildings (determined by comparison of the floor area of the Buildings destroyed to the total floor area of the Premises), are destroyed by fire or other casualty (a "**Casualty**", and the resulting damage, a "**Total**

Destruction")**,** this Lease will automatically terminate as of the date of the Casualty (the "**Casualty Date**")**.**

12.2 Partial Destruction. Subject to the provisions of Section 2.4 above, if some portion of the Premises is destroyed by Casualty, but such event does not constitute a Total Destruction, Tenant will give written notice of such event to Landlord within ten (10) days of the Casualty Date and, within Sixty (60) days of receipt of such notice, Landlord will give written notice to Tenant of whether or not, in Landlord' s opinion, the Buildings and the Premises can be restored to their pre-existing condition (exclusive of damage to Alterations made to the Premises by Tenant) **("Restored")** within one hundred and eighty (180) days after the Casualty Date (the "**Restoration Period**")**.** If, in Landlord' s opinion, the Premises can be Restored within the Restoration Period, Landlord will promptly and with commercially reasonable diligence but subject to Force Majeure, as defined in Section 21.4 below, and including a reasonable time for adjustment of insurance losses and recovery of insurance proceeds, Restore the Premises, with such modifications as may be required by zoning and building codes and other Legal Requirements or by any Mortgagee, as defined in Section 14.1 and Fixed Rent will be abated from the Casualty Date to the date on which Landlord' s Restoration is substantially complete, in the same proportion that the floor area of the portion of the Buildings which is rendered unusable by such casualty for the conduct of Tenant' s business bears to the total floor area of the Buildings. Subject to the provisions of Section 21.4, if Landlord gives notice as aforesaid that the Premises can be Restored within the Restoration Period, and such Restoration is not substantially complete within such Period, Tenant may, by written notice to Tenant within thirty (30) days after the expiration of the Restoration Period, elect to terminate this Lease effective thirty (30) days after Tenant' s notice unless Restoration has not been substantially completed prior to such date. If the Buildings are partially destroyed and cannot, in Landlord' s opinion, be restored within the Restoration Period, Landlord may elect to terminate this Lease as of the Casualty Date by written notice to the other within sixty (60) days after the Casualty Date and Tenant may elect to terminate this Lease effective as of the Casualty Date within thirty (30) days of receipt from Landlord of notice that the Premises cannot be restored within the Restoration Period or if no such notice of the anticipated time of Restoration is given by Landlord, within ninety (90) days of the Casualty. If neither party elects to terminate under the terms of this Section 12.2, this Lease will continue in full force and effect, the Fixed Rent will be abated as hereinabove provided, and Landlord will proceed to Restore the Premises as expeditiously as is reasonably possible under the actual circumstances affecting such Restoration. Tenant' s rights to terminate as aforesaid will be Tenant' s sole remedy, whether or not Landlord is required to Restore hereunder. In no event will Landlord be required to expend any funds toward Restoration of the Building in excess of the net amount actually available to Landlord from insurance, nor will Landlord be liable for any loss or damage to Tenant for the termination or non-termination of this Lease, or for the failure to complete Restoration within the Restoration Period. Any other provision of the forgoing notwithstanding, Landlord will have no obligation to Restore the Premises if the Casualty Date is within two (2) years of the Termination Date unless within thirty (30) days of the Casualty Date, Tenant validly exercises any option to extend the Term then held by Tenant.

12.3 Waiver. To the extent permitted by law, the provisions contained in this Lease will supersede any contrary law (whether statutory, common law or otherwise) now or hereafter in effect relating to damage, destruction, self-help or termination.

ARTICLE 13

CONDEMNATION

13.1 Total Condemnation. If the entire Premises or a portion of the Premises which renders the balance unusable by Tenant for the Tenant' s Permitted Use is taken by eminent domain, or is transferred to a condemning authority by sale in lieu of condemnation or in any other manner for any public or quasi-public purpose (collectively "**Condemnation**")**,** then this Lease will terminate on the date that title or possession to the Premises is taken by the condemning, authority, whichever is earlier.

13.2 Partial Condemnation. Subject to the provisions of Section 2.4 above, if a Condemnation occurs which does not render the balance of the Premises unusable for Tenant' s Permitted Use, Landlord will promptly and with commercially reasonable diligence but subject to the provisions of Section 20.4 and including a reasonable time for recovery of the Condemnation award, Restore the Premises, with such modifications as may be required by zoning and building codes and other Legal Requirements or by any Mortgagee and Fixed Rent will be equitably adjusted in light of the portion of the Premises Condemned from the date that title or possession to such portion of the Premises is taken by the condemning authority, whichever is earlier.

13.3 Award. If a Condemnation occurs, the entire award for such Condemnation will belong to Landlord. Tenant will have no claim against Landlord or the award for the value of the unexpired term of this Lease or otherwise and Tenant hereby releases and assigns to Landlord all Tenant' s rights to such awards. Tenant will be entitled to independently pursue a separate award in a separate proceeding for Tenant' s relocation costs directly associated with the taking and for fixtures and improvements which Tenant is entitled to remove upon expiration of the Term, provided such separate award does not diminish Landlord' s award.

13.4 Temporary Taking. No temporary taking of the Premises will terminate this Lease or entitle Tenant to any abatement of the Fixed Rent and Additional Rent payable under this Lease; provided that any award for such temporary taking will belong to Tenant, to the extent that the award applies to any time period during the Term, and to Landlord to the extent that the award applies to any time period outside the Term.

ARTICLE 14

SUBORDINATION AND ATTORNMENT

14.1 Subordination. **(i)** Any present and future first priority mortgage encumbering the Premises; **(ii)** all past and future advances made under any such first priority mortgage; and **(iii)** all renewals, modifications, and extensions of any such first priority mortgage are hereinafter referred to collectively as a "**First Mortgage,** and the holder of such mortgage as a "**First Mortgagee**"**.** The First Mortgage and any mortgages of lower priority covering the Premises are hereinafter sometimes referred to collectively as "**Mortgages**"**,** and the holders of such Mortgages, including without limitation, the First Mortgagee, are hereinafter sometimes referred to collectively as "**Mortgagees**"**.** This Lease, and the rights of Tenant hereunder, are and will be subject and subordinate to the interest of an First Mortgagee, provided that such First Mortgagee will have the right to elect, and from time to time change such election, by written notice given to Tenant, to make this Lease superior to such First Mortgage and/or to any junior Mortgage or Mortgages. A First Mortgagee, upon taking title to or possession of the Premises by foreclosure or deed in lieu of foreclosure (in its own name or through a wholly owned subsidiary), and any purchaser from such First Mortgagee or its wholly owned subsidiary at a foreclosures sale or after deed in lieu of foreclosure (in any such case, a "**Successor Landlord**"**)** will **(i)** not be liable for any act or omission of Landlord or its predecessors, prior to the date of such Successor Landlord' s succession to Landlord' s interest under this Lease; **(ii)** not be subject to any offsets or defenses which Tenant might have been able to assert against Landlord or its predecessors, prior to the date of such Successor Landlord' s succession to Landlord' s interest under this Lease; **(iii)** not be liable for the return of any security deposit under this Lease unless the same has actually been deposited with such Successor Landlord; **(iv),** be entitled to receive notice of any Landlord default under this Lease plus a reasonable opportunity to cure such default prior to Tenant having any right or ability to teuninate this Lease as a result of such Landlord default; **(v)** not be bound by any Fixed Rent or Additional Rent which Tenant might have paid to Landlord more that thirty (30) days in advance: **(vi)** not be bound by any amendment, modification, cancellation or surrender of this Lease made without the First Mortgagee' s prior written consent; **(vii)** not be bound by any obligation to make any payment to Tenant which was required to be made prior to the time such Successor Landlord succeeded to Landlord' s interest, and **(viii)** not be bound by any obligation under the Lease to perform any work or to make any improvements to the Premises. The obligations of a Successor Landlord under this Lease will be non-recourse as to any assets of such Successor Landlord other than its interest in the Premises. The provisions of this Section 14.1 will be effective and self-operative upon notice from a First Mortgagee to Tenant as aforesaid, provided that, upon demand, Tenant will execute, acknowledge and deliver to Landlord or First Mortgagee any instruments requested by such First Mortgagee, or by Landlord on behalf of any First Mortgagee, to evidence, confirm and implement the provisions of this Section 14.1.

14.2 Attornment and Recognition. If the Premises or the interest of Landlord under this Lease are transferred to a Successor Landlord, at such Successor Landlord' s option, Tenant will be bound to such Successor Landlord under all of the terms, covenants and conditions of the Lease for the balance of the Term and at the Successor Landlord' s option, Tenant will attorn to such Successor Landlord, as its landlord. The provisions of this Section 14.2 will be effective and self-operative upon Tenant' s receipt of notice from such Successor Landlord, provided that Tenant will, upon demand, execute any documents requested by such Successor Landlord to evidence, confirm and implement the attornment described in this Section 14.2. If this Lease and

the rights of Tenant hereunder are subject and subordinate to a First Mortgage solely by virtue of the provisions of the preceding Section 14.1, such subordination will be conditioned upon the undertaking of such First Mortgagee not to disturb the rights of Tenant to use and occupy the Premises in accordance with the terms of this Lease, including the limitations on the obligations of a Successor Landlord set forth in Section 14.1, for so long as there is no Event of Default by Tenant hereunder.

14.3 Protections for Mortgagees. Tenant agrees to give any Mortgagee, by registered or certified mail, a copy of any notice of default served upon Landlord by Tenant, provided that prior to such notice, Tenant has been notified in writing of the address of such Mortgagee (hereafter a "**Qualified Mortgagee**"**).** Tenant further agrees that if Landlord fails to cure such default within thirty (30) days after such notice to Landlord (or if such default cannot be cured or corrected within that time, then such additional time as may be necessary, provided that if Landlord promptly commenced a cure of such default within such thirty (30) days and is diligently pursuing the remedies or steps necessary to cure or correct such default), then the Qualified Mortgagee will have an additional thirty (30) days within which to cure or correct such default (or if such default cannot be cured or corrected within that time, then such additional time as may be necessary, provided that the Qualified Mortgagee promptly commenced a cure of such default within the such thirty (30) days and is diligently pursuing the remedies or steps necessary to cure or correct such default). Until the time allowed, as aforesaid, for the Qualified Mortgagee to cure such default has expired without cure, Tenant will not have any right to terminate this Lease on account of Landlord' s default, and thereafter only in accordance with the terms of this Lease.

ARTICLE 15

ENTRY BY LANDLORD

15.1 Entry by Landlord. Landlord may enter the Premises and the Building at any time to determine whether Tenant is complying with all of its obligations under this Lease; and to exhibit the same to prospective purchasers or Mortgagees, to formulate plans for future use and development of the Premises and, during the last twelve (12) months of the Term, to prospective tenants. Tenant hereby waives any claims for damages for inconvenience to, or interference with, Tenant' s business, or loss of occupancy of quiet enjoyment of the Premises occasioned by such entry. Tenant will provide to Landlord keys and security access codes, if any, with which to unlock all of the doors in, on or about the Premises, and Landlord will have the right to use any and all means by which Landlord may deem proper to open such doors to obtain entry to the Premises, and any entry to the Premises obtained by Landlord by any such means, will not under any circumstances be deemed or construed to be a forcible or unlawful entry into or a detainer of the Premises or an eviction, actual or constructive, of Tenant from any part of the Premises. Such entry by Landlord will not act as a termination of Tenant' s duties under this Lease. If Landlord is required to obtain entry by means other than a key or security access code provided by Tenant, the cost of such entry will be payable by Tenant to Landlord as Additional Rent.

ARTICLE 16

RECOURSE FOR LANDLORD BREACH;
TRANSFER OF LANDLORD' S INTEREST

16.1 Recourse for Landlord Breach. Any provision of this Lease or of any document or communication in connection herewith to the contrary notwithstanding, it is expressly understood and agreed by and between the parties hereto that: **(i)** the recourse of Tenant or its successors or assigns against Landlord with respect to the alleged breach by Landlord of any representation, warranty, covenant, undertaking or agreement under or with respect to this Lease, or regarding the Premises or the Building or any transaction related thereto or otherwise arising out of Tenant' s use of the Premises (a "**Landlord Obligation**"**)** will extend only to Landlord' s interest in the Premises and not to any other assets of Landlord or of any manager, officer, director, member, general or limited partner, shareholder, beneficiary, employee, agent or other representative of Landlord or of any such manager or general partner, and **(ii)** except to the extent of Landlord' s interest in the Premises, neither Landlord nor any manager or general partner of Landlord, or any officer, director, manager, member, general or limited partner, shareholder, beneficiary, employee, agent or other representative of Landlord or of any such manager or general partner will ever be personally liable or responsible in any way for or with respect to the breach of any Landlord' s Obligation.

16.2 Transfer of Landlord' s Interest. Effective upon the transfer of Landlord' s interest in the Premises, Landlord will be automatically released from liability for any Landlord Obligation thereafter accruing.

ARTICLE 17

HOLDOVER TENANCY

17.1 Holdover Tenancy. If Tenant remains in possession of the Premises after the expiration of the Term or earlier termination of this Lease, by whatever cause arising, Tenant will become a tenant at sufferance upon all of the terms and conditions of this Lease, provided that, during any such holdover period, Tenant will pay to Landlord a monthly amount for use and occupancy equivalent to one hundred and fifty percent (150%) of the Fixed Rent and Additional Rent payable by Tenant to Landlord during the twelve (12) calendar months preceding such expiration or termination divided by twelve, and provided further that amounts representing Property Taxes, water and sewer charges and any other obligation which would constitute a lien on the Premises, will be paid to Landlord rather than directly to the taxing authority or provider. The monthly amount payable for such holdover period will in no event be construed as a penalty or as liquidated damages for such retention of possession nor will the acceptance of such payment or of the performance of any other obligation by Landlord be deemed to render Tenant anything other than a tenant at sufferance. In addition to and without limitation on the foregoing, Tenant hereby agrees to indemnify, defend and hold harmless Landlord against any and all claims, liabilities, actions, losses, damages (direct, indirect, incidental and consequential) and expenses (including, without limitation, court costs and reasonable attorneys' fees) asserted against or sustained by any such party and arising from or by reason of such retention of

possession, which obligations will survive the expiration of the Term or other termination of this Lease.

ARTICLE 18

ESTOPPEL CERTIFICATES

18.1 Estoppel Certificates. Tenant agrees that at any time and from time to time upon not less than ten (10) days' prior written notice from the Landlord to execute, acknowledge and deliver a statement in writing addressed and certifying to Landlord and to any current or prospective Mortgagee, to any prospective purchaser of the property, and to any other party designated by Landlord **(a)** that this Lease is unmodified and in full force and effect (or if there have been modifications; **(b)** that the same is in full force and effect as modified and stating the modifications); that Tenant has accepted possession of the Premises, which are, to Tenant' s knowledge, acceptable in all respects, and that any improvements required by the terms of this lease to be made by Landlord have been completed to the satisfaction of Tenant; **(c)** that Tenant is in full occupancy of the Premises; **(d)** that no Fixed Rent has been paid more than thirty (30) days in advance; **(e)** that Tenant is not entitled to free rent or other concessions except as stated in this Lease; **(f)** that the Fixed Rent, Additional Rent and other charges payable by Tenant under this Lease are as set forth in the certificate; **(g)** the dates to which Fixed Rent, Additional Rental and other charges payable by Tenant under this Lease have been paid; **(h)** that Tenant, as of the date of such certificate, has no charge, lien or claim of setoff under this Lease or otherwise against obligations due from Tenant to Landlord; and **(i)** that to the best of Tenant' s knowledge and belief neither Landlord nor Tenant is not in default in performance of any covenant, agreement or condition contained in this Lease. If Tenant believes that facts exist which prevent it from truthfully making any of the foregoing statements, Tenant will set forth such facts in its certificate Any such statement delivered pursuant to this Article may be relied upon by Landlord or any mortgagee, prospective purchaser or other party to whom it is addressed and such statement, if required by its addressee, may so specifically state.

ARTICLE 19

NOTICES

19.1 Notices. All notices, demands, requests, consents, waivers, approvals and other communications to or between Landlord and Tenant will be in writing and will be given and deemed received as follows: **(a)** by hand, upon delivery thereof during business hours provided that a receipt is obtained from the addressee, or **(b)** by certified mail, return receipt requested, postage charges prepaid, upon the earlier of receipt or first properly attempted delivery **(c)** by national overnight delivery service with delivery confirmation, such as Federal Express or Express Mail, freight charges prepaid, upon the earlier of receipt or first properly attempted delivery, or **(d)** by electric facsimile transmission, upon successful transmission, if documented by fax machine hard copy confirmation of receipt and subsequently confirmed by another method permitted hereunder, in each case addressed; delivered or transmitted to the Parties at their respective addresses or fax numbers set forth below (a "**Notice Address**"):

LANDLORD: NPA HARTFORD LLC
C/O Sciens Management LLC
667 Madison Avenue
New York, NY 10021
ATTN: Daniel J. Standen
Tel: (212) 471-6100
Fax: (212) 471-6199

With a Courtesy
Copy to: ROBINSON & COLE LLP
One Boston Place
Boston, MA 02108-4404
ATTN: John T. Ronayne, Esq.
Tel: (617) 557-5920
Fax: (617) 557-5999

TENANT: COLT DEFENSE LLC
547 New Park Avenue
West Hartford, CT 06110-1332
P.O. Box 118

Hartford, CT 06110-0118
ATTN: William M. Keys
Tel: (860) 244-1315
Fax: (860) 244-1475

With a Courtesy
Copy to: COLT DEFENSE LLC
547 New Park Avenue
West Hartford, CT 06110-1332
P.O. Box 118
Hartford, CT 06110-0118
ATTN: Jeffrey G. Grody
Tel: (860) 244-1325
Fax: (860) 244-1475

Any of the foregoing addressees may change its Notice Address at any time by notice to the other addressees in the manner hereinabove set forth, effective upon receipt or deemed receipt.

ARTICLE 20

BROKERS

20.1 Brokers Landlord and Tenant each warrants and represents that it has not knowingly dealt with or any broker or other person who might claim a brokers commission or finders fee in connection with this Lease (a "**Broker**") and Tenant hereby represents and warrants that it has not been introduced to the Premises by a Broker. If either Party has dealt with a Broker in violation of the foregoing warranties and representations, that Party will be solely responsible for the payment of any commissions or fees which may at any time be asserted against the other Party which would not otherwise have been payable but for the actions of the Party which has violated its warranties and representations and will protect, indemnify, hold harmless and defend the other Party from any loss, liability, damage, cost and expense (including, without limitation, attorney' s fees) in respect thereto.

ARTICLE 21

MISCELLANEOUS PROVISIONS

21.1 Entire Agreement. This Lease contains all of the agreements and understandings relating to the leasing of the Premises and the obligations of Landlord and Tenant in connection with such leasing. Landlord has not made, and Tenant is not relying upon, any warranties, or representations, promises or statements made by Landlord or any agent of Landlord, except as expressly set forth herein. This Lease supersedes any and all prior leases, agreements and understandings between Landlord and Tenant with respect to the Premises and alone expresses the agreement of the parties.

21.2 Amendments. This Lease will not be amended, changed or modified in any way unless in writing executed by Landlord and Tenant. Landlord and Tenant will not have waived or released any of its rights hereunder unless in writing and executed by both parties hereto.

21.3 Successors. Except as expressly provided herein, this Lease and the obligations of Landlord and Tenant contained herein will bind and benefit the successors and assigns of the parties hereto.

21.4 Force Majeure. Neither Party will incur liability to the other with respect to, nor be held responsible for the failure to perform any obligation hereunder, if such failure is caused by a reason beyond the control of the failing Party, including, but not limited to, strike, labor trouble, governmental rule, regulations, ordinance, statute or interpretation, or by fire, earthquake, civil commotion, or failure or disruption of utility services (individually and collectively, "**Force Majeure**"**).** The period of time for either Party to perform any obligation will be extended by the period of time that such Party is delayed in performing such obligation by reason of any Force Majeure occurrence, whether similar to or different from the above specified occurrences. Notwithstanding the foregoing, no Force Majeure occurrence will be deemed to relieve either Party of the obligation to satisfy any monetary obligation, including the obligation to pay Fixed and Additional Rent, as and when due, or extend the time for satisfaction of such monetary obligation.

21.5 Default Rate. Any Fixed Rent, Additional Rent or other amount payable by Tenant to Landlord under this Lease which is not paid when due, will bear interest from the due date until paid at the rate (the "**Default Rate**"**)** of five (5%) percent over the **Prime Rate** (the base rate on corporate loans posted by at least 75% of the 30 largest U.S. banks) as published by the *Wall Street Journal,* as the same may be from time to time adjusted, but in not event more than the maximum rate, if any, permitted under applicable Legal Requirements: If the *Wall Street Journal* ceases publication or ceases to publish the Prime Rate as currently calculated, the base rate used to calculate the Default Rate will be another comparable rate reasonably designated by Landlord.

21.6 No Accord and Satisfaction. No acceptance by Landlord of a lesser sum than the Fixed Rent, Additional Rent or any other charge then due will be deemed to be other than on account of the earliest installment of such rent or charge due, unless Landlord elects by notice to Tenant to credit such sum against the most recent installment due, nor will any endorsement or statement on any check or any letter accompanying any check or payment as rent or other charge be deemed a waiver, an agreement or an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord' s right to recover the balance of such installment or pursue any other remedy in this Lease provided.

21.7 No Waiver. The failure of Landlord to seek redress for violation of, or to insist upon the strict performance of, any covenant or condition of this Lease will not be deemed a waiver of such violation nor prevent a subsequent act, which would have originally constituted a violation, from having all the force and effect of an original violation. The receipt by Landlord of rent with knowledge of the breach of any covenant of this Lease will not be deemed to have been a waiver of such breach by Landlord, or by Tenant, unless such waiver be in writing signed by the party to be charged. No consent or waiver, express or implied, by Landlord to or of any breach of any agreement or duty will be construed as a waiver or consent to or of any other breach of the same or any other agreement or duty.

21.8 Costs of Enforcement. Tenant will pay to Landlord on demand, Landlord' s expenses, including reasonable attorneys' fees, incurred in enforcing any obligation of Tenant under this Lease or in curing any default by Tenant under this Lease as provided in Section 11.5.

21.9 Financial Statements. If Tenant is not a publicly held entity, Tenant will furnish to Landlord and to any Mortgagee designated Landlord by notice to Tenant, upon request but no more often than annually without cause, a current balance sheet and an annual operating statement, in the form customarily provided by Tenant to public agencies for financial reporting purposes, prepared by Tenant' s certified public accountant.

21.10 Survival of Obligations. Any obligations of Tenant accruing prior to the expiration or earlier termination of this Lease will survive such expiration or earlier termination, and Tenant will promptly perform all such obligations whether or not this Lease has expired or been terminated.

21.11 Governing Law; Submission to Jurisdiction. This Lease will be governed by, and construed in accordance with, the domestic laws of the State of Connecticut without

reference to any principals of conflict or choice of law which might dictate the application of the law of some other jurisdiction. Tenant hereby submits to the jurisdiction of the State of Connecticut and agrees that any action by Tenant against Landlord will be instituted in the state courts of the State of Connecticut.

21.12 Severability. In the event any provision of this Lease or any application of any provision, is found to be void or unenforceable by a court of competent jurisdiction, a provision as similar in effect to such provision as possible but without the defect which was determined to have rendered the original provision void or unenforceable, will be deemed substituted and the remainder of this Lease will remain in full force and effect and will be interpreted and enforced so as to implement the intentions of the parties to the greatest extent possible. In the event that two different constructions may be given to any provision of this Lease, one of which will render the provision void or unenforceable, and one of which will render the provision valid and enforceable, the construction rendering such provision valid and enforceable will be adopted.

21.13 Equality or Parties . Tenant acknowledges that it has read and understood the provisions of this Lease and that Landlord and Tenant have negotiated this Lease with the assistance of counsel from positions of substantially equality. Accordingly, this Lease will be construed neither for nor against Landlord or Tenant, but will be given a fair and reasonable interpretation in accordance with the meaning of its terms and the intent of the parties. Without limitation on the foregoing, no provision of this Lease will interpreted adversely to Landlord by reason of the fact that Landlord provided the initial draft of this Lease, nor will any provision herein provided by Tenant be interpreted adversely to Tenant by reason of Tenant having provided such provision.

21.14 Captions. All captions, headings, titles, numerical references and computer highlighting are for convenience only and will have no effect on the interpretation of this Lease.

21.15 Number and Gender. All terms and words used in this Lease, regardless of the number or gender in which they are used, will be deemed to include the appropriate number and gender, as the context may require.

21.16 Joint and Several Liability. If Tenant comprises more than one person or entity, or if this Lease is guaranteed by any party, all such persons will be jointly and severally liable for payment of rents and the performance of Tenant' s obligations hereunder. If Tenant comprises more than one person or entity, Landlord may, in its sole discretion, compromise, limit or release the obligations or liabilities of one such person or entity without affecting the obligations and liabilities of the other persons or entities comprising.

21.17 Exhibits. The Exhibits referred to in this Lease and attached hereto, namely: Exhibit A (Description of Land), Exhibit B (Plan of Land), and Exhibit C (Permitted Exceptions), are incorporated herein by reference and made a part hereof to the same extent as if set forth in their entirety in the body of the text of this Lease.

21.18 Submission Not Offer. The submission of this Lease to Tenant or its broker or other agent, does not constitute an offer to Tenant to lease the Premise. This Lease will have no force and effect until it is executed and delivered by each of the Parties to the other.

[INTENTIONALLY LEFT BLANK − NEXT PAGE IS SIGNATURE PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the date first above written.

LANDLORD:

NPA HARTFORD LLC
a Delaware limited liability company

By **NPA Management LLC**
a Delaware limited liability company
Its Managing Member

By: /s/ Daniel J. Standen
Name: Daniel J. Standen
Title: Authorized Member

TENANT:

COLT DEFENSE LLC
a Delaware limited liability company

By: /s/ Lt Gen William M. Keys, USMC (ret.)
Name: Lt Gen William M. Keys, USMC (ret.)
Title: President and Chief Executive Officer

Net Lease

545 New Park Avenue
West Hartford, Connecticut

Exhibit 10.7.2

AMENDMENT OF EMPLOYMENT AGREEMENT

This Agreement (this "Agreement") is made and entered into as of this 20th day of March, 2013, by and between **COLT DEFENSE LLC** ("Colt") and **GERALD R. DINKEL** ("Executive").

RECITALS

A. Colt and Executive have entered into an Employment Agreement dated as of October 4, 2010 (the "Agreement"), which remains in full force and effect as of the date hereof.

B. Colt and Executive wish to amend the Agreement in the manner described herein.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements set forth herein, Colt and the Executive do hereby agree as follows.

1. Unless otherwise stated, all defined terms used herein that are defined in the Agreement shall have the same meaning herein as they do in the Agreement.

2. Paragraph 2(d) of the Agreement shall remain in effect in accordance with its terms through and including March 31, 2013.

3. Effective April 1, 2013, Paragraph 2(d) of the Agreement shall be deemed deleted and replaced with the following paragraph:

> (d) Temporary Living Expenses. Colt will provide Executive temporary living expenses consisting of the rental of an apartment similar in living conditions with the apartment being rented as of the date hereof (including continuance of the rental of such apartment), including all periodic payment obligations under the apartment lease, plus, to the extent paid for by the tenant, heat, hot water, air conditioning, electricity, cable and Internet service, in each case consistent with the payments being made with respect to the existing temporary rental residence of Executive in West Hartford, CT. Colt will gross up that amount so that the receipt of these benefits will be tax neutral to Executive.

4. Paragraph 3(a) is deleted effective April 1, 2013 and replaced with the following:

> (a) Base Salary. Executive' s base salary shall be $550,000, paid in regular installments in accordance with Colt' s payroll practices.

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5. Except as hereinabove set forth, the Agreement remains in full force and effect in accordance with its terms.

Dated as of the day and year first above written.

COLT DEFENSE LLC

By: /s/Daniel Standen	/s/ Gerald R. Dinkel
Daniel Standen	Gerald R. Dinkel

Chairman of the Governing Board

Exhibit 10.10.3

AMENDMENT NO. 2 TO CREDIT AGREEMENT AND CONSENT

AMENDMENT NO. 2 TO CREDIT AGREEMENT, dated as of March 22, 2013 (this "Amendment No. 2"), is by and among Wells Fargo Capital Finance, LLC, a Delaware limited liability company, as agent for the Lenders (as hereinafter defined) pursuant to the Credit Agreement as defined below (in such capacity, together with its successors and assigns, and any replacement, in such capacity, "Agent"), the parties to the Credit Agreement as lenders (individually, each a "Lender" and collectively, "Lenders"), Colt Defense LLC, a Delaware limited liability company ("Parent" or "US Borrower"), Colt Canada Corporation, a Nova Scotia corporation ("Canadian Borrower" and, together with US Borrower, each individually a "Borrower" and collectively, "Borrowers"), and Colt Finance Corp., a Delaware corporation ("Colt Finance") as a guarantor.

W I T N E S S E T H:

WHEREAS, Agent, Lenders, Borrowers and Guarantors are parties to financing arrangements pursuant to which Lenders (or Agent on behalf of Lenders) may make loans and advances and provide other financial accommodations to Borrowers as set forth in the Credit Agreement dated as of September 29, 2011, by and among Agent, Lenders, Borrowers and certain of Borrowers' affiliates (as amended by Amendment No. 1 to the Credit Agreement , dated February 24, 2012, and as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated, restructured, refinanced or replaced, the "Credit Agreement") and the other Loan Documents;

WHEREAS, Borrowers have advised that Parent will redeem certain of its Equity Interests from Persons other than the Permitted Holders (the "2013 Stock Redemption") and have requested that Agent and Lenders consent to the Restricted Payments constituting the 2013 Stock Redemption;

WHEREAS, Agent and Lenders are willing to provide such consent, all on the terms and subject to the conditions contained herein; and

WHEREAS, by this Amendment No. 2, Agent, Lenders, Borrowers and Colt Finance intend to evidence such consent and the amendments set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements and covenants contained herein, the parties hereto agree as follows:

1. Definitions

(a) Additional Definitions. As used herein or in the Credit Agreement or any of the other Loan Documents, the following terms shall have the meanings given to them below and the Credit Agreement shall be deemed and is hereby amended to include, in addition and not in limitation, the following:

(i) "Amendment No. 2" shall mean Amendment No. 2 to Credit Agreement and Consent by and among Borrowers, Colt Finance, Agent and Lenders, as

the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated, restructured, refinanced or replaced

(ii) "Amendment No. 2 Effective Date" shall mean the date on which all conditions precedent to the effectiveness of Amendment No. 2 have been satisfied or waived.

(iii) "2013 Stock Redemption" has the meaning set forth in the recitals to Amendment No. 2."

(b) Interpretation. For purposes of this Amendment No. 2, all terms used herein which are not otherwise defined herein, including but not limited to, those terms used in the recitals hereto, shall have the respective meanings assigned thereto in the Credit Agreement as amended by this Amendment No. 2.

2. Consent to 2013 Stock Redemption. Notwithstanding anything to the contrary contained in the Credit Agreement (including, without limitation, Section 6.9 of the Credit Agreement), Lenders hereby consent to the Restricted Payments constituting the 2013 Stock Redemption; provided, that, (a) no Default or Event of Default shall have occurred and be continuing immediately before or immediately after giving effect thereto, (b) the aggregate amount of such Restricted Payments shall not exceed $14,000,000, (c) immediately before and immediately after giving effect to such Restricted Payments (i) the sum of Excess Availability plus Borrowers' cash on hand shall not be less than $30,000,0000 and (ii) Excess Availability shall not be less than $15,000,000; and (d) such Restricted Payments shall occur not later than April 1, 2013.

3. Representations and Warranties. Each Borrower and Colt Finance (collectively, "Loan Parties" and each, a "Loan Party"), jointly and severally, hereby represents and warrants to Lender Group as follows:

(a) This Amendment No. 2 and each of the documents, instruments and agreements executed and delivered in connection herewith (collectively, with this Amendment No. 2, the "Amendment Documents") have been duly authorized, executed and delivered by all necessary action of each Loan Party party hereto and thereto and constitutes the legal, valid and binding obligations of each such Loan Party party thereto enforceable against each Loan Party in accordance with its respective terms, except as such enforceability may be limited by bankruptcy, moratorium or similar laws relating to or limiting creditors' rights generally;

(b) The execution, delivery, and performance by each Loan Party of this Amendment and each other Amendment Document to which it is a party and the consummation of the transactions contemplated hereby and thereby do not and will not require any registration with, consent, or approval of, or notice to, or other action with or by, any Governmental Authority, other than registrations, consents, approvals, notices, or other actions that have been obtained and that are still in force and effect where the failure to obtain the foregoing has or could reasonably be expected to have a Material Adverse Change;

(c) As to each Loan Party, the execution, delivery, and performance by such Loan Party of this Amendment No. 2 and each other Amendment Document to which it is a

party and the transactions contemplated hereby and thereby do not and will not (i) violate any provision of federal, provincial, state, or local law or regulation applicable to any Loan Party or its Subsidiaries, or any order, judgment, or decree of any court or other Governmental Authority binding on any Loan Party or its Subsidiaries, where such violation has or could reasonably be expected to have a Material Adverse Change, (ii) violate any provisions of the Governing Documents of any Loan Party or its Subsidiaries, (iii) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any Material Contract of any Loan Party or its Subsidiaries where any such conflict, breach or default has or could individually or in the aggregate reasonably be expected to have a Material Adverse Effect,(iv) result in or require the creation or imposition of any Lien of any nature whatsoever upon any assets of any Loan Party, other than Permitted Liens, or (v) require any approval of any holders of Equity Interests of a Loan Party or any approval or consent of any Person under any Material Contract of any Loan Party, other than consents or approvals that have been obtained and that are still in force and effect and except, in the case of Material Contracts, for consents or approvals, the failure to obtain could not individually or in the aggregate reasonably be expected to have a Material Adverse Change; and

(d) No Default or Event of Default has occurred and is continuing.

4. Covenant regarding 2012 Financial Statements. Borrowers shall, by not later than April 1, 2013, deliver or cause to be delivered to Agent the consolidated audited financial statements of Parent and its Subsidiaries for the fiscal year ended December 31, 2012, in form and substance satisfactory to Agent, in accordance with clause (c) of Schedule 5.1 to the Credit Agreement; it being understood that the draft consolidated financial statements of Parent and its Subsidiaries for such fiscal year delivered to Agent on March 20, 2013 are satisfactory to Agent.

5. Amendment Fee. In addition to all other fees, charges, interest and expenses payable by Borrowers to Agent and Lenders under the Credit Agreement and the other Loan Documents, Borrowers shall pay to Agent, for the ratable benefit of Lenders, an amendment fee of $15,000, which amount is fully earned and payable on the Amendment No. 2 Effective Date and may be charged directly to any loan account(s) of Borrowers maintained by Agent.

6. Conditions Precedent. This Amendment No. 2 shall only be effective upon the receipt by Agent of counterparts of this Amendment No. 2 duly authorized, executed and delivered by Borrowers, Colt Finance and Required Lenders

7. General.

(a) Effect of this Amendment. Except as expressly provided herein or in the other Amendment Documents, no other changes or modifications to the Loan Documents are intended or implied, and in all other respects the Loan Documents are hereby specifically ratified, restated and confirmed by all parties hereto as of the date hereof. On and after the Amendment No. 2 Effective Date each Amendment Document shall for all purposes constitute a Loan Document.

(b) Governing Law. THE VALIDITY OF THIS AMENDMENT NO. 2, THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF, AND THE RIGHTS OF THE PARTIES HERETO WITH RESPECT TO ALL MATTERS ARISING

HEREUNDER OR RELATED HERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

(c) Binding Effect. This Amendment No. 2 and each of the other Amendment Documents, shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties hereto.

(d) Counterparts, etc. Each Amendment Document may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same agreement. Delivery of an executed counterpart of each Amendment Document by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of such Amendment Document. Any party delivering an executed counterpart of each Amendment Document by telefacsimile or other electronic method of transmission also shall deliver an original executed counterpart of such Amendment Document but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of such Amendment Document.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 2 to be duly executed and delivered by their authorized officers as of the day and year first above written.

COLT DEFENSE LLC

By: /s/ Jeffrey G. Grody
Name: Jeffrey G. Grody
Title: Secretary

COLT CANADA CORPORATION

By: /s/ Jeffrey G. Grody
Name: Jeffrey G. Grody
Title: Secretary

COLT FINANCE CORP.

By: /s/ Jeffrey G. Grody
Name: Jeffrey G. Grody
Title: Secretary

AGENT AND LENDERS

WELLS FARGO CAPITAL FINANCE, LLC, as Agent and as a Lender

By: /s/ Willis A. Williams
Name: Willis A. Williams
Title: Vice President

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, as a Lender

By: Domenic Cosentino
Name: Domenic Cosentino
Title: Authorized Signatory

Exhibit 10.11

PURCHASE AGREEMENT

PURCHASE AGREEMENT, dated as of March 22, 2013, by and between Blackstone Mezzanine Partners II-A L.P. ("BMP") and Blackstone Mezzanine Holdings II USS L.P. (together with BMP, collectively, "Sellers") and Colt Defense LLC ("Buyer"). Certain capitalized terms that are used but not defined herein are used with the meanings given such terms in the Buyer' s Amended and Restated Limited Liability Company Agreement dated as of June 12, 2003 reflecting the amendments adopted as of July 9, 2007 (the "LLC Agreement").

WITNESSETH

WHEREAS, Sellers are the holders of 31,165.589 common units (the "Purchased Units") of Buyer; and

WHEREAS, Buyer wishes to buy from Sellers and Sellers wish to sell to Buyer the Purchased Units, subject to the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the premises and the mutual agreements, covenants and provisions contained herein, the parties hereto agree as follows:

1. Sale and Purchase. On the terms and subject to the conditions contained in this agreement, on the Closing Date (as defined below) Sellers shall sell, convey, transfer, assign and deliver (or cause to be delivered) to Buyer, and Buyer shall purchase and acquire from Sellers, all of the Purchased Units.

2. Purchase Price; Certificate Issuance. Subject to satisfaction of the conditions set forth in Section 3, on the Closing Date:

   a. Buyer shall pay to Sellers cash in the amount of $14.0 million in respect of the purchase of the Purchased Units, including the termination of the Rights (as defined below), (the "Purchase Price"), payable to each Seller as set forth on *Exhibit A* by wire transfer of immediately available funds to the accounts set forth on *Exhibit B*, against acknowledgment of receipt thereof by Sellers; and

   b. Sellers' shall deliver to Buyer for cancellation duly endorsed existing certificate(s) representing all of the Purchased Units held by Sellers (the "Existing Certificates").

3. Conditions to Closing.

   a. Buyer' s obligation to pay the Purchase Price is subject to:

      i. Buyer receiving duly executed counterparts of this agreement from Sellers;

      ii. all representations and warranties made by Sellers contained in Section 5 hereof shall be true and correct;

      iii. there shall not be pending or threatened any action, suit, proceeding, inquiry or investigation, governmental or otherwise, that seeks to restrain, enjoin, prevent the consummation of or otherwise challenge the sale of the Purchased Units to be sold hereunder;

iv. Buyer receiving written evidence that each Blackstone Board Designee has resigned from the Governing Board of the Company and each of its subsidiaries effective as of the Closing Date;

v. Buyer obtaining a waiver, in form and substance satisfactory to Buyer, pursuant to Buyer' s Credit Agreement, dated as of September 29, 2011 with Wells Fargo Capital Finance, LLC and the other parties named therein, which such waiver shall permit the consummation of the transactions contemplated by this agreement; and

vi. Buyer receiving the written consent of Colt Defense Holding LLC or its designee that is an affiliate of Sciens Management LLC to the transactions contemplated by this Agreement.

b. Sellers' obligation to sell the Purchased Units is subject to:

i. Sellers receiving duly executed counterparts of this agreement from Buyer;

ii. all representations and warranties made by Buyer contained in Section 6 hereof shall be true and correct; and

iii. there shall not be pending or threatened any action, suit, proceeding, inquiry or investigation, governmental or otherwise, that seeks to restrain, enjoin, prevent the consummation of or otherwise challenge the sale of the Purchased Units to be sold hereunder.

iv. Sellers' receipt of evidence that Buyer has obtained a waiver, in form and substance satisfactory to Seller, pursuant to Buyer' s Credit Agreement, dated as of September 29, 2011 with Wells Fargo Capital Finance, LLC and the other parties named therein, which such waiver shall permit the consummation of the transactions contemplated by this agreement; and

v. Sellers' receipt of evidence that Buyer has received the written consent of Colt Defense Holding LLC or its designee that is an affiliate of Sciens Management LLC to the transactions contemplated by this Agreement.

4. Transfer of Purchased Units. On the date on which all conditions set forth in Section 3 are satisfied (the "Closing Date"), (a) the Sellers shall deliver (or cause to be delivered) to Buyer the Existing Certificates, (b) Buyer shall wire the Purchase Price to Sellers, (c) Sellers' rights under Sections 5.9, 5.12.1, 6.1.1(a), 6.1.3, 11.2 and 14.2 (and any defined terms or other provisions to the extent related to any of the foregoing Sections) of the LLC Agreement (collectively, the "Rights") shall terminate and (d) each Blackstone Board Designee' s resignation from the Governing Board of the Company shall become effective.

5. Representations and Warranties of Sellers. Sellers hereby jointly and severally represent and warrant to Buyer as follows:

a. Sellers have full power to enter into and perform its obligations under this agreement.

b. The execution and delivery of this agreement by Sellers, the performance by Sellers of the covenants and agreements hereunder, and the consummation by Sellers of the transactions contemplated hereby have been duly authorized, and this agreement constitutes a valid and legally binding obligation of Sellers, enforceable against Sellers in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, or other laws affecting generally the enforceability of creditors' rights and by general principles of equity.

c. Neither the execution and delivery of this agreement, nor the consummation of the transactions contemplated hereby, violates any agreement of Sellers, or any statute, ordinance, regulation, order, judgment, or decree of any court or governmental agency to which Sellers is bound or subject.

d. Sellers are the sole record and beneficial owners of the Purchased Units, and, at the time of transfer of such Purchased Units pursuant to Section 4, will be free and clear of any lien, encumbrance, option, charge or restriction resulting from any actions by Sellers. Sellers have the full right, power and authority to sell and transfer the Purchased Units to Buyer pursuant to Section 4.

e. Sellers acknowledge that Buyer may have access to nonpublic information relating to the business, affairs, financial condition or prospects of Buyer and its subsidiaries that may be material to the decision of Buyer to purchase the Purchased Units. Sellers

represent to Buyer that they have made their own analysis and decision based on information independently available to them whether to enter into this agreement.

6. Representations and Warranties of Buyer. Buyer hereby represents and warrants to Sellers as follows:

a. Buyer is duly organized and validly existing under the laws of the jurisdiction of its organization and has full power to enter into and perform its obligations under this agreement.

b. The execution and delivery of this agreement by Buyer, the performance by Buyer of its covenants and agreements hereunder, and the consummation by Buyer of the transactions contemplated hereby have been duly authorized by all necessary partnership action, and this agreement constitutes a valid and legally binding obligation of Buyer, enforceable against Buyer in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, or other laws affecting generally the enforceability of creditors' rights and by general principles of equity.

c. Neither the execution and delivery of this agreement, nor the consummation of the transactions contemplated hereby, violates any agreement of Buyer, or any statute, ordinance, regulation, order, judgment, or decree of any court or governmental agency to which Buyer is bound or subject.

d. Buyer acknowledges that Sellers are currently members of Buyer and have representatives on the Governing Board of Buyer, and as such, Sellers may have access to nonpublic information relating to the business, affairs, financial condition or prospects of Buyer and its subsidiaries that may be material to the decision of Sellers to sell the Purchased Units. Buyer represents to Sellers that it has made its own analysis and decision based on information independently available to it whether to enter into this agreement.

e. Buyer and each of its subsidiaries is, and after giving effect to the transactions contemplated by this agreement, Buyer and each of its subsidiaries shall be, Solvent. For this purpose, "Solvent" means, as to any of Buyer or its subsidiaries (each, a "Person") at any time, that (i) the fair value of the property of such Person is greater than the amount of such Person' s liabilities (including disputed, contingent and unliquidated liabilities) as such value is established and liabilities evaluated for purposes of Section 101(32)(A) of the Bankruptcy Code and, in the alternative, for purposes of the Uniform Fraudulent Transfer Act; (ii) the present fair saleable

value of the property of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured; (iii) such Person is able to realize upon its property and pay its debts and other liabilities (including disputed, contingent and unliquidated liabilities) as they mature in the normal course of business; (iv) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person' s ability to pay as such debts and liabilities mature; and (v) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person' s property would constitute unreasonably small capital. For such purposes, any contingent liability (including pending litigation, contingent obligations, pension plan liabilities and claims for federal, state, local and foreign taxes, if any) is valued at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

7. Subsequent Events. If, on or prior to the date that is six months after the Closing Date (the "Clawback Period"), the Buyer or its Affiliates enters into an agreement to effect (a) a Company Sale, (b) a purchase of Common Units from an existing Member by Buyer, or (c) a distribution of cash by Buyer to its Members (other than tax distributions), and in connection with such event (each a "Subsequent Event"), the Members receive (or are entitled to receive) an amount per Common Unit (such amount, the "Subsequent Event Price Per Unit") greater than $449.21(such amount, the "Purchase Price Per Unit"), then in each such case, upon consummation of such Subsequent Event, Buyer will pay to each Seller the product of (A) the difference between the Subsequent Event Price Per Unit and the Purchase Price Per Unit and (B) the total number of Purchased Units purchased from each Seller. If after the Closing Date and prior to or in connection with any Subsequent Event, the Buyer effects any split, dividend, recapitalization or other similar transaction (other than any such transaction for which Sellers received a payment pursuant to clause (c) of the sentence immediately preceding this sentence) affecting the value of the Common Unit (each, an "Intervening Event"), then, in applying the provisions of this Section 7, the Subsequent Event Price Per Unit paid or to be paid in connection with such Subsequent Event shall be adjusted to reflect the value per Common Unit that would have been paid in connection with such Subsequent Event had no such Intervening Event occurred.

8. Tax Matters.

a. Closing of the Books. In determining the taxable income, gain, loss, deduction, credit, and all other tax items allocated or apportioned to the Members for the portion of the Company' s Fiscal Year ending on the Closing Date, the Company shall adopt an interim closing of the books as of March 31, 2013. This interim closing of the books shall be used by the parties for all tax reporting and compliance purposes.

b. Allocation of Purchase Price. For federal income purposes (and for purposes of corresponding provisions of state and local law) the Purchase Price (which shall be deemed to include any additional amounts paid to Sellers under Section 7 hereof) shall be allocated to the Buyer' s indirect interest in the tangible assets of the Company in an amount equal to the Company' s net book value of such tangible assets as determined for financial accounting purposes and as set forth in the Company' s financial statements. Any additional Purchase Price remaining after the allocation of Purchase Price as described in the preceding sentence shall be allocated to goodwill of the Company. None of the Purchase Price shall be allocated or apportioned to any fee, service, or other item. Except as required by law, all of the parties shall account consistently for the allocation of Purchase Price in the manner described in this section for all tax reporting and compliance purposes, including for the purposes of determining any adjustments or items of the Company or any Member under Sections 734, 736, 743, and 751 of the Internal Revenue Code of 1986.

9. Releases

a. Release of Sellers. As a material inducement to Sellers to enter into this agreement and consummate the transactions contemplated hereby, Buyer, for itself, its controlled Affiliates (other than the Releasees), and its and such Affiliates' respective representatives, officers, directors, partners, managers, members, employees, successors and assigns (collectively, the "Buyer Releasing Parties"), hereby unconditionally and irrevocably releases and discharges each of the Sellers, each Seller' s Affiliates (other than the Buyer Releasing Parties), and their and such Affiliates' respective representatives, officers, directors, managers, members, employees, successors and assigns (collectively, the "Seller Releasees") from all claims, demands, actions, causes of action, suits, judgments, executions, damages, losses, expenses or other amounts whatsoever, whenever arising, whether known or unknown (collectively, "Claims") which such Buyer Releasing Party ever had, now have or hereafter can, shall or may have arising from or related to (a) this agreement and the consummation of (or any failure to consummate) the transactions contemplated hereby (other than as a result of Sellers' breach of their obligations hereunder), (b) the Sellers' acquisition and ownership of the Common Units transferred to Buyer hereunder, or (c) Sellers' exercise of their rights and privileges under the LLC Agreement on

or prior to the date hereof, including pursuant to Section 5.9 of the LLC Agreement (collectively, the "Buyer Released Claims"). Each of the Buyer Releasing Parties irrevocably covenants not to, directly or indirectly, assert any claim or demand, or commence, institute, or voluntarily aid in any way, or cause to be commenced or instituted, any claim, litigation, arbitration or proceeding of any kind against any Seller Releasee based upon any Buyer Released Claim. Without in any way limiting any rights and remedies otherwise available to any Seller Releasee, each of the Buyer Releasing Parties shall indemnify and hold harmless each Seller Releasee from and against and shall pay to each Seller Releasee the amount of, or reimburse each Seller Releasee for all connection with

(i) the assertion by or on behalf of such Buyer Releasing Party of any Buyer Released Claim, and (ii) the assertion by any third party of any claim or demand against any Seller Releasee which claim or demand arises directly or indirectly from, or in connection with, any assertion by or on behalf of such Buyer Releasing Party against such third party of any Buyer Released Claim. Each of the Buyer Releasing Parties acknowledges and agrees that the execution of this Release does not constitute any manner whatsoever an admission of liability on the part of any Seller Releasee for any Buyer Released Claim, and that such liability is specifically denied. If any provision of this Release is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Release will remain in full force and effect. Any provision of this Release held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

b. Release of Buyer. As a material inducement to Buyer to enter into this agreement and consummate the transactions contemplated hereby, each Seller, each Seller' s Affiliates (other than the Releasees), and their and such Affiliates' respective representatives, officers, directors, managers, members, employees, successors and assigns (collectively, the "Seller Releasing Parties") hereby unconditionally and irrevocably releases and discharges Buyer, for itself, its Affiliates (other than the Seller Releasing Parties), and its and such Affiliates' respective representatives, officers, directors, partners, managers, members, employees, successors and assigns (collectively, the "Buyer Releasees") from Claims which such Seller Releasing Party ever had, now have or hereafter can, shall or may have arising from or related to (a) this agreement and the consummation of (or any failure to consummate) the transactions contemplated hereby (other than as a result of Buyer' s breach of its obligations hereunder) or (b) the Sellers' acquisition and ownership of the Common Units transferred to Buyer hereunder (collectively, the "Seller Released Claims"). Each of the Seller

Releasing Parties irrevocably covenants not to, directly or indirectly, assert any claim or demand, or commence, institute, or voluntarily aid in any way, or cause to be commenced or instituted, any claim, litigation, arbitration or proceeding of any kind against any Buyer Releasee based upon any Released Claim. Without in any way limiting any rights and remedies otherwise available to any Buyer Releasee, each of the Seller Releasing Parties shall indemnify and hold harmless each Buyer Releasee from and against and shall pay to each Buyer Releasee the amount of, or reimburse each Buyer Releasee for all connection with (i) the assertion by or on behalf of such Seller Releasing Party of any Seller Released Claim, and (ii) the assertion by any third party of any claim or demand against any Buyer Releasee which claim or demand arises directly or indirectly from, or in connection with, any assertion by or on behalf of such Seller Releasing Party against such third party of any Seller Released Claim. Each of the Seller Releasing Parties acknowledges and agrees that the execution of this Release does not constitute any manner whatsoever an admission of liability on the part of any Buyer Releasee for any Seller Released Claim, and that such liability is specifically denied. If any provision of this Release is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Release will remain in full force and effect. Any provision of this Release held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

10. Waiver and Amendment. Any term or provision of this agreement may be waived at any time by the party that is entitled to the benefits thereof, but only in a writing signed by such party, and this agreement may be amended or

supplemented at any time, but only by written agreement of Buyer and Sellers. Any such waiver with respect to a failure to observe any such provision shall not operate as a waiver of any subsequent failure to observe such provision unless otherwise expressly provided in such waiver.

11. Notices. All notices, consents, requests, waivers and other communications provided for herein and all legal process in regard hereto and thereto shall be validly given, made or served, if in writing and delivered personally or sent by express courier, or certified or registered mail, postage prepaid as follows:

If to Sellers, to

Blackstone Mezzanine Partners II-A L.P.
Blackstone Mezzanine Holdings II USS L.P.
345 Park Avenue
31st Floor
New York, NY 10154
Attention: Marisa Beeney
E-Mail: GSOLegal@Blackstone.com

If to Buyer, to

Colt Defense LLC
P.O. Box 118
Hartford, CT 06141
Attention: General Counsel
Facsimile: (860) 244-1442

or to such other person or address as any party hereto may, from time to time, designate in a written notice given in a like manner. Notice given by mail, express courier or personally delivered shall be deemed delivered as of the date so personally delivered or mailed.

12. Assignment. This agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this agreement nor any of the rights, interests or obligations hereunder shall be assigned by any party hereto without prior written consent of the other parties.

13. Governing Law. This agreement shall be governed by and construed and enforced in accordance with the laws of New York, without giving effect to any provisions relating to conflicts of law.

14. Jurisdiction. Each party irrevocably and unconditionally submits to and accepts the exclusive jurisdiction of any United States federal court sitting in the Southern District of New York, or, if such court does not have jurisdiction over the dispute, in the New York state court with jurisdiction sitting in the Borough of Manhattan, County and City of New York, for any action, suit or proceeding arising out of or based upon this agreement or any matter relating to it, and waives any objection it may have to the laying or venue in any such court or that such court is an inconvenient forum or does not have personal jurisdiction over it.

15. Waiver of Jury Trial. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES, AND AGREES TO CAUSE ITS SUBSIDIARIES TO WAIVE, ALL RIGHT TO A TRIAL BY JURY IN ANY

ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

16. Headings. The section headings contained in this agreement are for convenience only and are not a part of this agreement.

17. Counterparts. This agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original; such counterparts together shall constitute but one agreement.

18. Confidentiality. Each of Buyer and Sellers hereby agrees, without the prior written consent of the other, to not disclose, and to otherwise keep confidential, the sale of the Purchased Units contemplated hereby, except to the extent that disclosure thereof is required by law, rule or regulation; provided, however, that Buyer and Sellers may disclose information regarding such sale to their respective accountants, attorneys, limited partners, shareholders and other interest holders, it being understood that such recipients shall be informed by the disclosing party of its confidentiality obligations under this Agreement and such recipients shall be directed by the disclosing party and agree to keep such information confidential and to comply with all such obligations.

19. Entire Agreement. This agreement constitutes the full and entire understanding and agreement between the parties with regard to the subject matter hereof.

[Signature Pages Follow]

IN WITNESS WHEREOF, Sellers and Buyer have caused this agreement to be duly executed as of the day and year first above written.

BLACKSTONE MEZZANINE PARTNERS II-A L.P.

By: Blackstone Mezzanine Associates II L.P.,
its General Partner

By: /s/ Marisa J. Beeney

Name: Marisa J. Beeney
Title: Authorized Signatory

BLACKSTONE MEZZANINE HOLDINGS II USS L.P.

By: BMP II USS Side-by-side GP L.L.C.,
its General Partner

By: /s/ Marisa J. Beeney

Name: Marisa J. Beeney
Title: Authorized Signatory

COLT DEFENSE LLC

By: /s/ Gerald R. Dinkel

Name: Gerald R. Dinkel
Title: President and Chief Executive Officer

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

Colt Defense' s subsidiaries as of December 31, 2012 are listed below. Colt Finance Corp. does not have any subsidiaries.

SUBSIDIARIES

	Percent Owned Directly or Indirectly	State or Country of Organization or Incorporation
Colt Canada Corporation	100%	Canada
Colt Finance Corp.	100%	Delaware

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Gerald R. Dinkel, certify that:

1. I have reviewed this annual report on Form 10-K of Colt Defense LLC and Colt Finance Corp;

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

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

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

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

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

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

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

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

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

Date: March 25, 2013

/s/ Gerald R. Dinkel
Gerald R. Dinkel
President and Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Scott B. Flaherty, certify that:

1. I have reviewed this annual report on Form 10-K of Colt Defense LLC and Colt Finance Corp;

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

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

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

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

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

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

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

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

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

Date: March 25, 2013

/s/ Scott B. Flaherty
Scott B. Flaherty
Senior Vice President and Chief Financial Officer

Exhibit 31.3

Certification of Vice President of Finance and Administration
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Leslie S. Striedel, certify that:

1. I have reviewed this annual report on Form 10-K of Colt Defense LLC and Colt Finance Corp;

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

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

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

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

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

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

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

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

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

Date: March 25, 2013

/s/ Leslie S. Striedel
Leslie S. Striedel
Vice President of Finance and Administration

Nature of Business (Details)	12 Months Ended Dec. 31, 2012 item
Nature of Business	
Minimum number of countries where the entity has supplied small arms weapons systems	80

Lease Obligations (Details 3) (USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Operating leases			
Rent expense	$ 1,048	$ 1,095	$ 1,008
West Hartford facility			
Operating leases			
Extension period of operating lease	3 years		
Monthly rent in the first year of the extension period	69		
Percentage of rent increase in each of the two subsequent years of the extension period	2.00%		
Subsequent number of years of the extension period subject to a 2% rent increase	2 years		
Security deposit related to lease arrangement	250		
West Hartford facility | Colt's Manufacturing			
Operating leases			
Rental income for the portion subleased	$ 192	$ 161	$ 161

Summary of Significant Accounting Policies (Details 9) (USD $) In Thousands, unless otherwise specified	3 Months Ended								12 Months Ended				12 Months Ended						
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Oct. 02, 2011	Jul. 03, 2011	Apr. 03, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2011 Previously reported	Dec. 31, 2010 Previously reported	Dec. 31, 2011 Adjustments	Dec. 31, 2010 Adjustments	Dec. 31, 2010 Initial application of purchase accounting related to acquisition of Colt Canada Previously reported	Dec. 31, 2009 Initial application of purchase accounting related to acquisition of Colt Canada Previously reported	Mar. 31, 2011 Initial application of purchase accounting related to acquisition of Colt Canada Adjustments
2010 and 2009 Revisions																			
Goodwill	$ 14,947				$ 14,713				$ 14,947	$ 14,713	$ 14,950								$ 3,259
Deferred tax liabilities	1,330				1,259				1,330	1,259									3,259
Net loss	3,376	2,894	(6,237)	(7,088)	5,326	3,373	(1,919)	(1,792)	(7,055)	4,988	(11,149)		5,196	(11,254)	(208)	105	(160)		
Opening balance in consolidated statements of changes in deficit	(151,287)				(142,834)				(151,287)	(142,834)	(141,398)	(110,818)						1,673	
Prior Period Adjustments																			
Pre-tax adjustments , related to immaterial errors in prior periods					$ 316			$ 127		$ 621									

Accumulated Other Comprehensive Loss (Details) (USD $) In Thousands, unless otherwise specified				12 Months Ended								12 Months Ended							12 Months Ended					
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2012 Pension plan	Dec. 31, 2011 Pension plan	Dec. 31, 2012 Post-retirement plan	Dec. 31, 2011 Post-retirement plan	Dec. 31, 2012 Unrecognized Prior Service Cost	Dec. 31, 2011 Unrecognized Prior Service Cost	Dec. 31, 2010 Unrecognized Prior Service Cost	Dec. 31, 2009 Unrecognized Prior Service Cost	Dec. 31, 2012 Unrecognized Prior Service Cost Post-retirement plan	Dec. 31, 2011 Unrecognized Prior Service Cost Post-retirement plan	Dec. 31, 2010 Unrecognized Prior Service Cost Post-retirement plan	Dec. 31, 2012 Unrecognized Loss	Dec. 31, 2011 Unrecognized Loss	Dec. 31, 2010 Unrecognized Loss	Dec. 31, 2009 Unrecognized Loss	Dec. 31, 2012 Unrecognized Loss Post-retirement plan	Dec. 31, 2011 Unrecognized Loss Post-retirement plan	Dec. 31, 2010 Unrecognized Loss Post-retirement plan	Dec. 31, 2012 Foreign Currency Translation	Dec. 31, 2011 Foreign Currency Translation	Dec. 31, 2010 Foreign Currency Translation
Components of accumulated other comprehensive loss																								
Balance at the beginning of the period	$ (13,130)	$ (7,484)	$ (5,810)					$ 825	$ 378	$ 380	$ 1,138				$ (17,399)	$ (15,723)	$ (10,523)	$ (8,192)				$ 2,215	$ 2,659	$ 1,244
Change in pension and postretirement health liabilities	(1,229)	(5,202)	(3,089)	22	(4,826)	(1,251)	(376)					447	(2)	758					(1,676)	(5,200)	(2,331)			
Currency translation	518	(444)	1,415																			518	(444)	1,415
Balance at the end of the period	$ (13,841)	$ (13,130)	$ (7,484)					$ 825	$ 378	$ 380	$ 1,138				$ (17,399)	$ (15,723)	$ (10,523)	$ (8,192)				$ 2,733	$ 2,215	$ 2,659

Income Taxes (Details) (USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Components of (loss) income from continuing operations before foreign income taxes			
United States	$ (11,923)	$ (4,559)	$ (15,930)
Foreign	6,618	12,718	8,153
(Loss) income from continuing operations before provision for foreign income taxes	(5,305)	8,159	(7,777)
Distribution to members as a percentage of the highest taxable income allocated to any common unit	45.00%		
Provision (benefit) for foreign income taxes			
Current	1,711	3,442	2,660
Deferred	39	(271)	(161)
Total	1,750	3,171	2,499
Deferred tax assets			
Reserves	255	340	
Deferred tax liabilities			
Intangible assets	(1,127)	(1,226)	
Fixed assets	(388)	(275)	
Other	(70)	(98)	
Total	(1,330)	(1,259)	
Net long-term deferred tax liability	1,515	1,501	
Net current deferred tax asset	185	242	
Reserves for uncertain tax positions	$ 0	$ 0	

Summary of Significant Accounting Policies (Details 7) (USD $) In Thousands, unless otherwise specified	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Effects of the revisions on Consolidated Balance Sheet				
Pension and retirement obligations - current portion	$ 626	$ 609		
Total current liabilities	44,004	41,207		
Pension and retirement obligations	20,261	17,896		
Total long-term liabilities	270,251	266,583		
Total liabilities	314,255	307,790		
Accumulated deficit	(137,446)	(129,704)		
Accumulated other comprehensive loss	(13,841)	(13,130)	(7,484)	(5,810)
Total deficit	(151,287)	(142,834)		
Previously reported				
Effects of the revisions on Consolidated Balance Sheet				
Pension and retirement obligations - current portion		890		
Total current liabilities		41,488		
Pension and retirement obligations		17,953		
Total long-term liabilities		266,640		
Total liabilities		308,128		
Accumulated deficit		(130,769)		
Accumulated other comprehensive loss		(12,403)		
Total deficit		(143,172)		
Adjustments				
Effects of the revisions on Consolidated Balance Sheet				
Pension and retirement obligations - current portion		(281)		
Total current liabilities		(281)		
Pension and retirement obligations		(57)		
Total long-term liabilities		(57)		
Total liabilities		(338)		
Accumulated deficit		1,065		
Accumulated other comprehensive loss		(727)		
Total deficit		$ 338		

Transactions With Related and Certain Other Parties (Tables)	12 Months Ended Dec. 31, 2012
Transactions With Related and Certain Other Parties	
Schedule of transactions with Colt's Manufacturing and related accounts receivable	

	Year Ended December 31,		
	2012	2011	2010
Net sales of rifles to Colt's Manufacturing	$ 73,292	$ 11,746	$ 855
Service fee income earned	1,098	430	430

Pension, Savings and Postretirement Benefits (Details 2) (USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Components of cost recognized in other comprehensive loss			
Balance at the beginning of the period	$ (15,345)	$ (10,143)	
Change in pension and postretirement benefit plans, net	(1,229)	(5,202)	(3,089)
Balance at the end of the period	(16,574)	(15,345)	(10,143)
Pension Plans			
Components of cost recognized in other comprehensive loss			
Balance at the beginning of the period	(13,095)	(8,269)	
Change in pension and postretirement benefit plans, net	22	(4,826)	
Balance at the end of the period	(13,073)	(13,095)	
Estimated amount that will be amortized from accumulated other comprehensive loss into net periodic cost			
Actuarial loss	420		
Total	420		
Hourly Plan			
Weighted average assumptions used in determining the year-end benefit obligation			
Discount rate (as a percent)	3.75%	4.25%	
Expected return on plan assets (as a percent)	7.50%	8.00%	
Weighted average assumptions used to determine net periodic cost			
Discount rate (as a percent)	3.75%	4.25%	5.50%
Expected return on plan assets (as a percent)	7.50%	8.00%	8.00%
Salaried Plan			
Weighted average assumptions used in determining the year-end benefit obligation			
Discount rate (as a percent)	4.00%	4.50%	
Expected return on plan assets (as a percent)	7.50%	8.00%	
Weighted average assumptions used to determine net periodic cost			
Discount rate (as a percent)	4.00%	4.50%	5.50%
Expected return on plan assets (as a percent)	7.50%	8.00%	8.00%
Postretirement Healthcare Coverage			
Components of cost recognized in other comprehensive loss			
Balance at the beginning of the period	(2,250)	(1,874)	
Change in pension and postretirement benefit plans, net	(1,251)	(376)	
Balance at the end of the period	(3,501)	(2,250)	(1,874)
Estimated amount that will be amortized from accumulated other comprehensive loss into net periodic cost			
Prior service cost/(gain)	(172)		
Actuarial loss	284		

Total	$ 112		
Weighted average assumptions used in determining the year-end benefit obligation			
Discount rate (as a percent)	3.50%	4.25%	
Weighted average assumptions used to determine net periodic cost			
Discount rate (as a percent)	3.50%	4.25%	5.50%

Quarterly Operating Results (Unaudited) (Details) (USD $) In Thousands, unless otherwise specified	3 Months Ended								12 Months Ended		
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Oct. 02, 2011	Jul. 03, 2011	Apr. 03, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Net Sales	$ 67,084	$ 56,555	$ 45,836	$ 43,853	$ 64,886	$ 58,877	$ 36,550	$ 48,497	$ 213,328	$ 208,810	$ 175,805
Gross profit	18,046	16,442	8,834	7,829	22,480	18,830	10,983	13,039	51,151	65,332	44,527
Net (loss) income	3,376	2,894	(6,237)	(7,088)	5,326	3,373	(1,919)	(1,792)	(7,055)	4,988	(11,149)
Operating income									18,557	32,503	18,478
Adjustments											
Gross profit										(208)	105
Net (loss) income										(208)	105
Operating income										(208)	105
Post-retirement health plan accounting | Adjustments											
Gross profit		115	25	25	111	32	32	33			
Net (loss) income		115	25	25	111	32	32	33			
Sales cut-off | Adjustments											
Net Sales			724	(724)							
Gross profit			453	(453)							
Net (loss) income			$ 453	$ (453)							

Summary of Significant Accounting Policies (Policies)	12 Months Ended Dec. 31, 2012
Summary of Significant Accounting Policies	
Basis of Accounting and Consolidation	**Basis of Accounting and Consolidation** The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Our consolidated financial statements include the accounts of Colt Defense LLC and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.
Reclassification of Prior Period Amounts	**Reclassification of Prior Period Amounts** Certain prior period amounts have been reclassified to conform to the current year's presentation.
Use of Estimates	**Use of Estimates** The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.
Cash and Cash Equivalents	**Cash and Cash Equivalents** Cash and cash equivalents consists of cash and short-term, highly liquid investments with original maturities of three months or less at the date of purchase.
Restricted Cash	**Restricted Cash** Restricted cash at December 31, 2012 and 2011 consists of funds deposited to secure standby letters of credit primarily for performance guarantees related to our international business.
Revenue, Accounts Receivable and Credit Policies	**Revenue, Accounts Receivable and Credit Policies** We recognize revenue when evidence of an arrangement exists, delivery of the product or service has occurred and title and risk of loss have passed to the customer, the sales price is fixed or determinable, and collectability of the resulting receivable is reasonably assured. For certain "bill and hold" sales to the U.S. and Canadian governments, such sales and related accounts receivable are recognized upon inspection and acceptance of the rifles, including title transfer, by a government official and after we place the accepted rifles in a government approved location at our premises where they are held waiting shipping instructions. The sales value of such bill and hold sales where the shipments were still located at our premises at December 31, 2012, 2011 and 2010 were $0, $6,840 and $9,026, respectively. We account for revenues and earnings under two long-term government contracts/programs with interrelated multiple elements (procurement of parts, manufacturing and refurbishment services) using concepts of proportionate performance. These contracts effect reported results for all periods presented. We estimate the total profit on each contract as the difference between the total estimated revenue and total estimated cost of the contract and recognize that profit over the remaining life of the contract using an output measure (the ratio of rifles completed to the total number of rifles to be refurbished under the contract). We compute an earnings rate for each contract, including general and administrative expense, to determine operating earnings. We review the earnings rate quarterly to assess revisions in contract values and estimated costs at completion. Any changes in earnings rates and recognized contract to date earnings resulting from these assessments are made in the period the revisions are identified. Contract costs include production costs, related overhead and allocated general and administrative costs.

Amounts billed and collected on this contract in excess of revenue recorded are reflected as customer advances and deferred income in the Consolidated Balance Sheets.

Anticipated contract losses are charged to operations as soon as they are identified. Anticipated losses cover all costs allocable to the contracts, including certain general and administrative expenses. If a contract is cancelled by the government for its convenience, we can make a claim against the customer for fair compensation for worked performed plus costs of settling and paying claims by terminated subcontractors, other settlement expenses and a reasonable profit on costs incurred. When we have a customer claim, revenue arising from the claims process is either recognized as revenue or as an offset against a potential loss only when the amount of the claim can be estimated reliably and its realization is probable. We had no claims recorded at any year-end presented.

Credit is extended based on an evaluation of each customer's financial condition. Generally, collateral is not required, other than in connection with some foreign sales. If the circumstances warrant, we require foreign customers to provide either a documentary letter of credit or a prepayment.

Credit losses are provided for, primarily using a specific identification basis. Once a customer is identified as high risk based on the payment history and creditworthiness, we will provide an allowance for the estimated uncollectible portion. Accounts are considered past due based on the original invoice date. Write-offs of uncollectible accounts receivable occur when all reasonable collection efforts have been made. Neither provisions nor write-offs were material for any period presented. Our allowance for doubtful accounts at December 31, 2012 was $0 and at December 31, 2011 was $1.

	Total
Balance at December 31, 2010	$ 216
Provision for (recovery of) doubtful accounts	(209)
Write-offs	(6)
Balance at December 31, 2011	$ 1
Provision for (recovery of) doubtful accounts	1
Write-offs	(2)
Balance at December 31, 2012	$ —

Accounts receivable represent amounts billed and currently due from customers. There were no material amounts that were not expected to be collected within one year from the balance sheet date.

Inventories

Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market. Cost includes materials, labor and manufacturing overhead related to the purchase and production of inventories.

We review market value based on historical usage and estimates of future demand. Based on these reviews, inventory write-downs are recorded, as necessary, to reflect estimated obsolescence, excess quantities and declines in market value.

Property and Equipment

Property and Equipment

Property and equipment are recorded at cost. Depreciation of building and equipment (including assets recorded under capital leases) and amortization of leasehold improvements are computed using the straight-line method over the estimated useful life of the assets or for leasehold improvements, over the life of the lease term if shorter. Depreciation and amortization of property and equipment for the years ended December 31, 2012, 2011 and 2010 was $4,891, $4,633 and $3,712, respectively. We did not enter into any capital leases during 2012 or 2011.

Expenditures that improve or extend the lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Property and equipment consist of:

	December 31,		Estimated
	2012	2011	Useful Life
Land	$ 362	$ 354	—
Building	2,718	2,521	33
Machinery and equipment	37,749	34,086	7-10
Furniture, fixtures and leasehold improvements	6,378	6,089	3-5
	47,207	43,050	
Less accumulated depreciation and amortization	(28,162)	(23,531)	
	19,045	19,519	
Construction in process	3,089	3,070	
Property and equipment, net	$ 22,134	$ 22,589	

Goodwill

Goodwill

Goodwill is tested for impairment annually as of the end of our third fiscal quarter, or when events or circumstances indicate that its value may have declined. Impairment exists when the carrying amount of goodwill exceeds its fair market value. Management estimates the fair value of each reporting unit primarily using the income approach. Specifically the discounted cash flow ("DCF") model was utilized for the valuation of each reporting unit. Management develops cash flow forecasts based on existing firm orders, expected future orders, contracts with suppliers, labor agreements and general market conditions. We discount the cash flow forecasts using the weighted-average cost of capital method at the date of evaluation. We also calculate the fair value of our reporting units using the market approach in order to corroborate our DCF model results. These methodologies used in the current year are consistent with those used in the prior year.

Since December 2012, there has been an extremely sharp increase in political and public support for new "gun control" laws and regulations in the United States. Some proposed legislation, including legislation that has been introduced and is under active consideration in Congress and in state legislatures, would ban and/or restrict the sale of substantially all of our products, in their current configurations, into the commercial market, either throughout the United States or in particular states. We considered this potential adverse change in our business climate to be a Triggering Event. Therefore, in addition to our annual goodwill impairment testing, we also performed a sensitivity analysis to determine the impact that a material decrease in LE/Commercial sales would have on our valuation. As of December 31, 2012, the fair value of our reporting units was substantially in excess of carrying value for all scenarios that we tested.

There were no impairment indicators of any goodwill during 2012, 2011 or 2010. Changes in the carrying amount of goodwill are as follows:

	Total
Balance at December 31, 2010	$ 14,950
Effect of foreign currency translation	(237)
Balance at December 31, 2011	14,713
Effect of foreign currency translation	234
Balance at December 31, 2012	$ 14,947

As of December 31, 2012 and 2011, there was an accumulated impairment of $1,245 on the gross book value of $16,192.

Intangible Assets

Intangible Assets

We review long-lived assets, including intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Impairment losses, where identified, are determined as the excess of the carrying value over the estimated fair value of the long-lived asset. We assess the recoverability of the carrying value of assets held for use based on a review of projected undiscounted cash flows. When long-lived assets are reclassified to "held for sale", we compare the asset's carrying amount to its estimated fair value less cost to sell to evaluate impairment. No long-lived assets have been reclassified to held for sale for any period presented.

The net carrying value of our intangible assets with finite lives follows:

	As of December 31, 2012			
	Gross Carrying Amount	Accumulated Amortization	Net	Estimated Useful Life
Customer relationship				
Canadian Government	$ 2,533	$ (640)	$ 1,893	30
Customer relationships other	7,219	(4,603)	2,616	20
Technology-based intangibles	3,610	(2,082)	1,528	15
	$ 13,362	$ (7,325)	$ 6,037	

	As of December 31, 2011			
	Gross Carrying Amount	Accumulated Amortization	Net	Estimated Useful Life
Customer relationship				
Canadian Government	$ 2,478	$ (544)	$ 1,934	30
Customer relationships other	7,062	(4,091)	2,971	20
Technology-based intangibles	3,610	(1,880)	1,730	15
	$ 13,150	$ (6,515)	$ 6,635	

Amortization expense for these intangible assets for the years ended December 31, 2012, 2011 and 2010 was $704, $742 and $749, respectively, of which $202 in 2012, $201 in 2011 and $201 in 2010 were included in cost of sales in the Consolidated Statements of Operations. The Company expects to record annual amortization expense of $666, $635, $604, $573 and $542 for 2013, 2014, 2015, 2016 and 2017, respectively. The Canadian government customer intangible and technology based intangibles are amortized using the straight-line method. The other customers' intangibles are amortized using the sum of the years' digits method.

Prepaid License Fee

Prepaid License Fee

The prepaid license fee (see Note 11) is being amortized over its initial 20-year term. Amortization expense was $101 per year in 2012, 2011 and 2010.

Deferred Financing Costs

Deferred Financing Costs

Deferred financing costs are amortized over the term of the related debt as a component of interest expense.

Warranty Costs

Warranty Costs

We generally warrant our military products for a period of one year and record the estimated costs of such product warranties at the time the sale is recorded. For direct foreign sales, posting a warranty bond for periods ranging from one to five years is occasionally required. Our estimated warranty costs are based upon actual past experience, our current production environment as well as specific and identifiable warranty. As of

December 31, 2012 and 2011, the balance of our warranty reserve was $167 and $139, respectively.

Self-Funded Medical Plan

Self-Funded Medical Plan

We maintain a self-funded employee group medical plan under which the liability is limited by individual and aggregate stop loss insurance coverage. Included in accrued expense in the accompanying Consolidated Balance Sheets is a liability for reported claims outstanding, as well as an estimate of incurred but unreported claims, based on our best estimate of the ultimate cost not covered by stop loss insurance. The actual amount of the claims could differ from the estimated liability recorded of $1,396 and $340 at December 31, 2012 and 2011, respectively.

Accrued Expenses

Accrued Expenses

Accrued expenses consisted of:

	December 31,	
	2012	2011
Accrued compensation and benefits	$ 5,770	$ 4,984
Accrued taxes	5,293	2,267
Accrued interest	3,230	2,923
Accrued commissions	1,229	2,872
Other accrued expenses	4,793	3,143
	$ 20,315	$ 16,189

Advertising Costs

Advertising Costs

We expense advertising as incurred. Advertising expense was $1,219 in 2012, $1,653 in 2011 and $774 in 2010.

Research and Development Costs

Research and Development Costs

Research and development costs consist primarily of compensation and benefits and experimental work materials for our employees who are responsible for the development and enhancement of new and existing products. Research and development costs incurred to develop new products and to enhance existing products, which are not specifically covered by contracts, and those costs related to our share of research and development activity in connection with cost-sharing arrangements are charged to expense as incurred. Research and development expenses were $4,747 in 2012, $5,578 in 2011 and $4,536 in 2010.

Research and development costs incurred under contracts with customers are included as a contract cost and reported as a component of cost of sales when revenue from such contracts is recognized. Government research and development support, not associated with specific contracts, is recorded as a reduction to cost of sales in the period earned.

Income Taxes

Income Taxes

In accordance with the provisions of ASC Topic 740, an uncertain income tax position will not be recognized in the financial statements unless it is more-likely-than-not to be sustained. As of December 31, 2012 and 2011, we had no reserves for any uncertain tax positions.

Common Unit Compensation Expense

Common Unit Compensation Expense

We use the Black-Scholes option pricing model to estimate the fair value of all unit-based compensation awards on the date of grant. The fair value of each time-based award is expensed on a straight-line basis over the requisite service period. For performance-based awards, compensation expense is recognized when it is probable that the performance conditions will be met.

Foreign Currency Translation

Foreign Currency Translation

The functional currency for our Canadian operation is the Canadian dollar. We translate the balance sheet accounts of our Canadian operation at the end-of-period exchange rates and its income statement accounts at the average exchange rates for each month. The resulting foreign currency translation adjustments are recorded as a component of accumulated other comprehensive income or loss, which is included in members' deficit.

Our Canadian operation is subject to foreign currency exchange rate risk relating to receipts from customers, payments to suppliers and some intercompany transactions in currencies other than the Canadian dollar. As a matter of policy, we do not engage in interest rate or currency speculation. We have no derivative financial instruments to hedge this exposure. In our Consolidated Statements of Operations, we had a foreign currency gain of $155 for 2012 and foreign currency losses of $294 and $685 for 2011 and 2010, respectively.

Fair Value Measurements

Fair Value Measurements

The fair value of an asset or liability is the amount at which the instrument could be exchanged or settled in a current transaction between willing parties where neither is compelled to buy or sell. The carrying values for cash, accounts receivable, accounts payable, accrued expenses and other current assets and liabilities approximate their fair values due to their short maturities. The carrying value of our long-term debt of $247,567 and $247,186 at December 31, 2012 and 2011, respectively, was recorded at amortized cost. The estimated fair value of long-term debt of approximately $161,250 and $172,500 at December 31, 2012 and 2011, respectively, was based on quoted market prices, which are Level 1 inputs.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value fall into the following hierarchy.

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

During 2012 and 2011, we did not have any financial assets and liabilities reported at fair value and measured on a recurring basis or any significant non-recurring measurements of nonfinancial assets and nonfinancial liabilities.

Retirement Benefits

Retirement Benefits

We have pension and other post retirement benefit costs and obligations which are dependent on various assumptions. Our major assumptions relate primarily to discount rates, long-term return on plan assets and medical cost trend rates. We base the discount rate assumption on current investment yields of high quality fixed income investments during the retirement benefits maturity period. Long-term return on plan assets is determined based on historical portfolio results and management's expectation of the future economic environment, as well as target asset allocations.

Our medical cost trend assumptions are developed based on historical cost data, the near-term outlook, an assessment of likely long-term trends and the cap limiting our required contributions. Actual results that differ from our assumptions are accumulated and are amortized generally over the estimated future working life of the plan participants.

Recently Accounting Pronouncements

Recent Accounting Pronouncements

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income - In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-02, which requires disclosure of significant amounts reclassified out of accumulated other comprehensive income by component and their corresponding effect on the respective line items of net income. This guidance is effective for the Company beginning in the first quarter of 2013. We are currently evaluating what impact, if any, ASU 2013-02 will have on our financial statements.

Presentation of Comprehensive Income — In June 2011, the FASB issued ASU 2011-05, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. This update eliminates the option to present components of other comprehensive income as part of the statement of equity, but it does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, FASB issued ASU 2011-12, which amends ASU 2011-05. This amendment defers the requirement to present components of reclassifications of other comprehensive income on the face of the income statement. Both standards were effective for us beginning on January 1, 2012. The adoption of these standards had no impact on our operating results or financial position.

Intangibles — Goodwill and Other — In September 2011, FASB issued ASU 2011-08, which provides entities the option to perform a qualitative assessment in order to determine whether additional quantitative impairment testing is necessary. This amendment was effective for reporting periods beginning after December 15, 2011. This amendment does not impact the quantitative testing methodology, should it be necessary. We adopted this standard on January 1, 2012 and it had no impact on our operating results or financial position.

Fair Value Measurement — In May 2011, FASB issued an amendment to revise the wording used to describe the requirements for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments to result in a change in the application of existing fair value measurement requirements, such as specifying that the concepts of the highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements such as specifying that, in the absence of a Level 1 input, a reporting entity should apply premiums or discounts when market participants would do so when pricing the asset or liability. We adopted this standard on January 1, 2012 and it had no impact on our operating results or financial position.

Revision to the consolidated financial statements

Revision to the consolidated financial statements

In connection with the preparation of the consolidated financial statements for the year ended December 31, 2012 certain errors were identified that affected our reported results for the years ended December 31, 2010 and 2011 and our quarterly reported results in 2011 and 2012. These errors related to the post-retirement health plan accounting and, as previously reported, a sales transaction recognized in the first quarter of 2012 that should have been recognized in the second quarter of 2012. As a result of these errors, we concluded that we would revise our consolidated financial statements for the years ended December 31, 2011 and 2010 and each quarter of 2011 and certain quarters within 2012. Based on an analysis of qualitative and quantitative factors, these errors were deemed immaterial, individually and in the aggregate, to all of the periods presented.

A description of the errors follows:

Post-retirement health plan accounting- We identified errors related to certain actuarial assumptions used in the calculation of claims data, administrative fees and a cap on benefits for a certain group of retirees. As of January 1, 2008, our accumulated deficit was overstated by $1,168 related to the overstatement of the post-retirement liability of $1,396 and understatement of accumulated other comprehensive income of $229 related to this error.

As a result of this error, the post-retirement health expense that we recorded in cost of sales for the year ended December 31, 2010 was overstated by $105 and for the year ended December 31, 2011 was understated by $208. The errors also had the effect of increasing the other comprehensive loss by $1,272 for the year ended December 31, 2010 and increasing other comprehensive income by $317 for the year ended December 31, 2011. These errors also resulted in the overstatement of the reported accrued post-retirement liability by $338 and understatement of accumulated comprehensive loss of $727 at December 31, 2011. Further, as of December 31, 2011, the accrued post-retirement health liability current balance was decreased by $281 and the accrued post-retirement liability long-term balance was increased by $281 to properly reflect the long-term nature of the liability.

Sales cut-off— During the first quarter of 2012, we recognized a sales transaction that should have been recognized in the second quarter of 2012. To correct the error, we decreased net sales by $724 and decreased cost of goods sold by $271 for the quarter ended March 31, 2012 and increased net sales by $724 and increased cost of goods sold by $271 for the quarter ended June 30, 2012.

Impact of the revision

Based on an analysis of qualitative and quantitative factors, these errors were deemed immaterial, individually and in the aggregate, to all periods previously reported. The effects of the revision on our Consolidated Statements of Operations for the years ended December 31, 2011 and 2010 follow:

For the year ended December 31, 2011

	Previously Reported	Adjustments	Revised
Cost of sales	$ 143,270	$ 208	$ 143,478
Gross profit	65,540	(208)	65,332
Operating income	32,711	(208)	32,503
(Loss) income from continuing operations before provision for foreign income taxes	8,367	(208)	8,159
(Loss) income from continuing operations	5,196	(208)	4,988
Net (loss) income	5,196	(208)	4,988
Net (loss) income attributable to Colt Defense LLC members	5,196	(208)	4,988

For the year ended December 31, 2010

	Previously Reported	Adjustments	Revised
Cost of sales	$ 131,383	$ (105)	$ 131,278
Gross profit	44,422	105	44,527
Operating income	18,373	105	18,478
(Loss) income from continuing operations before provision for foreign income taxes	(7,882)	105	(7,777)
(Loss) income from continuing operations	(10,381)	105	(10,276)
Net (loss) income	(11,254)	105	(11,149)

Net (loss) income attributable to Colt Defense LLC members	(11,170)	105	(11,065)

The effects of the revision on our Consolidated Statements of Comprehensive Loss for the years ended December 31, 2011 and 2010 follow:

For the year ended December 31, 2011

	Previously Reported	Adjustments	Revised
Net (loss) income	$ 5,196	$ (208)	$ 4,988
Change in pension and postretirement benefit plans, net	(5,519)	317	(5,202)
Comprehensive loss	(767)	109	(658)

For the year ended December 31, 2010

	Previously Reported	Adjustments	Revised
Net (loss) income	$ (11,254)	$ 105	$ (11,149)
Change in pension and postretirement benefit plans, net	(1,817)	(1,272)	(3,089)
Comprehensive loss	(11,656)	(1,167)	(12,823)

The effects of the revisions on our Consolidated Balance Sheet as of December 31, 2011 follow:

	Previously Reported	Adjustments	Revised
Pension and retirement obligations — current portion	$ 890	$ (281)	$ 609
Total current liabilities	41,488	(281)	41,207
Pension and retirement obligations	17,953	(57)	17,896
Total long-term liabilities	266,640	(57)	266,583
Total liabilities	308,128	(338)	307,790
Accumulated deficit	(130,769)	1,065	(129,704)
Accumulated other comprehensive loss	(12,403)	(727)	(13,130)
Total deficit	(143,172)	338	(142,834)

The effects of the revision on our consolidated statements of cash flows for the years ended December 31, 2011 and 2010:

For the year ended December 31, 2011

	Previously Reported	Adjustments	Revised
Cash flows from operating activities:			
Net (loss) income	$ 5,196	$ (208)	$ 4,988
Accrued pension and retirement liabilities	(830)	208	(622)

For the year ended December 31, 2010

	Previously Reported	Adjustments	Revised
Cash flows from operating activities:			
Net (loss) income	$ (11,254)	$ 105	$ (11,149)
Accrued pension and retirement liabilities	(970)	(105)	(1,075)

2010 and 2009 Revisions

As previously reported, during the first quarter of 2011, we identified a $3,259 understatement of goodwill related to our acquisition of Colt Canada and corresponding understatement of deferred tax liabilities. These understatements are attributable to the initial application of purchase accounting in 2005. We corrected this immaterial error through revision of our previously reported historical financial statements. As a result, our net loss for the year ended December 31, 2010 decreased by $160 to $(11,254). Our December 31, 2009 opening total deficit balance in our Consolidated Statements of Changes in Deficit decreased by $1,673. Based on an analysis of qualitative and quantitative factors, this error was deemed immaterial to all periods previously reported.

Prior Period Adjustments

During the first quarter of 2011, fourth quarter of 2011 and the full year of 2011, the Company recorded pre-tax adjustments of $127, $316 and $621, respectively, related to immaterial errors in prior periods. Management has concluded based on its quantitative and qualitative analysis such amounts are not material to our current or prior period interim and annual financial statements.

Inventories (Details) (USD $)

In Thousands, unless otherwise specified	Dec. 31, 2012	Dec. 31, 2011
Inventories		
Materials	$ 29,177	$ 22,422
Work in process	7,829	8,211
Finished products	3,555	5,582
Inventories	$ 40,561	$ 36,215

Summary of Significant Accounting Policies (Details 3) (USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012 item	Dec. 31, 2011	Dec. 31, 2010
Prepaid License Fee			
Initial term of license	20 years		
Amortization expense	$ 101	$ 101	$ 101
Warranty Costs			
Warranty period for military products	1 year		
Warranty bond posted for direct foreign sales, minimum period	1 year		
Warranty bond posted for direct foreign sales, maximum period	5 years		
Warranty reserve	167	139	
Self-Funded Medical Plan			
Recorded estimated liability	1,396	340	
Accrued expenses			
Accrued compensation and benefits	5,770	4,984	
Accrued taxes	5,293	2,267	
Accrued interest	3,230	2,923	
Accrued commissions	1,229	2,872	
Other accrued expenses	4,793	3,143	
Total accrued expenses	20,315	16,189	
Advertising Costs			
Advertising expense	1,219	1,653	774
Research and Development Costs			
Research and development expenses	4,747	5,578	4,536
Income Taxes			
Reserves for uncertain tax positions	0	0	
Foreign Currency Translation			
Derivative financial instruments to hedge foreign currency translation exposure	0		
Foreign currency gain (losses)	155	(294)	(685)
Fair Value Measurements			
Carrying value of long-term debt	247,567	247,186	
Estimated fair value of long-term debt	$ 161,250	$ 172,500	

Accumulated Other Comprehensive Loss (Tables)	12 Months Ended Dec. 31, 2012
Accumulated Other Comprehensive Loss	
Schedule of the components of accumulated other comprehensive loss	

	Unrecognized Prior Service Cost	Unrecognized Loss	Foreign Currency Translation	Total
Balance, December 31, 2009	$ 1,138	$ (8,192)	$ 1,244	$ (5,810)
Change in pension and postretirement health liabilities	(758)	(2,331)	—	(3,089)
Currency translation	—	—	1,415	1,415
Balance, December 31, 2010	380	(10,523)	2,659	(7,484)
Change in pension and postretirement health liabilities	(2)	(5,200)	—	(5,202)
Currency translation	—	—	(444)	(444)
Balance, December 31, 2011	378	(15,723)	2,215	(13,130)
Change in pension and postretirement health liabilities	447	(1,676)	—	(1,229)
Currency translation	—	—	518	518
Balance, December 31, 2012	$ 825	$ (17,399)	$ 2,733	$ (13,841)

Lease Obligations (Details) (USD $) In Thousands, unless otherwise specified	Dec. 31, 2012
Future minimum operating lease payments	
2013	$ 912
2014	958
2015	828
2016	19
Total minimum lease payments	$ 2,717

Segment Information (Details 4) (Net sales, Customer concentration risk)	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Colt's Manufacturing			
Major Customer Information			
Percentage of net sales	34.00%		
U.S. Government			
Major Customer Information			
Percentage of net sales	11.00%	31.00%	55.00%
Direct foreign customer			
Major Customer Information			
Number of major customers	2		
Direct foreign customer, one			
Major Customer Information			
Percentage of net sales	21.00%	11.00%	0.00%
Direct foreign customer, two			
Major Customer Information			
Percentage of net sales	10.00%		

Common Unit Compensation (Details) (USD $) In Thousands, except Share data, unless otherwise specified	1 Months Ended Mar. 31, 2012	12 Months Ended Dec. 31, 2012	Mar. 01, 2012
Common Unit Compensation			
Common units reserved for issuance in connection with awards under the LTIP (in shares)			18,878
Term of each option from the grant date		P10Y	
Options granted (in shares)	11,325		
Weighted-average exercise price (in dollars per share)	$ 100.00		
Compensation expense			
Allocated share-based compensation expense which is included in general and administrative expense		$ 17	

Summary of Significant Accounting Policies (Details 8) (USD $) In Thousands, unless otherwise specified	3 Months Ended								12 Months Ended		
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Oct. 02, 2011	Jul. 03, 2011	Apr. 03, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Cash flows from operating activities:											
Net (loss) income	$ 3,376	$ 2,894	$ (6,237)	$ (7,088)	$ 5,326	$ 3,373	$ (1,919)	$ (1,792)	$ (7,055)	$ 4,988	$ (11,149)
Accrued pension and retirement liabilities									(172)	(622)	(1,075)
Previously reported											
Cash flows from operating activities:											
Net (loss) income										5,196	(11,254)
Accrued pension and retirement liabilities										(830)	(970)
Adjustments											
Cash flows from operating activities:											
Net (loss) income										(208)	105
Accrued pension and retirement liabilities										$ 208	$ (105)

Discontinued Operations

12 Months Ended Dec. 31, 2012

Discontinued Operations

Discontinued Operations

3. Discontinued Operations

On December 1, 2010, we closed a non-core business located in Delhi, Louisiana, Colt Rapid Mat, which was engaged in the manufacture and sale of runway repair systems. Accordingly, Colt Rapid Mat is presented as a discontinued operation in the consolidated financial statements. Colt Rapid Mat was a guarantor of our $250,000 senior notes issued November 3, 2009; however, upon dissolution Colt Rapid Mat ceased being a guarantor of our senior notes. There was no buyer for this business and no significant proceeds as most assets were either disposed of or absorbed into other parts of the business. In addition, there were no significant costs nor on-going commitments associated with the closure.

The following table summarizes the components of the discontinued operations for Colt Rapid Mat:

	2012	2011	2010
Net sales	$ —	$ —	$ 612
Loss from discontinued operations	—	—	(665)
Loss on disposal of discontinued operations	—	—	(208)

A loss on disposal of discontinued operations of $208 was recognized in 2010 as a result of the disposal of Colt Rapid Mat's assets. Additionally, included in the loss from discontinued operations in the Consolidated Statements of Operations is net loss attributed to non-controlling interest of $84 for the year ended December 31, 2010.

Transactions With Related and Certain Other Parties (Details) (USD $) In Thousands, unless otherwise specified	3 Months Ended								12 Months Ended								1 Months Ended		4 Months Ended	12 Months Ended						
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Oct. 02, 2011	Jul. 03, 2011	Apr. 03, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2012 Sciens	Dec. 31, 2011 Sciens	Dec. 31, 2010 Sciens	Dec. 31, 2012 New Colt	Dec. 31, 2011 New Colt	Aug. 31, 2012 Colt's Manufacturing	Jul. 31, 2012 Colt's Manufacturing	Dec. 31, 2012 Colt's Manufacturing	Dec. 31, 2012 Colt's Manufacturing	Dec. 31, 2011 Colt's Manufacturing	Dec. 31, 2010 Colt's Manufacturing	Dec. 31, 2012 Colt's Manufacturing Minimum	Dec. 31, 2012 Security E-Plan Holding	Dec. 31, 2011 Security E-Plan Holding	Dec. 31, 2010 Security E-Plan Holding
Transactions With Related and Certain Other Parties																										
Annual advisory fees												$ (356)	$ (450)	$ (389)												
Period of paid-up license															20 years											
Length of successive license extension periods															5 years											
Consideration for the license agreement, inventories															18											
Consideration for the license agreement, cash															2,000											
Aggregate consideration for the license agreement															2,018											
Amortization period of license									20 years						20 years											
Unamortized balance of license agreement															1,109	1,210										
Annual fee																			1,766	1,766						
Estimated rate per month for electricity usage by related party																	35	35								
Amount received for electricity usage by related party																			81							
Additional period of automatic extension of agreement after the effective date																				1 year						
Notice period of termination																							3 months			
Accounts receivable, net	22,683				30,575				22,683	30,575									12,448	12,448	2,161					
Net sales of rifles	67,084	56,555	45,836	43,853	64,886	58,877	36,550	48,497	213,328	208,810	175,805									73,292	11,746	855				
Service fee income earned																				1,098	430	430				
Purchases from related party																				1,235	171	0				
Outstanding accounts payable																			249	249	14					
Employee leasing costs																								$ 921	$ 869	$ 858

Summary of Significant Accounting Policies (Details 4) (USD $) In Thousands, unless otherwise specified	3 Months Ended								12 Months Ended											3 Months Ended	
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Oct. 02, 2011	Jul. 03, 2011	Apr. 03, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2011 Previously reported	Dec. 31, 2010 Previously reported	Dec. 31, 2011 Adjustments	Dec. 31, 2010 Adjustments	Dec. 31, 2011 Post-retirement health plan accounting Adjustments	Dec. 31, 2010 Post-retirement health plan accounting Adjustments	Jan. 02, 2008 Post-retirement health plan accounting Adjustments	Jun. 30, 2012 Sales cut-off Adjustments	Mar. 31, 2012 Sales cut-off Adjustments
Accumulated deficit	$ (137,446)				$ (129,704)				$ (137,446)	$ (129,704)			$ (130,769)		$ 1,065				$ (1,168)		
Post-retirement liability																	338		1,396		
Accumulated other comprehensive loss	(13,841)				(13,130)				(13,841)	(13,130)	(7,484)	(5,810)	(12,403)		(727)				229		
Cost of sales									162,177	143,478	131,278		143,270	131,383	208	(105)	208	(105)		271	(271)
Other comprehensive income (loss)																	317	1,272			
Pension and retirement obligations - current portion	626				609				626	609			890		(281)		(281)				
Net sales	67,084	56,555	45,836	43,853	64,886	58,877	36,550	48,497	213,328	208,810	175,805									724	(724)
Pension and retirement obligations	$ 20,261				$ 17,896				$ 20,261	$ 17,896			$ 17,953		$ (57)		$ 281				

Notes Payable and Long-term Debt (Tables)	12 Months Ended Dec. 31, 2012
Notes Payable and Long-term Debt	
Schedule of the redemption price expressed as a percentage of principal amount of the Senior Notes to be redeemed	

Year	Percentage
2013	104.375%
2014	102.187%
2015 and thereafter	100.00%

Schedule of outstanding long-term debt balances and weighted average interest rates

Outstanding long-term debt balances and weighted average interest rates at December 31, 2012 and 2011 were as follows:

	Year Ended December 31, 2012	Weighted Average Effective Interest Rate	Year Ended December 31, 2011	Weighted Average Effective Interest Rate
Senior notes (a)(b)	$ 250,000	9.0%	$ 250,000	9.0%
Unamortized discount	(2,433)		(2,814)	
	247,567		247,186	
Less: current portion	—		—	
	$ 247,567		$ 247,186	

(a) Interest expense for 2012 and 2011 includes $381 and $348, respectively, of amortization of original issue discount.

(b) The senior notes bear interest at 8.75%. The effective rate of these notes is 9%, giving effect to the original issue discount.

Summary of deferred financing fee activity

	Total
Balance at December 31, 2010	$ 9,452
Amortization of deferred financing costs	(1,498)
Debt prepayment expense	(295)
Financing fees paid and accrued	1,653
Balance at December 31, 2011	$ 9,312
Amortization of deferred financing costs	(1,653)
Debt prepayment expense	—
Financing fees paid and accrued	(17)
Balance at December 31, 2012	$ 7,642

Schedule of total prepayment expense related to the debt refinancing activities and amendments

	2012	2011	2010
Write-off of deferred financing costs	$ —	$ 295	$ 1,246
	$ —	$ 295	$ 1,246

Inventories (Tables)	12 Months Ended Dec. 31, 2012

Inventories

Schedule of inventories

	December 31, 2012	December 31, 2011
Materials	$ 29,177	$ 22,422
Work in process	7,829	8,211
Finished products	3,555	5,582
	$ 40,561	$ 36,215

Pension, Savings and Postretirement Benefits (Details) (USD $)	12 Months Ended		
	Dec. 31, 2012 item	Dec. 31, 2011	Dec. 31, 2010
Fair value of plan assets			
Balance at beginning of year	$ 19,609,000		
Balance at end of year	22,372,000		
Components of cost recognized in the statement of operations			
Curtailment of hourly plan	(1,325,000)		
Pension plans			
Pension, savings and postretirement benefits			
Number of noncontributory plans	2		
Projected benefit obligation			
Balance at beginning of year	25,590,000	21,284,000	
Service cost	455,000	287,000	361,000
Interest cost	1,141,000	1,090,000	1,123,000
Plan amendments	951,000		
Actuarial loss	1,766,000	3,633,000	
Benefits paid	(735,000)	(704,000)	
Balance at end of year	29,168,000	25,590,000	21,284,000
Fair value of plan assets			
Balance at beginning of year	19,609,000	19,328,000	
Employer contributions	1,500,000	1,293,000	
Actual return on plan assets	1,998,000	(308,000)	
Benefits paid	(735,000)	(704,000)	
Balance at end of year	22,372,000	19,609,000	19,328,000
Unfunded benefit obligation			
Unfunded benefit obligation at end of year	(6,796,000)	(5,981,000)	
Additional benefits accrued after effective date of the freeze of plan	0		
Components of cost recognized in the statement of operations			
Service cost	455,000	287,000	361,000
Interest cost	1,141,000	1,090,000	1,123,000
Expected return on assets	(1,641,000)	(1,549,000)	(1,389,000)
Curtailment of hourly plan	1,325,000		
Amortization of unrecognized prior service costs	244,000	170,000	170,000
Amortization of unrecognized loss	813,000	495,000	358,000
Net periodic cost (income)	2,337,000	493,000	623,000
Hourly Plan			
Projected benefit obligation			
Balance at end of year	20,474,000	17,775,000	
Fair value of plan assets			
Balance at end of year	15,602,000	13,687,000	
Unfunded benefit obligation			

Unfunded benefit obligation at end of year	(4,872,000)	(4,088,000)	
Salaried Plan			
Projected benefit obligation			
Balance at end of year	8,694,000	7,815,000	
Fair value of plan assets			
Balance at end of year	6,770,000	5,922,000	
Unfunded benefit obligation			
Unfunded benefit obligation at end of year	(1,924,000)	(1,893,000)	
Postretirement health cost coverage			
Pension, savings and postretirement benefits			
Monthly maximum contribution to the cost of providing retiree health care benefits (in dollars per employee)	250		
Projected benefit obligation			
Balance at beginning of year	12,524,000	11,968,000	
Service cost	256,000	179,000	201,000
Interest cost	527,000	573,000	612,000
Actuarial loss	1,286,000	274,000	
Benefits paid	(502,000)	(470,000)	
Balance at end of year	14,091,000	12,524,000	11,968,000
Fair value of plan assets			
Employer contributions	502,000	471,000	
Benefits paid	(502,000)	(470,000)	
Unfunded benefit obligation			
Unfunded benefit obligation at end of year	(14,091,000)	(12,524,000)	
Components of cost recognized in the statement of operations			
Service cost	256,000	179,000	201,000
Interest cost	527,000	573,000	612,000
Amortization of unrecognized prior service costs	(172,000)	(172,000)	(212,000)
Amortization of unrecognized loss	208,000	70,000	91,000
Effect of curtailments and settlements			(714,000)
Net periodic cost (income)	$ 819,000	$ 650,000	$ (22,000)

Summary of Significant Accounting Policies (Details 5) (USD $) In Thousands, unless otherwise specified	3 Months Ended								12 Months Ended		
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Oct. 02, 2011	Jul. 03, 2011	Apr. 03, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Effects of the revision on Consolidated Statements of Operations											
Cost of sales									$ 162,177	$ 143,478	$ 131,278
Gross profit	18,046	16,442	8,834	7,829	22,480	18,830	10,983	13,039	51,151	65,332	44,527
Operating income									18,557	32,503	18,478
(Loss) income from continuing operations before provision for foreign income taxes									(5,305)	8,159	(7,777)
(Loss) income from continuing operations									(7,055)	4,988	(10,276)
Net (loss) income	3,376	2,894	(6,237)	(7,088)	5,326	3,373	(1,919)	(1,792)	(7,055)	4,988	(11,149)
Net (loss) income attributable to Colt Defense LLC members									(7,055)	4,988	(11,065)
Previously reported											
Effects of the revision on Consolidated Statements of Operations											
Cost of sales										143,270	131,383
Gross profit										65,540	44,422
Operating income										32,711	18,373
(Loss) income from continuing operations before provision for foreign income taxes										8,367	(7,882)
(Loss) income from continuing operations										5,196	(10,381)
Net (loss) income										5,196	(11,254)
Net (loss) income attributable to Colt Defense LLC members										5,196	(11,170)
Adjustments											
Effects of the revision on Consolidated Statements of Operations											
Cost of sales										208	(105)
Gross profit										(208)	105
Operating income										(208)	105
(Loss) income from continuing operations before provision for foreign income taxes										(208)	105

(Loss) income from continuing operations	(208)	105
Net (loss) income	(208)	105
Net (loss) income attributable to Colt Defense LLC members	$ (208)	$ 105

Lease Obligations (Tables)	**12 Months Ended Dec. 31, 2012**
Lease Obligations	
Schedule of future minimum lease payments	Future minimum lease payments at December 31, 2012 are as follows:

	Operating Leases
2013	$ 912
2014	958
2015	828
2016	19
Total minimum lease payments	$ 2,717

Income Taxes (Tables)	12 Months Ended Dec. 31, 2012

Income Taxes

Schedule of components of (loss) income from continuing operations before foreign income taxes

	December 31,		
	2012	2011	2010
United States	$ (11,923)	$ (4,559)	$ (15,930)
Foreign	6,618	12,718	8,153
Total	$ (5,305)	$ 8,159	$ (7,777)

Schedule of provision (benefit) for foreign income taxes

	December 31,		
	2012	2011	2010
Current	$ 1,711	$ 3,442	$ 2,660
Deferred	39	(271)	(161)
Total	$ 1,750	$ 3,171	$ 2,499

Schedule of components of deferred income taxes

	December 31,	
	2012	2011
Deferred tax assets		
Reserves	$ 255	$ 340
Deferred tax liabilities		
Intangible assets	(1,127)	(1,226)
Fixed assets	(388)	(275)
Other	(70)	(98)
Total	$ (1,330)	$ (1,259)

Summary of Significant Accounting Policies	12 Months Ended Dec. 31, 2012

Summary of Significant Accounting Policies

Summary of Significant Accounting Policies

2. Summary of Significant Accounting Policies

Basis of Accounting and Consolidation

The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Our consolidated financial statements include the accounts of Colt Defense LLC and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Reclassification of Prior Period Amounts

Certain prior period amounts have been reclassified to conform to the current year's presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash and short-term, highly liquid investments with original maturities of three months or less at the date of purchase.

Restricted Cash

Restricted cash at December 31, 2012 and 2011 consists of funds deposited to secure standby letters of credit primarily for performance guarantees related to our international business.

Revenue, Accounts Receivable and Credit Policies

We recognize revenue when evidence of an arrangement exists, delivery of the product or service has occurred and title and risk of loss have passed to the customer, the sales price is fixed or determinable, and collectability of the resulting receivable is reasonably assured. For certain "bill and hold" sales to the U.S. and Canadian governments, such sales and related accounts receivable are recognized upon inspection and acceptance of the rifles, including title transfer, by a government official and after we place the accepted rifles in a government approved location at our premises where they are held waiting shipping instructions. The sales value of such bill and hold sales where the shipments were still located at our premises at December 31, 2012, 2011 and 2010 were $0, $6,840 and $9,026, respectively.

We account for revenues and earnings under two long-term government contracts/ programs with interrelated multiple elements (procurement of parts, manufacturing and refurbishment services) using concepts of proportionate performance. These contracts effect reported results for all periods presented. We estimate the total profit on each contract as the difference between the total estimated revenue and total estimated cost of the contract and recognize that profit over the remaining life of the contract using an output measure (the ratio of rifles completed to the total number of rifles to be refurbished under the contract). We compute an earnings rate for each contract, including general and administrative expense, to determine operating earnings. We review the earnings rate quarterly to assess revisions in contract values and estimated costs at completion. Any changes in earnings rates and recognized contract to date earnings resulting from these assessments are made in the period the revisions are identified. Contract costs include production costs, related overhead and allocated general and administrative costs. Amounts billed and collected on this contract in excess of revenue recorded are reflected as customer advances and deferred income in the Consolidated Balance Sheets.

Anticipated contract losses are charged to operations as soon as they are identified. Anticipated losses cover all costs allocable to the contracts, including certain general and administrative expenses. If a contract is cancelled by the government for its convenience, we can make a claim against the customer for fair compensation for worked performed plus costs of settling and paying claims by terminated subcontractors, other settlement expenses and a reasonable profit on costs incurred. When we have a customer claim, revenue arising from the claims process is either recognized as revenue or as an offset against a potential loss only when the amount of the claim can be estimated reliably and its realization is probable. We had no claims recorded at any year-end presented.

Credit is extended based on an evaluation of each customer's financial condition. Generally, collateral is not required, other than in connection with some foreign sales. If the circumstances warrant, we require foreign customers to provide either a documentary letter of credit or a prepayment.

Credit losses are provided for, primarily using a specific identification basis. Once a customer is identified as high risk based on the payment history and creditworthiness, we will provide an allowance for the estimated uncollectible portion. Accounts are considered past due based on the original invoice date. Write-offs of uncollectible accounts receivable occur when all reasonable collection efforts have been made. Neither provisions nor write-offs were material for any period presented. Our allowance for doubtful accounts at December 31, 2012 was $0 and at December 31, 2011 was $1.

	Total
Balance at December 31, 2010	$ 216
Provision for (recovery of) doubtful accounts	(209)
Write-offs	(6)
Balance at December 31, 2011	$ 1
Provision for (recovery of) doubtful accounts	1
Write-offs	(2)
Balance at December 31, 2012	$ —

Accounts receivable represent amounts billed and currently due from customers. There were no material amounts that were not expected to be collected within one year from the balance sheet date.

Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market. Cost includes materials, labor and manufacturing overhead related to the purchase and production of inventories.

We review market value based on historical usage and estimates of future demand. Based on these reviews, inventory write-downs are recorded, as necessary, to reflect estimated obsolescence, excess quantities and declines in market value.

Property and Equipment

Property and equipment are recorded at cost. Depreciation of building and equipment (including assets recorded under capital leases) and amortization of leasehold improvements are computed using the straight-line method over the estimated useful life of the assets or for leasehold improvements, over the life of the lease term if shorter. Depreciation and amortization of property and equipment for the years ended December 31, 2012, 2011 and 2010 was $4,891, $4,633 and $3,712, respectively. We did not enter into any capital leases during 2012 or 2011.

Expenditures that improve or extend the lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Property and equipment consist of:

	December 31,		Estimated
	2012	2011	Useful Life
Land	$ 362	$ 354	—
Building	2,718	2,521	33
Machinery and equipment	37,749	34,086	7-10
Furniture, fixtures and leasehold improvements	6,378	6,089	3-5
	47,207	43,050	
Less accumulated depreciation and amortization	(28,162)	(23,531)	
	19,045	19,519	
Construction in process	3,089	3,070	
Property and equipment, net	$ 22,134	$ 22,589	

Goodwill

Goodwill is tested for impairment annually as of the end of our third fiscal quarter, or when events or circumstances indicate that its value may have declined. Impairment exists when the carrying amount of goodwill exceeds its fair market value. Management estimates the fair value of each reporting unit primarily using the income approach. Specifically the discounted cash flow (“DCF”) model was utilized for the valuation of each reporting unit. Management develops cash flow forecasts based on existing firm orders, expected future orders, contracts with suppliers, labor agreements and general market conditions. We discount the cash flow forecasts using the weighted-average cost of capital method at the date of evaluation. We also calculate the fair value of our reporting units using the market approach in order to corroborate our DCF model results. These methodologies used in the current year are consistent with those used in the prior year.

Since December 2012, there has been an extremely sharp increase in political and public support for new “gun control” laws and regulations in the United States. Some proposed legislation, including legislation that has been introduced and is under active consideration in Congress and in state legislatures, would ban and/or restrict the sale of substantially all of our products, in their current configurations, into the commercial market, either throughout the United States or in particular states. We considered this potential adverse change in our business climate to be a Triggering Event. Therefore, in addition to our annual goodwill impairment testing, we also performed a sensitivity analysis to determine the impact that a material decrease in LE/Commercial sales would have on our valuation. As of December 31, 2012, the fair value of our reporting units was substantially in excess of carrying value for all scenarios that we tested.

There were no impairment indicators of any goodwill during 2012, 2011 or 2010. Changes in the carrying amount of goodwill are as follows:

	Total
Balance at December 31, 2010	$ 14,950
Effect of foreign currency translation	(237)
Balance at December 31, 2011	14,713
Effect of foreign currency translation	234
Balance at December 31, 2012	$ 14,947

As of December 31, 2012 and 2011, there was an accumulated impairment of $1,245 on the gross book value of $16,192.

Intangible Assets

We review long-lived assets, including intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Impairment losses, where identified, are determined as the excess of the carrying value over the estimated fair value of the long-lived asset. We assess the recoverability of the carrying value of assets held for use based on a review of projected undiscounted cash flows. When long-lived assets are reclassified to “held for sale”, we compare the asset’s carrying amount to its estimated fair value less cost to sell to evaluate impairment. No long-lived assets have been reclassified to held for sale for any period presented.

The net carrying value of our intangible assets with finite lives follows:

	As of December 31, 2012			
	Gross Carrying Amount	Accumulated Amortization	Net	Estimated Useful Life
Customer relationship				
Canadian Government	$ 2,533	$ (640)	$ 1,893	30
Customer relationships other	7,219	(4,603)	2,616	20
Technology-based intangibles	3,610	(2,082)	1,528	15
	$ 13,362	$ (7,325)	$ 6,037	

	As of December 31, 2011			
	Gross Carrying Amount	Accumulated Amortization	Net	Estimated Useful Life
Customer relationship				
Canadian Government	$ 2,478	$ (544)	$ 1,934	30
Customer relationships other	7,062	(4,091)	2,971	20
Technology-based intangibles	3,610	(1,880)	1,730	15
	$ 13,150	$ (6,515)	$ 6,635	

Amortization expense for these intangible assets for the years ended December 31, 2012, 2011 and 2010 was $704, $742 and $749, respectively, of which $202 in 2012, $201 in 2011 and $201 in 2010 were included in cost of sales in the Consolidated Statements of Operations. The Company expects to record annual amortization expense of $666, $635, $604, $573 and $542 for 2013, 2014, 2015, 2016 and 2017, respectively. The Canadian government customer intangible and technology based intangibles are amortized using the straight-line method. The other customers’ intangibles are amortized using the sum of the years’ digits method.

Prepaid License Fee

The prepaid license fee (see Note 11) is being amortized over its initial 20-year term. Amortization expense was $101 per year in 2012, 2011 and 2010.

Deferred Financing Costs

Deferred financing costs are amortized over the term of the related debt as a component of interest expense.

Warranty Costs

We generally warrant our military products for a period of one year and record the estimated costs of such product warranties at the time the sale is recorded. For direct foreign sales, posting a warranty bond for periods ranging from one to five years is occasionally required. Our estimated warranty costs are based upon actual past experience, our current production environment as well as specific and identifiable warranty. As of December 31, 2012 and 2011, the balance of our warranty reserve was $167 and $139, respectively.

Self-Funded Medical Plan

We maintain a self-funded employee group medical plan under which the liability is limited by individual and aggregate stop loss insurance coverage. Included in accrued expense in the accompanying Consolidated Balance Sheets is a liability for reported claims outstanding, as well as an estimate of incurred but unreported claims, based on our best estimate of the ultimate cost not covered by stop loss insurance. The actual amount of the claims could differ from the estimated liability recorded of $1,396 and $340 at December 31, 2012 and 2011, respectively.

Accrued Expenses

Accrued expenses consisted of:

	December 31,	
	2012	2011
Accrued compensation and benefits	$ 5,770	$ 4,984
Accrued taxes	5,293	2,267
Accrued interest	3,230	2,923
Accrued commissions	1,229	2,872
Other accrued expenses	4,793	3,143
	$ 20,315	$ 16,189

Advertising Costs

We expense advertising as incurred. Advertising expense was $1,219 in 2012, $1,653 in 2011 and $774 in 2010.

Research and Development Costs

Research and development costs consist primarily of compensation and benefits and experimental work materials for our employees who are responsible for the development and enhancement of new and existing products. Research and development costs incurred to develop new products and to enhance existing products, which are not specifically covered by contracts, and those costs related to our share of research and development activity in connection with cost-sharing arrangements are charged to expense as incurred. Research and development expenses were $4,747 in 2012, $5,578 in 2011 and $4,536 in 2010.

Research and development costs incurred under contracts with customers are included as a contract cost and reported as a component of cost of sales when revenue from such contracts is recognized. Government research and development support, not associated with specific contracts, is recorded as a reduction to cost of sales in the period earned.

Income Taxes

In accordance with the provisions of ASC Topic 740, an uncertain income tax position will not be recognized in the financial statements unless it is more-likely-than-not to be sustained. As of December 31, 2012 and 2011, we had no reserves for any uncertain tax positions.

Common Unit Compensation Expense

We use the Black-Scholes option pricing model to estimate the fair value of all unit-based compensation awards on the date of grant. The fair value of each time-based award is expensed on a straight-line basis over the requisite service period. For performance-based awards, compensation expense is recognized when it is probable that the performance conditions will be met.

Foreign Currency Translation

The functional currency for our Canadian operation is the Canadian dollar. We translate the balance sheet accounts of our Canadian operation at the end-of-period exchange rates and its income statement accounts at the average exchange rates for each month. The resulting foreign currency translation adjustments are recorded as a component of accumulated other comprehensive income or loss, which is included in members' deficit.

Our Canadian operation is subject to foreign currency exchange rate risk relating to receipts from customers, payments to suppliers and some intercompany transactions in currencies other than the Canadian dollar. As a matter of policy, we do not engage in interest rate or currency speculation. We have no derivative financial instruments to hedge this exposure. In our Consolidated Statements of Operations, we had a foreign currency gain of $155 for 2012 and foreign currency losses of $294 and $685 for 2011 and 2010, respectively.

Fair Value Measurements

The fair value of an asset or liability is the amount at which the instrument could be exchanged or settled in a current transaction between willing parties where neither is compelled to buy or sell. The carrying values for cash, accounts receivable, accounts payable, accrued expenses and other current assets and liabilities approximate their fair values due to their short maturities. The carrying value of our long-term debt of $247,567 and $247,186 at December 31, 2012 and 2011, respectively, was recorded at amortized cost. The estimated fair value of long-term debt of approximately $161,250 and $172,500 at December 31, 2012 and 2011, respectively, was based on quoted market prices, which are Level 1 inputs.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value fall into the following hierarchy.

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

During 2012 and 2011, we did not have any financial assets and liabilities reported at fair value and measured on a recurring basis or any significant non-recurring measurements of nonfinancial assets and nonfinancial liabilities.

Retirement Benefits

We have pension and other post retirement benefit costs and obligations which are dependent on various assumptions. Our major assumptions relate primarily to discount rates, long-term return on plan assets and medical cost trend rates. We base the discount rate assumption on current investment yields of high quality fixed income investments during the retirement benefits maturity period. Long-term return on plan assets is determined based on historical portfolio results and management's expectation of the future economic environment, as well as target asset allocations.

Our medical cost trend assumptions are developed based on historical cost data, the near-term outlook, an assessment of likely long-term trends and the cap limiting our required contributions. Actual results that differ from our assumptions are accumulated and are amortized generally over the estimated future working life of the plan participants.

Recent Accounting Pronouncements

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income - In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-02, which requires disclosure of significant amounts reclassified out of accumulated other comprehensive income by component and their corresponding effect on the respective line items of net income. This guidance is effective for the Company beginning in the first quarter of 2013. We are currently evaluating what impact, if any, ASU 2013-02 will have on our financial statements.

Presentation of Comprehensive Income — In June 2011, the FASB issued ASU 2011-05, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. This update eliminates the option to present components of other comprehensive income as part of the statement of equity, but it does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, FASB issued ASU 2011-12, which amends ASU 2011-05. This amendment defers the requirement to present components of reclassifications of other comprehensive income on the face of the income statement. Both standards were effective for us beginning on January 1, 2012. The adoption of these standards had no impact on our operating results or financial position.

Intangibles — Goodwill and Other — In September 2011, FASB issued ASU 2011-08, which provides entities the option to perform a qualitative assessment in order to determine whether additional quantitative impairment testing is necessary. This amendment was effective for reporting periods beginning after December 15, 2011. This amendment does not impact the quantitative testing methodology, should it be necessary. We adopted this standard on January 1, 2012 and it had no impact on our operating results or financial position.

Fair Value Measurement — In May 2011, FASB issued an amendment to revise the wording used to describe the requirements for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments to result in a change in the application of existing fair value measurement requirements, such as specifying that the concepts of the highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements such as specifying that, in the absence of a Level 1 input, a reporting entity should apply premiums or discounts when market participants would do so when pricing the asset or liability. We adopted this standard on January 1, 2012 and it had no impact on our operating results or financial position.

Revision to the consolidated financial statements

In connection with the preparation of the consolidated financial statements for the year ended December 31, 2012 certain errors were identified that affected our reported results for the years ended December 31, 2010 and 2011 and our quarterly reported results in 2011 and 2012. These errors related to the post-retirement health plan accounting and, as previously reported, a sales transaction recognized in the first quarter of 2012 that should have been recognized in the second quarter of 2012. As a result of these errors, we concluded that we would revise our consolidated financial statements for the years ended December 31, 2011 and 2010 and each quarter of 2011 and certain quarters within 2012. Based on an analysis of qualitative and quantitative factors, these errors were deemed immaterial, individually and in the aggregate, to all of the periods presented.

A description of the errors follows:

Post-retirement health plan accounting- We identified errors related to certain actuarial assumptions used in the calculation of claims data, administrative fees and a cap on benefits for a certain group of retirees. As of January 1, 2008, our accumulated deficit was overstated by $1,168 related to the overstatement of the post-retirement liability of $1,396 and understatement of accumulated other comprehensive income of $229 related to this error.

As a result of this error, the post-retirement health expense that we recorded in cost of sales for the year ended December 31, 2010 was overstated by $105 and for the year ended December 31, 2011 was understated by $208. The errors also had the effect of increasing the other comprehensive loss by $1,272 for the year ended December 31, 2010 and increasing other comprehensive income by $317 for the year ended December 31, 2011. These errors also resulted in the overstatement of the reported accrued post-retirement liability by $338 and understatement of accumulated comprehensive loss of $727 at December 31, 2011. Further, as of December 31, 2011, the accrued post-retirement health liability current balance was decreased by $281 and the accrued post-retirement liability long-term balance was increased by $281 to properly reflect the long-term nature of the liability.

Sales cut-off— During the first quarter of 2012, we recognized a sales transaction that should have been recognized in the second quarter of 2012. To correct the error, we decreased net sales by $724 and decreased cost of goods sold by $271 for the quarter ended March 31, 2012 and increased net sales by $724 and increased cost of goods sold by $271 for the quarter ended June 30, 2012.

Impact of the revision

Based on an analysis of qualitative and quantitative factors, these errors were deemed immaterial, individually and in the aggregate, to all periods previously reported. The effects of the revision on our Consolidated Statements of Operations for the years ended December 31, 2011 and 2010 follow:

For the year ended December 31, 2011

	Previously Reported	Adjustments	Revised
Cost of sales	$ 143,270	$ 208	$ 143,478
Gross profit	65,540	(208)	65,332

Operating income	32,711	(208)	32,503
(Loss) income from continuing operations before provision for foreign income taxes	8,367	(208)	8,159
(Loss) income from continuing operations	5,196	(208)	4,988
Net (loss) income	5,196	(208)	4,988
Net (loss) income attributable to Colt Defense LLC members	5,196	(208)	4,988

For the year ended December 31, 2010

	Previously Reported	Adjustments	Revised
Cost of sales	$ 131,383	$ (105)	$ 131,278
Gross profit	44,422	105	44,527
Operating income	18,373	105	18,478
(Loss) income from continuing operations before provision for foreign income taxes	(7,882)	105	(7,777)
(Loss) income from continuing operations	(10,381)	105	(10,276)
Net (loss) income	(11,254)	105	(11,149)
Net (loss) income attributable to Colt Defense LLC members	(11,170)	105	(11,065)

The effects of the revision on our Consolidated Statements of Comprehensive Loss for the years ended December 31, 2011 and 2010 follow:

For the year ended December 31, 2011

	Previously Reported	Adjustments	Revised
Net (loss) income	$ 5,196	$ (208)	$ 4,988
Change in pension and postretirement benefit plans, net	(5,519)	317	(5,202)
Comprehensive loss	(767)	109	(658)

For the year ended December 31, 2010

	Previously Reported	Adjustments	Revised
Net (loss) income	$ (11,254)	$ 105	$ (11,149)
Change in pension and postretirement benefit plans, net	(1,817)	(1,272)	(3,089)
Comprehensive loss	(11,656)	(1,167)	(12,823)

The effects of the revisions on our Consolidated Balance Sheet as of December 31, 2011 follow:

	Previously Reported	Adjustments	Revised
Pension and retirement obligations — current portion	$ 890	$ (281)	$ 609
Total current liabilities	41,488	(281)	41,207
Pension and retirement obligations	17,953	(57)	17,896
Total long-term liabilities	266,640	(57)	266,583
Total liabilities	308,128	(338)	307,790
Accumulated deficit	(130,769)	1,065	(129,704)
Accumulated other comprehensive loss	(12,403)	(727)	(13,130)
Total deficit	(143,172)	338	(142,834)

The effects of the revision on our consolidated statements of cash flows for the years ended December 31, 2011 and 2010:

For the year ended December 31, 2011

	Previously Reported	Adjustments	Revised
Cash flows from operating activities:			
Net (loss) income	$ 5,196	$ (208)	$ 4,988
Accrued pension and retirement liabilities	(830)	208	(622)

For the year ended December 31, 2010

	Previously Reported	Adjustments	Revised
Cash flows from operating activities:			
Net (loss) income	$ (11,254)	$ 105	$ (11,149)
Accrued pension and retirement liabilities	(970)	(105)	(1,075)

2010 and 2009 Revisions

As previously reported, during the first quarter of 2011, we identified a $3,259 understatement of goodwill related to our acquisition of Colt Canada and corresponding understatement of deferred tax liabilities. These understatements are attributable to the initial application of purchase accounting in 2005. We corrected this immaterial error through revision of our previously reported historical financial statements. As a result, our net loss for the year ended December 31, 2010 decreased by $160 to $(11,254). Our December 31, 2009 opening total deficit balance in our Consolidated Statements of Changes in Deficit decreased by $1,673. Based on an analysis of qualitative and quantitative factors, this error was deemed immaterial to all periods previously reported.

Prior Period Adjustments

During the first quarter of 2011, fourth quarter of 2011 and the full year of 2011, the Company recorded pre-tax adjustments of $127, $316 and $621, respectively, related to immaterial errors in prior periods. Management has concluded based on its quantitative and qualitative analysis such amounts are not material to our current or prior period interim and annual financial statements.

Pension, Savings and Postretirement Benefits (Tables)

12 Months Ended Dec. 31, 2012

Pension, savings and postretirement benefits

Schedule of disclosures related to the pension plans and the postretirement health care coverage

	Pension Plans 2012	Pension Plans 2011	Postretirement Healthcare Coverage 2012	Postretirement Healthcare Coverage 2011
Projected benefit obligation at beginning of year	$ 25,590	$ 21,284	$ 12,524	$ 11,968
Service cost	455	287	256	179
Interest cost	1,141	1,090	527	573
Plan amendments	951	—	—	—
Actuarial loss	1,766	3,633	1,286	274
Benefits paid	(735)	(704)	(502)	(470)
Projected benefit obligation at end of year	29,168	25,590	14,091	12,524
Fair value of plan assets at beginning of year	19,609	19,328	—	—
Employer contributions	1,500	1,293	502	471
Actual return on plan assets	1,998	(308)	—	—
Benefits paid	(735)	(704)	(502)	(471)
Fair value of plan assets at end of year	22,372	19,609	—	—
Unfunded benefit obligation at end of year	$ (6,796)	$ (5,981)	$ (14,091)	$ (12,524)

Schedule of the components of the unfunded benefit obligations of the hourly and salaried defined benefit plans

	2012 Hourly Plan	2012 Salaried Plan	2012 Total	2011 Hourly Plan	2011 Salaried Plan	2011 Total
Projected benefit obligation	$ 20,474	$ 8,694	$ 29,168	$ 17,775	$ 7,815	$ 25,590
Fair value of plan assets	15,602	6,770	22,372	13,687	5,922	19,609
Unfunded benefit obligation	$ (4,872)	$ (1,924)	$ (6,796)	$ (4,088)	$ (1,893)	$ (5,981)

Schedule of the components of cost recognized in other comprehensive loss

	Pension Plans	Post Retirement Health	Total
Balance at December 31, 2010	$ (8,269)	$ (1,874)	$ (10,143)
Recognized in other comprehensive loss	(4,826)	(376)	(5,202)
Balance at December 31, 2011	(13,095)	(2,250)	(15,345)
Recognized in other comprehensive loss	22	(1,251)	(1,229)
Balance at December 31, 2012	$ (13,073)	$ (3,501)	$ (16,574)

Schedule of the estimated amount that will be amortized from accumulated other comprehensive loss into net periodic cost in 2013

	Pension Plans	Post Retirement Health
Prior service cost/(gain)	$ —	$ (172)
Actuarial loss	420	284
Total	$ 420	$ 112

Schedule of weighted average assumptions used in determining the year-end benefit obligation

	Hourly Pension Plan 2012	Hourly Pension Plan 2011	Salaried Pension Plan 2012	Salaried Pension Plan 2011	Postretirement Healthcare 2012	Postretirement Healthcare 2011
Discount rate	3.75%	4.25%	4.0%	4.50%	3.5%	4.25%
Expected return on plan assets	7.5%	8.00%	7.5%	8.00%	N/A	N/A

Schedule of weighted average assumptions used to determine net periodic cost

Weighted-average assumptions used to determine net periodic cost for the years ended December 31 are as follows:

	Hourly Pension Plan 2012	Hourly Pension Plan 2011	Hourly Pension Plan 2010	Salaried Pension Plan 2012	Salaried Pension Plan 2011	Salaried Pension Plan 2010
Discount rate	3.75%	4.25%	5.50%	4.0%	4.50%	5.50%
Expected return on plan assets	7.5%	8.00%	8.00%	7.5%	8.00%	8.00%

	Postretirement Health		
	2012	2011	2010
Discount rate	3.5%	4.25%	5.50%
Expected return on plan assets	N/A	N/A	N/A

Schedule of allocation by asset category

	Fair Value Measurements at December 31, 2012				
	Total	Allocation Percent	Level 1	Level 2	Level 3
Equity mutual funds	$ 11,344	51%	$ 11,344	$ —	$ —
Fixed income mutual funds	7,193	32%	7,193	—	—
Money market funds	644	3%	644	—	—
Stable value	3,191	14%	—	3,191	—
	$ 22,372	100%	$ 19,181	$ 3,191	$ —

	Fair Value Measurements at December 31, 2011				
	Total	Allocation Percent	Level 1	Level 2	Level 3
Equity mutual funds	$ 9,858	50%	$ 9,858	$ —	$ —
Fixed income mutual funds	6,211	32%	6,211	—	—
Money market funds	384	2%	384	—	—
Stable value	3,156	16%	—	3,156	—
	$ 19,609	100%	$ 16,453	$ 3,156	$ —

Schedule of benefit payments, which reflect future service as appropriate, which are expected to be paid

Years ending	Pension Plans	Post Retirement Health
2013	$ 1,337	$ 626
2014	1,349	672
2015	1,354	709
2016	1,403	750
2017	1,445	784
2018-2022	7,756	4,228

Pension plans

Pension, savings and postretirement benefits

Schedule of the components of cost recognized in the statement of operations

	December 31,		
	2012	2011	2010
Service cost	$ 455	$ 287	$ 361
Interest cost	1,141	1,090	1,123
Expected return on assets	(1,641)	(1,549)	(1,389)
Curtailment of hourly plan	1,325	—	—
Amortization of unrecognized prior service costs	244	170	170
Amortization of unrecognized loss	813	495	358
Net periodic cost	$ 2,337	$ 493	$ 623

Postretirement health cost coverage

Pension, savings and postretirement benefits

Schedule of the components of cost recognized in the statement of operations

	December 31,		
	2012	2011	2010
Service cost	$ 256	$ 179	$ 201
Interest cost	527	573	612
Amortization of unrecognized prior service costs	(172)	(172)	(212)
Amortization of unrecognized loss	208	70	91
Effect of curtailments and settlements	—	—	(714)
Net periodic cost (income)	$ 819	$ 650	$ (22)

Summary of Significant Accounting Policies (Details) (USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012 item	Dec. 31, 2011	Dec. 31, 2010
Revenue, Accounts Receivable and Credit Policies			
Bill and hold sales	$ 0	$ 6,840	$ 9,026
Number of long-term contracts/programs	2		
Number of claims recorded	0		
Changes in allowance for doubtful accounts			
Balance at the beginning of the period	1	216	
Write-offs	(2)	(6)	
Provision for (recovery of) doubtful accounts	1	(209)	
Balance at the end of the period	0	1	216
Period from the balance sheet date within which there are no material amounts not expected to be collected	1 year		
Property and equipment			
Depreciation and amortization	4,891	4,633	3,712
Property and equipment, gross, excluding Construction in process	47,207	43,050	
Less accumulated depreciation and amortization	(28,162)	(23,531)	
Property and equipment, net, excluding Construction in process	19,045	19,519	
Construction in process	3,089	3,070	
Property and equipment, net	22,134	22,589	
Changes in the carrying amount of goodwill			
Balance at the beginning of the period	14,713	14,950	
Effect of foreign currency translation	234	(237)	
Balance at the end of the period	14,947	14,713	14,950
Goodwill			
Accumulated impairment	1,245	1,245	
Goodwill book value	16,192	16,192	
Impairment of goodwill	0	0	0
Land			
Property and equipment			
Property and equipment, gross, excluding Construction in process	362	354	
Building			
Property and equipment			
Property and equipment, gross, excluding Construction in process	2,718	2,521	
Estimated Useful Life	33 years		
Machinery and equipment			
Property and equipment			
Property and equipment, gross, excluding Construction in process	37,749	34,086	
Machinery and equipment | Minimum			
Property and equipment			
Estimated Useful Life	7 years		

Machinery and equipment | Maximum		
Property and equipment		
Estimated Useful Life	10 years	
Furniture, fixtures and leasehold improvements		
Property and equipment		
Property and equipment, gross, excluding Construction in process	$ 6,378	$ 6,089
Furniture, fixtures and leasehold improvements | Minimum		
Property and equipment		
Estimated Useful Life	3 years	
Furniture, fixtures and leasehold improvements | Maximum		
Property and equipment		
Estimated Useful Life	5 years	

Lease Obligations (Details 2) (Machinery and equipment, USD $) In Thousands, unless otherwise specified	Dec. 31, 2011
Machinery and equipment	
Lease Obligations	
Original cost	$ 6,641
Accumulated depreciation	$ 5,252

Subsequent Event (Details) (Subsequent event, Blackstone Funds, USD $) In Millions, except Share data, unless otherwise specified	0 Months Ended
	Mar. 22, 2013
Subsequent event | Blackstone Funds	
Subsequent event	
Repurchase of common units (in shares)	31,165,589
Common membership units held by the Blackstone Funds (as a percent)	100.00%
Aggregate purchase price	$ 14.0

Consolidated Balance Sheets (USD $) In Thousands, unless otherwise specified	Dec. 31, 2012	Dec. 31, 2011
Current assets:		
Cash and cash equivalents	$ 42,373	$ 38,236
Restricted cash	777	1,241
Accounts receivable, net	22,683	30,575
Inventories	40,561	36,215
Other current assets	3,416	2,481
Total current assets	109,810	108,748
Property and equipment, net	22,134	22,589
Goodwill	14,947	14,713
Intangible assets with finite lives, net	6,037	6,635
Deferred financing costs	7,642	9,312
Long-term restricted cash	810	810
Other assets	1,588	2,149
Total assets	162,968	164,956
Current liabilities:		
Line of credit	6	
Capital lease obligations - current portion		1,148
Accounts payable	13,055	11,114
Accrued expenses	20,315	16,189
Pension and retirement obligations - current portion	626	609
Customer advances and deferred income	10,002	8,804
Accrued distributions to members		3,343
Total current liabilities	44,004	41,207
Long-term debt	247,567	247,186
Pension and retirement liabilities	20,261	17,896
Other long-term liabilities	2,423	1,501
Total long-term liabilities	270,251	266,583
Total liabilities	314,255	307,790
Commitments and Contingencies (Note 6 and 12)		
Deficit:		
Accumulated deficit	(137,446)	(129,704)
Accumulated other comprehensive loss	(13,841)	(13,130)
Total deficit	(151,287)	(142,834)
Total liabilities and deficit	$ 162,968	$ 164,956

Summary of Significant Accounting Policies (Details 6) (USD $) In Thousands, unless otherwise specified	3 Months Ended								12 Months Ended		
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Oct. 02, 2011	Jul. 03, 2011	Apr. 03, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Effects of the revision on Consolidated Statements of Comprehensive Loss											
Net (loss) income	$ 3,376	$ 2,894	$ (6,237)	$ (7,088)	$ 5,326	$ 3,373	$ (1,919)	$ (1,792)	$ (7,055)	$ 4,988	$ (11,149)
Change in pension and postretirement benefit plans, net									(1,229)	(5,202)	(3,089)
Comprehensive loss									(7,766)	(658)	(12,823)
Previously reported											
Effects of the revision on Consolidated Statements of Comprehensive Loss											
Net (loss) income										5,196	(11,254)
Change in pension and postretirement benefit plans, net										(5,519)	(1,817)
Comprehensive loss										(767)	(11,656)
Adjustments											
Effects of the revision on Consolidated Statements of Comprehensive Loss											
Net (loss) income										(208)	105
Change in pension and postretirement benefit plans, net										317	(1,272)
Comprehensive loss										$ 109	$ (1,167)

Consolidated Statements of Changes in Deficit (USD $) In Thousands, except Share data, unless otherwise specified	Total USD ($)	Member Units	Accumulated Members' Deficit USD ($)	Accumulated Other Comprehensive Loss USD ($)	Non-Controlling Interest USD ($)	Comprehensive Income (Loss) USD ($)
Balance at Dec. 31, 2009	$ (110,818)		$ (104,912)	$ (5,810)	$ (96)	
Balance (in shares) at Dec. 31, 2009		132,174				
Increase (Decrease) in Stockholders' Equity						
Distributions to members	(17,937)		(17,937)			
Disposal of non-controlling interest	180				180	
Net (loss) income	(11,149)		(11,065)		(84)	(11,149)
Other comprehensive (loss)/ income:						
Pension and postretirement health liabilities	(3,089)			(3,089)		(3,089)
Foreign currency translation	1,415			1,415		1,415
Comprehensive loss	(12,823)					(12,823)
Balance at Dec. 31, 2010	(141,398)		(133,914)	(7,484)		
Balance (in shares) at Dec. 31, 2010		132,174				
Increase (Decrease) in Stockholders' Equity						
Distributions to members	(778)		(778)			
Net (loss) income	4,988		4,988			4,988
Other comprehensive (loss)/ income:						
Pension and postretirement health liabilities	(5,202)			(5,202)		(5,202)
Foreign currency translation	(444)			(444)		(444)
Comprehensive loss	(658)					(658)
Balance at Dec. 31, 2011	(142,834)		(129,704)	(13,130)		
Balance (in shares) at Dec. 31, 2011	132,174	132,174				
Increase (Decrease) in Stockholders' Equity						
Common unit compensation expense	17		17			
Distributions to members	(704)		(704)			
Net (loss) income	(7,055)		(7,055)			(7,055)
Other comprehensive (loss)/ income:						

Pension and postretirement health liabilities	(1,229)			(1,229)	(1,229)
Foreign currency translation	518			518	518
Comprehensive loss	(7,766)				(7,766)
Balance at Dec. 31, 2012	$ (151,287)		$ (137,446)	$ (13,841)	
Balance (in shares) at Dec. 31, 2012	132,174	132,174			

Pension, Savings and Postretirement Benefits (Details 4) (USD $) In Thousands, unless otherwise specified	0 Months Ended	12 Months Ended											
	Jan. 02, 2013 Employees represented by a collective bargaining agreement	Dec. 31, 2012 Employees hired after April 1, 2012 represented by collective bargaining agreement	Dec. 31, 2012 401K Plan	Dec. 31, 2011 401K Plan	Dec. 31, 2010 401K Plan	Dec. 31, 2012 401K Plan Employees represented by a collective bargaining agreement Maximum	Dec. 31, 2012 401K Plan All other employees	Dec. 31, 2012 401K Plan All other employees Maximum	Dec. 31, 2012 Defined contribution plans under Canadian operations	Dec. 31, 2011 Defined contribution plans under Canadian operations	Dec. 31, 2010 Defined contribution plans under Canadian operations	Dec. 31, 2012 Defined contribution pension plan under Canadian operations	Dec. 31, 2012 Profit sharing plan under Canadian operations
Defined Contribution Plans													
Maximum contribution by an employee as a percentage of annual compensation			15.00%										
Percentage of employee salaries for which employer match their contribution	3.00%	3.00%				3.00%		6.00%					
Percentage of employee' contributions up to which employer match their contribution							50.00%						
Amount expensed by employer			$ 310	$ 272	$ 259				$ 603	$ 1,020	$ 527		
Maximum contribution by an employee as a percentage of gross earnings												2.50%	
Working hours required for eligibility under the contribution plan												700 hours	
Maximum contribution under the profit sharing plan of Canadian operation as a percentage of net operating earnings													7.00%
Vesting period												0 years	

Segment Information (Tables)	12 Months Ended Dec. 31, 2012

Segment Information

Schedule of reconciliation of Adjusted EBITDA from continuing operations to (loss) income from continuing operations

	Year Ended December 31,		
	2012	2011	2010
Statements of Operations Data:			
(Loss) income from continuing operations	$ (7,055)	$ 4,988	$ (10,276)
Provision for foreign income taxes	1,750	3,171	2,499
Depreciation and amortization (i)	5,696	5,476	4,562
Interest expense, net	24,579	24,010	24,598
Sciens Management fees and expenses (ii)	356	450	389
Pension curtailment expense (iii)	1,325	—	—
Other expenses, net (iv)	381	764	2,087
Adjusted EBITDA	$ 27,032	$ 38,859	$ 23,859

(i) Includes depreciation and amortization of intangible assets.
(ii) Includes fees and expenses pursuant to our advisory agreement with Sciens Management.
(iii) Noncash expense associated with the curtailment of our bargaining unit pension plan.
(iv) Includes income and/or expenses such as the write-off of unamortized deferred financing fees associated with the refinancing of credit facilities, transaction costs incurred in connection with our contemplated merger and acquisition activities, foreign currency exchange gains or losses and other less significant charges not related to on-going operations.

Schedule of net sales for specific geographic regions

	2012	2011	2010
United States	$ 111,852	$ 89,538	$ 108,348
Canada	29,982	26,064	17,564
Europe	16,501	34,908	32,079
Asia/Pacific	45,866	26,762	5,036
Middle East/Africa	3,675	26,188	5,770
Latin America/Caribbean	5,452	5,350	7,008
	$ 213,328	$ 208,810	$ 175,805

Schedule of long-lived assets, which are net fixed assets attributed to specific geographic regions:

	2012	2011
United States	$ 17,272	$ 18,249
Canada	4,862	4,340
	$ 22,134	$ 22,589

Segment Information (Details 2) (USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Statements of Operations Data:			
(Loss) income from continuing operations	$ (7,055)	$ 4,988	$ (10,276)
Provision for foreign income taxes	(1,750)	(3,171)	(2,499)
Depreciation and amortization	(5,696)	(5,476)	(4,562)
Interest expense, net	(24,579)	(24,010)	(24,598)
Pension curtailment expense	1,325		
Other expenses, net	381	764	2,087
Adjusted EBITDA	27,032	38,859	23,859
Sciens Management LLC			
Statements of Operations Data:			
Sciens Management fees and expenses	$ 356	$ 450	$ 389

Accumulated Other Comprehensive Loss	12 Months Ended Dec. 31, 2012

Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss

16. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss follows:

	Unrecognized Prior Service Cost	Unrecognized Loss	Foreign Currency Translation	Total
Balance, December 31, 2009	$ 1,138	$ (8,192)	$ 1,244	$ (5,810)
Change in pension and postretirement health liabilities	(758)	(2,331)	—	(3,089)
Currency translation	—	—	1,415	1,415
Balance, December 31, 2010	380	(10,523)	2,659	(7,484)
Change in pension and postretirement health liabilities	(2)	(5,200)	—	(5,202)
Currency translation	—	—	(444)	(444)
Balance, December 31, 2011	378	(15,723)	2,215	(13,130)
Change in pension and postretirement health liabilities	447	(1,676)	—	(1,229)
Currency translation	—	—	518	518
Balance, December 31, 2012	$ 825	$ (17,399)	$ 2,733	$ (13,841)

Other Long-Term Liabilities (Tables)	12 Months Ended Dec. 31, 2012

Other Long-Term Liabilities

Schedule of other long-term liabilities

	As of December 31,	
	2012	2011
Deferred Canadian income taxes	$ 1,515	$ 1,501
Deferred income	905	—
Other	3	—
	$ 2,423	$ 1,501

Subsequent Events	12 Months Ended Dec. 31, 2012

Subsequent Events

Subsequent Events

18. Subsequent Events

Common Unit Repurchase

On March 22, 2013, we purchased 31,165.589 common units (the “Unit Repurchase”) from Blackstone Mezzanine Partners II-A L.P. and Blackstone Mezzanine Holdings II USS L.P. (collectively, the “Blackstone Funds”) (representing 100% of the Colt Defense common membership units held by the Blackstone Funds) for an aggregate purchase price of $14.0 million pursuant to an equity purchase agreement dated as of March 22, 2013 (the “Unit Repurchase Agreement”), by and among Colt Defense and the Blackstone Funds. In accordance with the Unit Repurchase Agreement, upon consummation of the Unit Repurchase, the Blackstone Funds delivered the certificates representing the common units held by the Blackstone Funds to Colt Defense for cancellation, and the rights of the Blackstone Funds under our Amended and Restated LLC Agreement, including appointment rights with respect to Colt Defense’s Governing Board, were terminated. The resignation of Vince Lu and Marc Baliotti, the directors appointed to the Governing Board by the Blackstone Funds, was effective upon consummation of the Unit Repurchase. The Unit Repurchase Agreement provided customary releases and indemnities for Colt Defense and the Blackstone Funds and provides that, upon certain events occurring prior to September 22, 2013, including an acquisition of Colt Defense, a purchase by Colt Defense of common units from one of our members or a cash distribution (other than a tax distribution) by Colt Defense to our members, we may be required to pay additional amounts to the Blackstone Funds if the per unit purchase price in such subsequent transaction exceeds the per unit purchase price paid to the Blackstone Funds.

Credit Agreement Amendment

In connection with the Unit Repurchase, on March 22, 2013, the lenders under the Credit Agreement entered into Amendment No. 2 to the Credit Agreement, whereby, among other things, the lenders under the Credit Agreement consented to the transactions pursuant to the Unit Repurchase Agreement.

Concentration of risk (Details)	3 Months Ended	12 Months Ended							
	Mar. 31, 2012	Dec. 31, 2012 Accounts receivable Concentration of credit risk item	Dec. 31, 2011 Accounts receivable Concentration of credit risk item	Dec. 31, 2012 Accounts receivable Concentration of credit risk Customer with largest individual trade balance	Dec. 31, 2011 Accounts receivable Concentration of credit risk Customer with largest individual trade balance	Dec. 31, 2012 Accounts receivable Concentration of credit risk Customer with second largest individual trade balance	Dec. 31, 2011 Accounts receivable Concentration of credit risk Customer with second largest individual trade balance	Dec. 31, 2011 Accounts receivable Concentration of credit risk Customer with third largest individual trade balance	Dec. 31, 2012 U.S. workforce Labor concentration risk
Concentration of risks									
Concentration risk, percentage				55.00%	53.00%	25.00%	15.00%	10.00%	68.00%
Period of new collective bargaining agreement	2 years								
Number of largest individual trade receivable balances		2	3						

Nature of Business	12 Months Ended Dec. 31, 2012

Nature of Business

Nature of Business

1. Nature of Business

Colt Defense LLC was formed in 2002 as a Delaware limited liability company as a result of the re-organization of Colt's Manufacturing Company, Inc. The defense and law enforcement rifle business was separated from the commercial handgun business. We are one of the world's leading designers, developers and manufacturers of small arms weapons systems for individual soldiers and law enforcement personnel. We have supplied small arms weapons systems to more than 80 countries by expanding our portfolio of products and services to meet evolving military and law enforcement requirements around the world. Our products have proven themselves under the most severe and varied battle conditions. We also modify our rifles and carbines for civilian use and sell them to Colt's Manufacturing Company LLC ("Colt's Manufacturing"), which sells these MSR's into the U.S. commercial market.

Consolidated Statements of Operations (USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Consolidated Statements of Operations			
Net sales	$ 213,328	$ 208,810	$ 175,805
Cost of sales	162,177	143,478	131,278
Gross profit	51,151	65,332	44,527
Operating expenses:			
Selling and commissions	13,059	13,612	9,344
Research and development	4,747	5,578	4,536
General and administrative	14,285	13,098	11,621
Amortization of purchased intangibles	503	541	548
Total operating expenses	32,594	32,829	26,049
Operating income	18,557	32,503	18,478
Other (income)/expense:			
Interest expense	24,579	24,010	24,598
Debt prepayment expense		295	1,246
Other (income) expense, net	(717)	39	411
Total other expenses, net	23,862	24,344	26,255
(Loss) income from continuing operations before provision for foreign income taxes	(5,305)	8,159	(7,777)
Provision for foreign income taxes	1,750	3,171	2,499
(Loss) income from continuing operations	(7,055)	4,988	(10,276)
Discontinued operations:			
Loss from discontinued operations			(665)
Loss on disposal of discontinued operations			(208)
Net (loss) income	(7,055)	4,988	(11,149)
Less: Net loss (income) from discontinued operations attributable to non-controlling interest			84
Net (loss) income attributed to Colt Defense LLC members	$ (7,055)	$ 4,988	$ (11,065)

Transactions With Related and Certain Other Parties	12 Months Ended Dec. 31, 2012
Transactions With Related and Certain Other Parties	
Transactions With Related and Certain Other Parties	**11. Transactions With Related and Certain Other Parties** We have a financial advisory agreement with Sciens Management LLC ("Sciens Management"), which through its affiliates beneficially owns a substantial portion of Colt Defense's limited liability interests and whose managing partner is also a member of Colt Defense's Governing Board. Under the terms of the agreement, we also reimburse Sciens Management for expenses incurred in connection with the financial advisory services provided. The cost for these advisory services and the related expenses are recorded in general and administrative expenses in our Consolidated Statements of Operations. We incurred annual advisory fees and related expenses of $356, $450, and $389 during 2012, 2011 and 2010, respectively. We have a license agreement (the "License") with New Colt for the use of certain Colt trademarks. Under the terms of the License, we received a 20-year paid-up license for the use of the Colt trademarks, which expires December 31, 2023. Thereafter, the License may be extended for successive five-year periods. Consideration for the License included the transfer to New Colt's wholly-owned subsidiary, Colt's Manufacturing of the Colt Match Target® rifle line of business, inventories of $18 and cash of $2,000. The total transferred of $2,018 is recorded in other assets and is being amortized over 20 years. At December 31, 2012 and 2011 this asset had an unamortized balance of $1,109 and $1,210, respectively. In August 2012, we signed the Services Agreement — 2012 ("Services Agreement"), under which we will provide certain factory, administrative and data processing services to Colt's Manufacturing for an annual fee of $1,766. Service fee income is included in other (income) expense, net in the Consolidated Statements of Operations. In addition, under the terms of the Services Agreement, Colt's Manufacturing paid us at an estimated rate of $35 per month for their electricity usage in July and August 2012. Since September 1, 2012, we have invoiced Colt's Manufacturing each month for the cost of their actual electricity usage based on a newly installed meter. The amount received for electricity usage for the period from September 1 to December 31, 2012 was approximately $81. These amounts are included in cost of sales and operating expenses in the Consolidated Statements of Operations. The Services Agreement will remain in effect until October 27, 2013 and will be automatically extended for additional one-year periods unless either party gives at least three months prior written notice of termination. The Services Agreement, which was effective dated July 1, 2012, supersedes the Intercompany Services Agreement dated June 26, 2007 between Colt Defense and Colt's Manufacturing, under which Colt Defense received a $430 annual fee. In May 2011, we signed a Memorandum of Understanding with Colt's Manufacturing to jointly coordinate the marketing and sales of rifles into the commercial market. Accounts receivable for product sales to Colt's Manufacturing were $12,448 and $2,161 at December 31, 2012 and December 31, 2011, respectively. Transactions with Colt's Manufacturing were as follows:

	Year Ended December 31,		
	2012	2011	2010
Net sales of rifles to Colt's Manufacturing	$ 73,292	$ 11,746	$ 855
Service fee income earned	1,098	430	430

During 2012, we entered into a contract to supply the M45A1 Close Quarters Battle Pistol to the United States Marine Corps and we have begun offering this product to our international customers. This product is manufactured and supplied to us by Colt's Manufacturing pursuant to purchase orders. Purchases of the M45A1 and other products and services from Colt's Manufacturing, a related party, were $1,235 in 2012, $171 in 2011 and $0 in 2010. Outstanding accounts payable related to these purchase were $249 as of December 31, 2012 and $14 as of December 31, 2011.

During 2009, Colt Security LLC ("Security"), a wholly-owned subsidiary of E-Plan Holding, assumed responsibility for providing security guard services to us, effective January 1, 2009. At that time, Security employed all of the security guards previously employed by us and leased them back to us. We incurred employee leasing costs of $921 in 2012, $869 in 2011 and $858 in 2010.

We also lease our West Hartford facility from NPA Hartford, a related party and we sublease a portion of our facilities to Colt's Manufacturing. For information about our related party rent expense and sublease rental income, see "Note 6 Lease Obligations."

Our union employees at our West Hartford, Connecticut facility are members of a single bargaining unit with the employees of Colt's Manufacturing and a single collective bargaining agreement covers both companies.

Document and Entity Information (USD $)	12 Months Ended Dec. 31, 2012	Mar. 25, 2013
Document and Entity Information		
Entity Registrant Name	Colt Defense LLC	
Entity Central Index Key	0001508677	
Document Type	10-K	
Document Period End Date	Dec. 31, 2012	
Amendment Flag	false	
Current Fiscal Year End Date	--12-31	
Entity Well-known Seasoned Issuer	No	
Entity Voluntary Filers	Yes	
Entity Current Reporting Status	Yes	
Entity Filer Category	Non-accelerated Filer	
Entity Public Float	$ 0	
Entity Common Stock, Shares Outstanding		0
Document Fiscal Year Focus	2012	
Document Fiscal Period Focus	FY	

Commitments and Contingencies	12 Months Ended Dec. 31, 2012

Commitments and Contingencies

Commitments and Contingencies

12. Commitments and Contingencies

A summary of standby letters of credit issued principally in connection with performance and warranty bonds established for the benefit of certain international customers is as follows:

	As of December 31,	
	2012	2011
Standby letters of credit secured by restricted cash	1,253	$ 1,660
Standby letters of credit secured by Credit Agreement	1,715	—
Guarantees of standby letters of credit established by a sales agent on behalf of Colt	702	804

At December 31, 2012 and 2011, we had unconditional purchase obligations related to capital expenditures for machinery and equipment of $2,357 and $2,102, respectively.

We also had certain Industrial Cooperation Agreements, which stipulate our commitments to provide offsetting business to certain countries that have purchased our products. We generally settle our offset purchase commitments under Industrial Cooperation Agreements through on-going business and/or cooperating with other contractors on their spending during the related period. Additionally, we identify future purchases and other satisfaction plans for the remainder of the offset purchase commitment period and should there be a projected net purchase commitment after such consideration, we accrue the estimated cost to settle the offset purchase commitment.

Our remaining gross offset purchase commitment is the total amount of offset purchase commitments reduced for claims submitted and approved by the governing agencies. At December 31, 2012 and 2011, our remaining gross offset purchase commitments totaled $68,180 and $58,466, respectively. We have evaluated our settlement of our remaining gross offset purchase commitments through probable planned spending and other probable satisfaction plans to determine our net offset purchase commitment. We have accrued $1,804 and $1,563 as of December 31, 2012 and 2011, respectively, based on our estimated cost of settling the remaining net offset purchase commitment.

We are involved in various legal claims and disputes in the ordinary course of our business. As such, we accrue for such liabilities when it is both (i) probable that a loss has occurred and (ii) the amount of the loss can be reasonably estimated in accordance with ASC 450, Contingencies. We evaluate, on a quarterly basis, developments affecting various legal claims and disputes that could cause an increase or decrease in the amount of the liability that has been previously accrued. During 2012, we settled a matter for $625.

During 2012, we were examined by a tax authority. Pursuant to our limited liability company agreement, in the event of an audit, we are obligated, on behalf of our members, for any settlement related expenses. During the second quarter of 2012, we recorded an estimated $650 of accrued expenses and $320 of interest expense for a potential audit settlement. During the first quarter of 2013, we reached an agreement with the tax authority and paid the settlement amount of $1,000. As a result, in the fourth quarter of 2012, we increased our accrued expense to $695 and decreased our accrued interest expense to $305 to accurately reflect the settlement liability.

Consolidated Statements of Comprehensive Loss (USD $) In Thousands, unless otherwise specified	3 Months Ended								12 Months Ended		
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Oct. 02, 2011	Jul. 03, 2011	Apr. 03, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Consolidated Statements of Comprehensive Loss											
Net (loss) income	$ 3,376	$ 2,894	$ (6,237)	$ (7,088)	$ 5,326	$ 3,373	$ (1,919)	$ (1,792)	$ (7,055)	$ 4,988	$ (11,149)
Other comprehensive income (loss), net of tax:											
Foreign currency translation adjustments									518	(444)	1,415
Change in pension and postretirement benefit plans, net									(1,229)	(5,202)	(3,089)
Comprehensive loss									$ (7,766)	$ (658)	$ (12,823)

Lease Obligations	12 Months Ended Dec. 31, 2012

Lease Obligations

Lease Obligations

6. Lease Obligations

Future minimum lease payments at December 31, 2012 are as follows:

	Operating Leases
2013	$ 912
2014	958
2015	828
2016	19
Total minimum lease payments	$ 2,717

As of December 31, 2012, we did not have any assets subject to capital leases. As of December 31, 2011, machinery and equipment with an original cost of $6,641 was recorded under capital leases, with an accumulated depreciation of approximately $5,252. Amortization of assets under capital leases was included in depreciation expense.

In October 2012, we signed an amendment to the operating lease for our corporate headquarters and primary manufacturing facility in West Hartford, CT. The lease amendment, which is with a related party, extends our lease for three years to October 25, 2015. Terms of the lease amendment include monthly rent of $69 in the first year of the extension period and a 2% rent increase in each of the two subsequent years of the extension period. We are responsible for all related expenses, including taxes, maintenance and insurance. We have a $250 security deposit related to this lease arrangement.

In addition to the operating lease for our West Hartford facilities, we also had operating lease contracts for some office equipment and vehicles as of December 31, 2012. Rent expense under our operating leases was $1,048, $1,095 and $1,008 in 2012, 2011 and 2010, respectively. Rent expense is net of rental income of $192 in 2012, $161 in 2011 and $161 in 2010 for the portion of the West Hartford facility subleased to Colt's Manufacturing. The Colt's Manufacturing sublease expires in October 2015.

Notes Payable and Long-term Debt	12 Months Ended Dec. 31, 2012

Notes Payable and Long-term Debt
Notes Payable and Long-term Debt

5. Notes Payable and Long-term Debt

Credit Agreement

On September 29, 2011, Colt Defense LLC, as the U.S. Borrower, Colt Canada Corporation, as the Canadian Borrower and Colt Finance Corp., as Guarantor, entered into a credit agreement ("Credit Agreement") with Wells Fargo Capital Finance, LLC. Under the terms of the Credit Agreement, senior secured revolving loans are available up to $50,000, inclusive of $20,000 available for letters of credit. Revolving loans are subject to, among other things, the borrowing base, which is calculated monthly based on specified percentages of eligible accounts receivable and inventory and specified values of fixed assets. The Company expects to use the proceeds for working capital and general corporate purposes, as needed.

Borrowings under the Credit Agreement bear interest at a variable rate based on the London Inter-Bank Offer Rate ("LIBOR"), the Canadian Banker's Acceptance Rate or the lender's prime rate, as defined in the Credit Agreement, plus a spread. The interest rate spread on borrowing and fees for letters of credit varies based on both the rate option selected and our quarterly average excess availability under the Credit Agreement. There is an unused line fee ranging from .375% to .50% per annum, payable quarterly on the unused portion under the facility and a $40 annual servicing fee.

Under the Credit Agreement, our obligations are secured by a first-priority security interest in substantially all of our assets, including accounts receivable, inventory and certain other collateral. We paid $1,636 of debt issuance costs in 2011 related to the Credit Agreement, which matures on September 28, 2016.

The Credit Agreement limits our ability to incur additional indebtedness, make investments or certain payments, pay dividends and merge, acquire or sell assets. In addition, certain covenants would be triggered if excess availability were to fall below the specified level, including a fixed charge coverage ratio requirement. Excess availability is determined as the lesser of our borrowing base or $50,000, reduced by outstanding obligations under the credit agreement and trade payables that are more than 60 days past due. Furthermore, if excess availability falls below $11,000 or an event of default occurs, the lender may assume control over our cash until such event of default is cured or waived or the excess availability exceeds such amount for 60 consecutive days.

The Credit Agreement contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, cross-defaults with other material indebtedness, certain events of bankruptcy or insolvency, judgments in excess of a certain threshold and the failure of any guaranty or security document supporting the agreement to be in full force and effect. In addition, if excess availability falls below $9,000 and the fixed charge coverage ratio is less than 1.0 to 1.0, we would be in default under the Credit Agreement. As of December 31, 2012, we were in compliance with all covenants and restrictions.

As of December 31, 2012, there was a $6 line of credit advance and $1,715 of letters of credit outstanding under the Credit Agreement. The $6 advance, which was automatically made by Wells Fargo on our behalf in order to pay a letter of credit fee, was non-interest bearing and was repaid in full in January 2013.

Senior Notes

On November 10, 2009, Colt Defense LLC (Parent) and Colt Finance Corp, a 100%-owned finance subsidiary, jointly and severally co-issued $250,000 of unsecured senior notes ("Senior Notes"). The Senior Notes bear interest at 8.75% and mature November 15, 2017. Interest is payable semi-annually in arrears on May 15 and November 15, commencing on May 15, 2010. We issued the Senior Notes at a discount of $3,522 from their principal value. This discount will be amortized as additional interest expense over the life of the indebtedness.

No principal repayments are required until maturity. However, in the event of a change in control of our company, we are required to offer to purchase the Senior Notes at a price equal to 101% of their principal amount, together with accrued and unpaid interest. In addition, the Senior Notes may be redeemed at our option under certain conditions as follows:

- at any time prior to November 15, 2013, we may redeem some or all of the Senior Notes at a price equal to 100% of their principal amount together with accrued and unpaid interest plus a make whole premium, as defined in the indenture; and

- on and after November 15, 2013, we may redeem all or, from time to time, a part of the Senior Notes at the following redemption price (expressed as a percentage of principal amount of the Senior Notes to be redeemed) plus accrued and unpaid interest, including additional interest, if any on the Senior Notes to the applicable redemption date if redeemed during the twelve month period beginning on November 15 of the years indicated below:

Year	Percentage
2013	104.375%
2014	102.187%
2015 and thereafter	100.00%

The Senior Notes are not guaranteed by any of our subsidiaries and do not have any financial condition covenants that require us to maintain compliance with any financial ratios or measurements on a periodic basis. The Senior Notes do contain incurrence-based covenants that, among other things, limit our ability to incur additional indebtedness, enter into certain mergers or consolidations, incur certain liens and engage in certain transactions with our affiliates. Under certain circumstances, we are required to make an offer to purchase our senior notes offered hereby at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase with the proceeds of certain asset dispositions. In addition, the indenture restricts our ability to pay dividends or make other Restricted Payments (as defined in the indenture) to our members, subject to certain exceptions, unless certain conditions are met, including that (1) no default under the indenture shall have occurred and be continuing, (2) we shall be permitted by the indenture to incur additional indebtedness and (3) the amount of distributions to our unit holders may not exceed a certain amount based on, among other things, our consolidated net income. Such restrictions are not expected to affect our ability to meet our cash obligations for the next 12 months. The indenture does not restrict the ability to pay dividends or provide loans to the Parent or the net assets of our subsidiaries', inclusive of the co-issuer Colt Finance Corp, which itself has no subsidiaries. Additionally, the Senior Notes contain certain cross default provisions with other indebtedness, including the Credit Agreement, if such indebtedness in default aggregates to $20,000 or more.

On May 11, 2011, Colt Defense completed an exchange offer for up to $250,000 in the aggregate principal amount of our registered 8.75% Senior Notes due 2017 for up to a like aggregate principal amount of our outstanding 8.75% Senior Notes due 2017 issued pursuant to Rule 144A. The Company did not recognize any gain or loss for accounting purposes as a result of the exchange offer.

Outstanding long-term debt balances and weighted average interest rates at December 31, 2012 and 2011 were as follows:

	Year Ended December 31, 2012	Weighted Average Effective Interest Rate	Year Ended December 31, 2011	Weighted Average Effective Interest Rate
Senior notes (a)(b)	$ 250,000	9.0%	$ 250,000	9.0%
Unamortized discount	(2,433)		(2,814)	
	247,567		247,186	
Less: current portion	—		—	
	$ 247,567		$ 247,186	

(a) Interest expense for 2012 and 2011 includes $381 and $348, respectively, of amortization of original issue discount.

(b) The senior notes bear interest at 8.75%. The effective rate of these notes is 9%, giving effect to the original issue discount.

Financing Costs

When we incur costs associated with financing arrangements, we defer the costs and amortize them to interest expense over the term of the related debt. In 2011, we incurred $1,653 of financing costs when we entered into the Credit Agreement, of which $1,636 was paid in 2011. The remaining $17 of accrued financing costs was subsequently reversed in 2012. In 2010, we incurred $75 of financing costs to amend a revolving credit facility, which was subsequently terminated when we entered into the Credit Agreement. Amortization of deferred financing costs for years ended December 31, 2012, 2011 and 2010 were $1,653, $1,498 and $1,835, respectively.

A summary of deferred financing fee activity follows:

	Total
Balance at December 31, 2010	$ 9,452
Amortization of deferred financing costs	(1,498)
Debt prepayment expense	(295)
Financing fees paid and accrued	1,653
Balance at December 31, 2011	$ 9,312
Amortization of deferred financing costs	(1,653)
Debt prepayment expense	—
Financing fees paid and accrued	(17)
Balance at December 31, 2012	$ 7,642

Debt Prepayment Expense

If a financing arrangement is terminated early, we expense any unamortized financing costs to debt prepayment expense at the time of termination. Total debt prepayment expense, which was included in the Consolidated Statements of Operations, related to the above debt refinancing activities and amendments were:

	2012	2011	2010
Write-off of deferred financing costs	$ —	$ 295	$ 1,246
	$ —	$ 295	$ 1,246

Quarterly Operating Results (Unaudited)

12 Months Ended Dec. 31, 2012

Quarterly Operating Results (Unaudited)

Quarterly Operating Results (Unaudited)

17. Quarterly Operating Results (Unaudited)

	For The Year Ended December 31, 2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 43,853	$ 45,836	$ 56,555	$ 67,084
Gross profit	7,829	8,834	16,442	18,046
Net (loss) income	(7,088)	(6,237)	2,894	3,376

	For The Year Ended December 31, 2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 48,497	$ 36,550	$ 58,877	$ 64,886
Gross profit	13,039	10,983	18,830	22,480
Net (loss) income	(1,792)	(1,919)	3,373	5,326

During the fourth quarter of 2012, we identified errors related to the post-retirement health plan and a sales transaction (see Note 2). As a result of these errors, we revised previously reported quarterly financial data to correct for these errors. The correction of the error related to the post-retirement health plan was recorded as a reduction of gross profit and net income of $33, $32, $32, $111, $25, $25 and $115 for the quarters ended March 31, 2011, June 30, 2011, September 30, 2011, December 31, 2011, March 31, 2012, June 30, 2012 and September 30, 2012, respectively. The correction of the error for the sales transaction was recorded as a reduction to net sales of $724, gross profit of $453 and net income of $453 for the quarter ended March 31, 2012 and an recorded as an increase to net sales of $724, gross profit of $453 and net income of $453 for the quarter ended June 30, 2012. The correction of these errors is reflected in the above table. Based on an analysis of qualitative and quantitative factors, these errors were deemed immaterial, individually and in the aggregate, to all periods previously reported.

Segment Information

[Segment Information](#)
[Segment Information](#)

12 Months Ended
Dec. 31, 2012

13. Segment Information

Our small arms weapons systems segment represents our core business, as all of our operations are conducted through this segment. The small arms weapons systems segment consists of two operating segments, weapons systems and spares/other. These operating segments have similar economic characteristics and have been aggregated into the Company's one reportable segment. The small arms weapons systems segment designs, develops and manufactures small arms weapons systems for military and law enforcement personnel both domestically and internationally. In addition, we manufacture and sell rifles and carbines to Colt's Manufacturing, which sells them into the commercial market.

Adjusted EBITDA consists of income (loss) from continuing operations before interest, income taxes depreciation and amortization and other expenses as noted below. Management uses Adjusted EBITDA to evaluate the financial performance of and make operating decisions for the small arms weapons systems segment. See the footnotes that follow the reconciliation table below for additional information regarding the adjustments made to arrive at Adjusted EBITDA of the small arms weapons systems segment.

The following tables represent a reconciliation of Adjusted EBITDA from continuing operations to (loss) income from continuing operations:

	Year Ended December 31,		
	2012	2011	2010
Statements of Operations Data:			
(Loss) income from continuing operations	$ (7,055)	$ 4,988	$ (10,276)
Provision for foreign income taxes	1,750	3,171	2,499
Depreciation and amortization (i)	5,696	5,476	4,562
Interest expense, net	24,579	24,010	24,598
Sciens Management fees and expenses (ii)	356	450	389
Pension curtailment expense (iii)	1,325	—	—
Other expenses, net (iv)	381	764	2,087
Adjusted EBITDA	$ 27,032	$ 38,859	$ 23,859

(i) Includes depreciation and amortization of intangible assets.
(ii) Includes fees and expenses pursuant to our advisory agreement with Sciens Management.
(iii) Noncash expense associated with the curtailment of our bargaining unit pension plan.
(iv) Includes income and/or expenses such as the write-off of unamortized deferred financing fees associated with the refinancing of credit facilities, transaction costs incurred in connection with our contemplated merger and acquisition activities, foreign currency exchange gains or losses and other less significant charges not related to on-going operations.

Geographical Information

Geographic external revenues are attributed to the geographic regions based on the customer's location of origin. Our reported net sales in the United States include revenues that arise from sales to the U.S. Government under its Foreign Military Sales program, which involves product that is resold by the U.S. Government to foreign governments and we generally ship directly to the foreign government.

The table below presents net sales for specific geographic regions:

	2012	2011	2010
United States	$ 111,852	$ 89,538	$ 108,348
Canada	29,982	26,064	17,564
Europe	16,501	34,908	32,079
Asia/Pacific	45,866	26,762	5,036
Middle East/Africa	3,675	26,188	5,770
Latin America/Caribbean	5,452	5,350	7,008
	$ 213,328	$ 208,810	$ 175,805

Long-lived assets are net fixed assets attributed to specific geographic regions:

	2012	2011
United States	$ 17,272	$ 18,249
Canada	4,862	4,340
	$ 22,134	$ 22,589

Major Customer Information

Sales to Colt's Manufacturing represented 34% of sales in 2012. In 2011 and 2010 sales to Colt's Manufacturing did not exceed 10% of net sales. Sales to the U.S. government represented 11% of net sales in 2012, 31% in 2011 and 55% 2010.

In 2012, two direct foreign customers accounted for 21% and 10% of net sales, respectively. In 2011, sales to a direct foreign customer represented 11% of our net sales. No sales to any one direct foreign customer exceeded 10% of our net sales in 2010.

Colt Defense LLC Accumulated Deficit	12 Months Ended Dec. 31, 2012
Colt Defense LLC Accumulated Deficit	
Colt Defense LLC Accumulated Deficit	**9. Colt Defense LLC Accumulated Deficit** Our authorized capitalization consists of 1,000,000 common units and 250,000 preferred units. Common units issued and outstanding as of December 31, 2012 and 2011 were 132,174. No preferred units have been issued. In March 2012, we paid our members a tax distribution of $3,343, which had been accrued in December 2011. In February 2010, our board declared a special distribution to members of $15,606. During the first quarter of 2011, the final liability was determined to be $12,889. The reduction in the liability was recognized in accumulated deficit. This distribution was made to members during the second quarter of 2011. Colt Defense Employee Plan Holding Corp ("E-Plan Holding") is wholly owned by the Colt Defense LLC Profit Sharing Plan ("PSP"). The PSP was converted from an employee stock ownership plan to a profit sharing plan effective January 1, 2009. We have no obligation to make any future contributions to E-Plan Holding or the PSP. No common units were purchased during 2012, 2011 or 2010. At December 31, 2012, E-Plan Holding owns 1,205 of our outstanding units.

Colt Defense LLC Accumulated Deficit (Details) (USD $)	1 Months Ended		12 Months Ended			
	Mar. 31, 2012	Feb. 28, 2010	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Mar. 31, 2011
Colt Defense LLC Accumulated Deficit						
Authorized common units (in shares)			1,000,000			
Authorized preferred units (in shares)			250,000			
Common units issued (in shares)			132,174	132,174		
Common units outstanding (in shares)			132,174	132,174		
Preferred units issued (in shares)			0			
Distributions paid to members	$ 3,343,000		$ 3,343,000	$ 12,889,000	$ 4,976,000	
Special distribution to members declared		15,606,000				
Accrued distributions to members				3,343,000	15,606,000	12,889,000
E-Plan Holding						
Colt Defense LLC Accumulated Deficit						
Number of outstanding units owned (in shares)			1,205			
Obligation to make future payment			$ 0			
Common units purchased (in shares)			0	0	0	

Income Taxes	12 Months Ended Dec. 31, 2012

Income Taxes

Income Taxes

7. Income Taxes

The components of (loss) income from continuing operations before foreign income taxes consisted of:

	December 31,		
	2012	2011	2010
United States	$ (11,923)	$ (4,559)	$ (15,930)
Foreign	6,618	12,718	8,153
Total	$ (5,305)	$ 8,159	$ (7,777)

As a limited liability company, we are treated as a partnership for U.S. federal and state income tax reporting purposes and therefore, are not subject to U.S. federal or state income taxes. Our taxable income (loss) is reported to our members for inclusion in their individual tax returns. Our Canadian operation files separate income tax returns in Canada. We also incur withholding tax on royalty and interest income as well as other distributions received from our Canadian subsidiary. Our limited liability agreement requires that in any year in which U.S. taxable income is allocated to the members, we make distributions to members equal to 45% of the highest taxable income allocated to any common unit, to the extent our Governing Board determines that sufficient funds are available. Based on our results, we have not recorded a gross member tax distribution liability for the year ended December 31, 2012.

The provision (benefit) for foreign income taxes consists of the following:

	December 31,		
	2012	2011	2010
Current	$ 1,711	$ 3,442	$ 2,660
Deferred	39	(271)	(161)
Total	$ 1,750	$ 3,171	$ 2,499

The difference between our consolidated effective tax rate and the U.S. Federal statutory tax rate, results primarily from U.S. income taxable to our members, the difference between the U.S. and Canadian statutory rates, Canadian non-deductible expenses, Canadian research and development tax credits, and withholding taxes on Canadian and Malaysian royalty expenses.

The components of our deferred income taxes consisted of:

	December 31,	
	2012	2011
Deferred tax assets		
Reserves	$ 255	$ 340
Deferred tax liabilities		
Intangible assets	(1,127)	(1,226)
Fixed assets	(388)	(275)
Other	(70)	(98)
Total	$ (1,330)	$ (1,259)

The net long-term deferred tax liability, which is included in other long-term liabilities in the Consolidated Balance Sheets, was $1,515 and $1,501 at December 31, 2012 and 2011, respectively. The net current deferred tax asset, which is included in other current assets in the Consolidated Balance Sheets, was $185 and $242 at December 31, 2012 and 2011, respectively.

In accordance with the provisions of ASC Topic 740, an uncertain income tax position will not be recognized in the financial statements unless it is more-likely-than-not to be sustained. As of December 31, 2012 and 2011, we had no reserves for any uncertain tax positions.

Pension, Savings and Postretirement Benefits	12 Months Ended Dec. 31, 2012

Pension, Savings and Postretirement Benefits

Pension, Savings and Postretirement Benefits

8. Pension, Savings and Postretirement Benefits

We have two noncontributory, domestic defined benefit pension plans ("Plans") that cover substantially all eligible salaried and hourly U.S. employees.

We also provide certain postretirement health care coverage to retired U.S. employees who were subject to our collective bargaining agreement when they were employees. The cost of these postretirement benefits is determined actuarially and is recognized in our consolidated financial statements during the employees' active working career. In connection with our collective bargaining agreement, we have capped certain retirees to approximately $250 (not in thousands) per employee per month.

We recognize the projected liability for our pension benefits and postretirement health care coverage in excess of plan assets. Obligations for both pension and postretirement plans are measured as of our December 31 year end.

Disclosures related to the pension plans and the postretirement health care coverage follows:

	Pension Plans		Postretirement Healthcare Coverage	
	2012	2011	2012	2011
Projected benefit obligation at beginning of year	$ 25,590	$ 21,284	$ 12,524	$ 11,968
Service cost	455	287	256	179
Interest cost	1,141	1,090	527	573
Plan amendments	951	—	—	—
Actuarial loss	1,766	3,633	1,286	274
Benefits paid	(735)	(704)	(502)	(470)
Projected benefit obligation at end of year	29,168	25,590	14,091	12,524
Fair value of plan assets at beginning of year	19,609	19,328	—	—
Employer contributions	1,500	1,293	502	471
Actual return on plan assets	1,998	(308)	—	—
Benefits paid	(735)	(704)	(502)	(471)
Fair value of plan assets at end of year	22,372	19,609	—	—
Unfunded benefit obligation at end of year	$ (6,796)	$ (5,981)	$(14,091)	$(12,524)

The components of the unfunded benefit obligations of the hourly and salaried defined benefit plans follow:

	2012			2011		
	Hourly Plan	Salaried Plan	Total	Hourly Plan	Salaried Plan	Total
Projected benefit obligation	$ 20,474	$ 8,694	$29,168	$17,775	$ 7,815	$25,590

Fair value of plan assets	15,602	6,770	22,372	13,687	5,922	19,609
Unfunded benefit obligation	$ (4,872)	$ (1,924)	$ (6,796)	$ (4,088)	$ (1,893)	$ (5,981)

Effective December 31, 2012, we froze the pension benefits under the hourly defined benefit plan. Benefits under the salaried defined benefit plan have been frozen since December 31, 2008. Accordingly, participants retain the pension benefits that have already accrued. However, no additional benefits will accrue after the effective date of the freeze.

The components of cost recognized in our statement of operations for our pension plans are as follows:

	December 31,		
	2012	2011	2010
Service cost	$ 455	$ 287	$ 361
Interest cost	1,141	1,090	1,123
Expected return on assets	(1,641)	(1,549)	(1,389)
Curtailment of hourly plan	1,325	—	—
Amortization of unrecognized prior service costs	244	170	170
Amortization of unrecognized loss	813	495	358
Net periodic cost	$ 2,337	$ 493	$ 623

The components of cost recognized in our statement of operations for our postretirement health cost coverage are as follows:

	December 31,		
	2012	2011	2010
Service cost	$ 256	$ 179	$ 201
Interest cost	527	573	612
Amortization of unrecognized prior service costs	(172)	(172)	(212)
Amortization of unrecognized loss	208	70	91
Effect of curtailments and settlements	—	—	(714)
Net periodic cost (income)	$ 819	$ 650	$ (22)

The components of cost recognized in other comprehensive loss for our pension and postretirement health plans are as follows:

	Pension Plans	Post Retirement Health	Total
Balance at December 31, 2010	$ (8,269)	$ (1,874)	$ (10,143)
Recognized in other comprehensive loss	(4,826)	(376)	(5,202)
Balance at December 31, 2011	(13,095)	(2,250)	(15,345)
Recognized in other comprehensive loss	22	(1,251)	(1,229)
Balance at December 31, 2012	$ (13,073)	$ (3,501)	$ (16,574)

The estimated amount that will be amortized from accumulated other comprehensive loss into net periodic cost in 2013 is as follows:

	Pension Plans	Post Retirement Health
Prior service cost/(gain)	$ —	$ (172)
Actuarial loss	420	284
Total	$ 420	$ 112

Weighted-average assumptions used in determining the year-end benefit obligation are as follows:

	Hourly Pension Plan		Salaried Pension Plan		Postretirement Healthcare	
	2012	2011	2012	2011	2012	2011
Discount rate	3.75%	4.25%	4.0%	4.50%	3.5%	4.25%
Expected return on plan assets	7.5%	8.00%	7.5%	8.00%	N/A	N/A

Weighted-average assumptions used to determine net periodic cost for the years ended December 31 are as follows:

	Hourly Pension Plan			Salaried Pension Plan		
	2012	2011	2010	2012	2011	2010
Discount rate	3.75%	4.25%	5.50%	4.0%	4.50%	5.50%
Expected return on plan assets	7.5%	8.00%	8.00%	7.5%	8.00%	8.00%

	Postretirement Health		
	2012	2011	2010
Discount rate	3.5%	4.25%	5.50%
Expected return on plan assets	N/A	N/A	N/A

Defined Benefit Plans

The long-term rate of return on pension plan assets represents the average rate of earnings expected over the long term on the assets invested to provide for anticipated future benefit payment obligations. We used a building block approach to develop the long-term return on plan assets assumption. The rates of return in excess of inflation were considered separately for equity securities, debt securities and other assets. The excess returns were weighted by the representative target allocation and added along with an appropriate rate of inflation to develop the overall expected long-term return on pension plan assets.

We have developed an investment strategy for the Plans that emphasizes total return; that is, the aggregate return from capital appreciation and dividend and interest income. The primary objective of the investment management for the Plans' assets is the emphasis on consistent growth; specifically, growth in a manner that protects the Plans' assets from excessive volatility in market value from year to year. The investment policy also takes into consideration the benefit obligations, including expected timing of distributions.

The primary objective for the Plans is to provide long-term capital appreciation through investment in equity and debt securities. We select professional money managers whose investment policies are consistent with our investment strategy and monitor their performance against appropriate benchmarks. The Plans do not own an interest in us and there are no significant transactions between us and the Plans.

Our overall investment strategy is to achieve a mix of approximately 50% equity securities, 45% fixed income securities and 5% cash equivalents. This target allocation has not changed from the prior year.

We re-balance our portfolio periodically to realign the actual asset allocation with our target allocation. The percentage allocation to each asset class may vary depending upon market conditions. The Plans' assets are stated at fair market value. The fair value of the Plans' assets by asset category and level were as follow:

	Fair Value Measurements at December 31, 2012				
	Total	Allocation Percent	Level 1	Level 2	Level 3
Equity mutual funds	$ 11,344	51%	$ 11,344	$ —	$ —
Fixed income mutual funds	7,193	32%	7,193	—	—
Money market funds	644	3%	644	—	—
Stable value	3,191	14%	—	3,191	—
	$ 22,372	100%	$ 19,181	$ 3,191	$ —

	Fair Value Measurements at December 31, 2011				
	Total	Allocation Percent	Level 1	Level 2	Level 3
Equity mutual funds	$ 9,858	50%	$ 9,858	$ —	$ —
Fixed income mutual funds	6,211	32%	6,211	—	—
Money market funds	384	2%	384	—	—
Stable value	3,156	16%	—	3,156	—
	$ 19,609	100%	$ 16,453	$ 3,156	$ —

Level 1 assets were based on fund value at the close of market on December 31, 2012. Level 2 assets consist of a stable value fund which was comprised of varying fixed income securities contained within a financial contract and was recorded at fair value.

We anticipate making pension contributions of approximately $1,500 to the plans in 2013.

The following benefit payments, which reflect future service as appropriate, are expected to be paid. The benefit payments are based on the same assumptions used to measure our benefit obligation at the end of 2012.

Years ending	Pension Plans	Post Retirement Health
2013	$ 1,337	$ 626
2014	1,349	672
2015	1,354	709
2016	1,403	750
2017	1,445	784
2018-2022	7,756	4,228

Defined Contribution Plans

We have a domestic contributory savings plan ("401(k) Plan") under Section 401(k) of the Internal Revenue Code covering substantially all U.S. employees. The 401(k) Plan allows participants to make voluntary contributions of up to 15% of their annual compensation, on a pretax basis, subject to IRS limitations. During 2012, employees represented by the collective bargaining agreement who were hired after April 1, 2012 were eligible for the employer match for up to 3% of their salaries, subject to eligibility rules. Effective January 1, 2013, all employees represented by the collective bargaining agreement will be eligible for the employer match for up to 3% of their salaries. For all other employees, we match 50% of their elective deferrals up to the first 6% of eligible deferred compensation. Employer match expense was $310, $272 and $259 for 2012, 2011 and 2010, respectively.

Our Canadian operation has a defined contribution pension plan whereby the employees can make voluntary contributions up to 2.5% of their gross earnings. This plan requires employer matching. There is a 700 hours worked eligibility requirement. There is no vesting period. The Canadian operation also has a profit sharing plan, which provides for a contribution calculated at up to 7% of the net operating earnings, minus the employer contributions to the pension plan. The funds are distributed proportionately based on years of service and annual remuneration. Our Canadian operation incurred expenses related to these plans of $603, $1,020 and $527 in 2012, 2011 and 2010, respectively.

Common Unit Compensation	12 Months Ended Dec. 31, 2012
Common Unit Compensation	
Common Unit Compensation	**10. Common Unit Compensation** On March 1, 2012, the Governing Board approved the Colt Defense Long Term Incentive Plan (“LTIP”). The purpose of the LTIP is to advance the interests of Colt Defense and its equity holders by providing a means to attract, retain and motivate key employees, advisors and members of the Governing Board. Awards under the LTIP may consist of options, restricted units, restricted phantom units, performance units or other unit-based awards. A total of 18,878 common units have been reserved for issuance in connection with awards under the LTIP. Under the LTIP, the exercise price of option awards is set at the grant date and may not be less than the fair market value per unit on that date. The term of each option is ten years from the grant date. The vesting periods, which vary by grant, may be time based, performance based or a combination thereof. Compensation expense equal to the grant date fair value is generally recognized over the period during which the employee is required to provide service in exchange for the award or as the performance obligation is met. Fair value was estimated on the date of grant using the Black-Scholes valuation method. In March 2012, options were granted for 11,325 common units at a weighted-average exercise price of $100.00 (not in thousands). Common unit compensation expense, which is included in general and administrative expense in our Consolidated Statements of Operations, was $17 in 2012. We did not record any common unit compensation expense in 2011 or 2010.

Segment Information (Details) (Small arms weapons systems)	12 Months Ended Dec. 31, 2012 item
Small arms weapons systems	
Segment information	
Operating segments, number	2
Number of reportable segments	1

Segment Information (Details 3) (USD $) In Thousands, unless otherwise specified	3 Months Ended								12 Months Ended		
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Oct. 02, 2011	Jul. 03, 2011	Apr. 03, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Geographical Information											
Net sales	$ 67,084	$ 56,555	$ 45,836	$ 43,853	$ 64,886	$ 58,877	$ 36,550	$ 48,497	$ 213,328	$ 208,810	$ 175,805
Long-lived assets	22,134				22,589				22,134	22,589	
United States											
Geographical Information											
Net sales									111,852	89,538	108,348
Long-lived assets	17,272				18,249				17,272	18,249	
Canada											
Geographical Information											
Net sales										26,064	17,564
Long-lived assets	4,862				4,340				4,862	4,340	
Europe											
Geographical Information											
Net sales									16,501	34,908	32,079
Asia/Pacific											
Geographical Information											
Net sales									45,866	26,762	5,036
Middle East/Africa											
Geographical Information											
Net sales									3,675	26,188	5,770
Latin America/Caribbean											
Geographical Information											
Net sales									$ 5,452	$ 5,350	$ 7,008

Commitments and Contingencies (Details) (USD $) In Thousands, unless otherwise specified	Mar. 31, 2013	Dec. 31, 2012	Jun. 30, 2012	Dec. 31, 2012 Capital expenditures for machinery and equipment	Dec. 31, 2011 Capital expenditures for machinery and equipment	Dec. 31, 2012 Standby letters of credit Secured by restricted cash	Dec. 31, 2011 Standby letters of credit Secured by restricted cash	Dec. 31, 2012 Standby letters of credit Secured by Credit Agreement	Dec. 31, 2012 Standby letters of credit Established by a sales agent on behalf of Colt	Dec. 31, 2011 Standby letters of credit Established by a sales agent on behalf of Colt	Dec. 31, 2012 Industrial Cooperation Agreements	Dec. 31, 2011 Industrial Cooperation Agreements
Commitments and contingencies												
Standby letters of credit						$ 1,253	$ 1,660	$ 1,715	$ 702	$ 804		
Unconditional purchase obligations				2,357	2,102							
Remaining gross offset purchase commitments											68,180	58,466
Remaining net offset purchase commitments, accrual amount											1,804	1,563
Settlement amount of dispute			625									
Accrued expenses related to potential audit settlements		695	650									
Interest expense related to potential audit settlements		305	320									
Settlement amount with taxing authority	$ 1,000											

Commitments and Contingencies (Tables)	12 Months Ended Dec. 31, 2012

Commitments and Contingencies

Summary of standby letters of credit issued principally in connection with performance and warranty bonds established for the benefit of certain international customers

	As of December 31,	
	2012	2011
Standby letters of credit secured by restricted cash	1,253	$ 1,660
Standby letters of credit secured by Credit Agreement	1,715	—
Guarantees of standby letters of credit established by a sales agent on behalf of Colt	702	804

Notes Payable and Long-term Debt (Details) (USD $)	12 Months Ended						12 Months Ended		1 Months Ended	12 Months Ended				12 Months Ended			
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2012 Credit Agreement	Dec. 31, 2011 Credit Agreement	Sep. 29, 2011 Credit Agreement	Dec. 31, 2012 Credit Agreement Minimum	Dec. 31, 2012 Credit Agreement Maximum	Dec. 01, 2009 8.75% Senior Notes due 2017	Dec. 31, 2012 8.75% Senior Notes due 2017	Dec. 31, 2011 8.75% Senior Notes due 2017	May 11, 2011 8.75% Senior Notes due 2017	Nov. 10, 2009 8.75% Senior Notes due 2017	Dec. 31, 2012 8.75% Senior Notes due 2017 Any time prior to November 15, 2013	Dec. 31, 2012 8.75% Senior Notes due 2017 Twelve month period beginning on November 15, 2013	Dec. 31, 2012 8.75% Senior Notes due 2017 Twelve month period beginning on November 15, 2014	Dec. 31, 2012 8.75% Senior Notes due 2017 Twelve month period beginning on November 15, 2015 and thereafter
Notes payable and long-term debt																	
Maximum borrowing capacity						$ 50,000,000											
Sublimit available for the issuance of letters of credit						20,000,000											
Annual fee on unused available balance payable quarterly (as a percent)							0.375%	0.50%									
Annual servicing fee				40,000													
Payment of debt issuance costs		(1,636,000)	(75,000)		1,636,000												
Excess availability, threshold limit								50,000,000									
Excess availability calculation, trade payables, number of days past due							60 days										
Excess availability threshold amount							11,000,000										
Number of consecutive days threshold				60 days													
Excess availability lower threshold limit that would trigger the financial covenant							9,000,000										
Fixed charge coverage ratio financial covenant							1.0										
Line of credit advance	6,000			6,000													
Letters of credit outstanding				1,715,000													
Notes issued									250,000,000								
Interest rate (as a percent)										8.75%	8.75%						
Percentage of principal amount at which the notes are redeemable in the event of a change in control										101.00%							
Redemption price of debt instrument as a percentage of principal														100.00%	104.375%	102.187%	100.00%
Redemption price of debt instrument in certain circumstances (as a percent)										100.00%							
Aggregate default indebtedness							20,000,000										
Maximum amount of exchange offer												250,000,000					
Outstanding loan balances and weighted average interest rates																	
Principal amount										250,000,000	250,000,000						
Unamortized discount										(2,433,000)	(2,814,000)		3,522,000				
Loan outstanding				0						247,567,000	247,186,000						
Loan outstanding, excluding current portion	247,567,000	247,186,000								247,567,000	247,186,000						
Information about outstanding loan balances																	
Weighted Average Effective Interest Rate (as a percent)										9.00%	9.00%						
Amortization of original issue discount	381,000	348,000	318,000							381,000	348,000						
Financing Costs																	
Financing costs incurred	(17,000)	1,653,000	75,000														
Amortization of deferred financing costs	1,653,000	1,498,000	1,918,000														
Payment of financing costs		1,636,000	75,000		(1,636,000)												
Reversal of financing costs	17,000																
Deferred financing fee activity																	
Balance at the beginning of the period	9,312,000	9,452,000															
Amortization of deferred financing costs	(1,653,000)	(1,498,000)	(1,918,000)														
Debt prepayment expense		(295,000)	(1,246,000)														
Financing fees paid and accrued	(17,000)	1,653,000	75,000														
Balance at the end of the period	7,642,000	9,312,000	9,452,000														
Debt Prepayment Expense																	
Write-off of deferred financing costs		295,000	1,246,000														
Total debt prepayment expense		$ 295,000	$ 1,246,000														

Other Long-Term Liabilities	12 Months Ended Dec. 31, 2012

Other Long-Term Liabilities

Other Long-Term Liabilities

15. Other Long-Term Liabilities

Other long-term liabilities consist of the following:

	As of December 31,	
	2012	2011
Deferred Canadian income taxes	$ 1,515	$ 1,501
Deferred income	905	—
Other	3	—
	$ 2,423	$ 1,501

Summary of Significant Accounting Policies (Tables)	12 Months Ended Dec. 31, 2012

Summary of Significant Accounting Policies

Schedule of allowance for doubtful accounts

		Total
Balance at December 31, 2010	$	216
Provision for (recovery of) doubtful accounts		(209)
Write-offs		(6)
Balance at December 31, 2011	$	1
Provision for (recovery of) doubtful accounts		1
Write-offs		(2)
Balance at December 31, 2012	$	—

Schedule of property and equipment

	December 31,				Estimated
	2012		2011		Useful Life
Land	$	362	$	354	—
Building		2,718		2,521	33
Machinery and equipment		37,749		34,086	7-10
Furniture, fixtures and leasehold improvements		6,378		6,089	3-5
		47,207		43,050	
Less accumulated depreciation and amortization		(28,162)		(23,531)	
		19,045		19,519	
Construction in process		3,089		3,070	
Property and equipment, net	$	22,134	$	22,589	

Schedule of changes in the carrying amount of goodwill

		Total
Balance at December 31, 2010	$	14,950
Effect of foreign currency translation		(237)
Balance at December 31, 2011		14,713
Effect of foreign currency translation		234
Balance at December 31, 2012	$	14,947

Schedule of net carrying value of the intangible assets with definite lives

	As of December 31, 2012						
	Gross Carrying Amount		Accumulated Amortization		Net		Estimated Useful Life
Customer relationship							
Canadian Government	$	2,533	$	(640)	$	1,893	30
Customer relationships other		7,219		(4,603)		2,616	20
Technology-based intangibles		3,610		(2,082)		1,528	15
	$	13,362	$	(7,325)	$	6,037	

	As of December 31, 2011						
	Gross Carrying Amount		Accumulated Amortization		Net		Estimated Useful Life
Customer relationship							
Canadian Government	$	2,478	$	(544)	$	1,934	30
Customer relationships other		7,062		(4,091)		2,971	20
Technology-based intangibles		3,610		(1,880)		1,730	15
	$	13,150	$	(6,515)	$	6,635	

Schedule of components of accrued expenses

	December 31,			
	2012		2011	
Accrued compensation and benefits	$	5,770	$	4,984
Accrued taxes		5,293		2,267
Accrued interest		3,230		2,923
Accrued commissions		1,229		2,872
Other accrued expenses		4,793		3,143
	$	20,315	$	16,189

Consolidated Statements of Operations

Revision to the consolidated financial statements

Impact of the revision

For the year ended December 31, 2011

	Previously Reported	Adjustments	Revised
Cost of sales	$ 143,270	$ 208	$ 143,478
Gross profit	65,540	(208)	65,332
Operating income	32,711	(208)	32,503
(Loss) income from continuing operations before provision for foreign income taxes	8,367	(208)	8,159
(Loss) income from continuing operations	5,196	(208)	4,988
Net (loss) income	5,196	(208)	4,988
Net (loss) income attributable to Colt Defense LLC members	5,196	(208)	4,988

For the year ended December 31, 2010

	Previously Reported	Adjustments	Revised
Cost of sales	$ 131,383	$ (105)	$ 131,278
Gross profit	44,422	105	44,527
Operating income	18,373	105	18,478
(Loss) income from continuing operations before provision for foreign income taxes	(7,882)	105	(7,777)
(Loss) income from continuing operations	(10,381)	105	(10,276)
Net (loss) income	(11,254)	105	(11,149)
Net (loss) income attributable to Colt Defense LLC members	(11,170)	105	(11,065)

Consolidated Statements of Comprehensive Loss

Revision to the consolidated financial statements

Impact of the revision

For the year ended December 31, 2011

	Previously Reported	Adjustments	Revised
Net (loss) income	$ 5,196	$ (208)	$ 4,988
Change in pension and postretirement benefit plans, net	(5,519)	317	(5,202)
Comprehensive loss	(767)	109	(658)

For the year ended December 31, 2010

	Previously Reported	Adjustments	Revised
Net (loss) income	$ (11,254)	$ 105	$ (11,149)
Change in pension and postretirement benefit plans, net	(1,817)	(1,272)	(3,089)
Comprehensive loss	(11,656)	(1,167)	(12,823)

Consolidated Balance Sheet

Revision to the consolidated financial statements

Impact of the revision

The effects of the revisions on our Consolidated Balance Sheet as of December 31, 2011 follow:

	Previously Reported	Adjustments	Revised
Pension and retirement obligations — current portion	$ 890	$ (281)	$ 609
Total current liabilities	41,488	(281)	41,207
Pension and retirement obligations	17,953	(57)	17,896
Total long-term liabilities	266,640	(57)	266,583
Total liabilities	308,128	(338)	307,790
Accumulated deficit	(130,769)	1,065	(129,704)
Accumulated other comprehensive loss	(12,403)	(727)	(13,130)
Total deficit	(143,172)	338	(142,834)

Consolidated Statements of Cash Flows

Revision to the consolidated financial statements

Impact of the revision

For the year ended December 31, 2011

	Previously Reported	Adjustments	Revised
Cash flows from operating activities:			
Net (loss) income	$ 5,196	$ (208)	$ 4,988
Accrued pension and retirement liabilities	(830)	208	(622)

For the year ended December 31, 2010

	Previously Reported	Adjustments	Revised
Cash flows from operating activities:			
Net (loss) income	$ (11,254)	$ 105	$ (11,149)
Accrued pension and retirement liabilities	(970)	(105)	(1,075)

Discontinued Operations (Details) (USD $)	12 Months Ended Dec. 31, 2010	0 Months Ended Dec. 01, 2010 Colt Rapid Mat item	12 Months Ended Dec. 31, 2010 Colt Rapid Mat	Nov. 03, 2009 Colt Rapid Mat Senior notes
Discontinued operations				
Face amount of debt				$ 250,000,000
Number of buyers for business		0		
Proceeds from sale of assets		0		
Costs associated with closure of business		0		
On-going commitments associated with closure of business		0		
Net sales			612,000	
Loss from discontinued operations	(665,000)		(665,000)	
Loss on disposal of discontinued operations	(208,000)		(208,000)	
Net loss (income) from discontinued operations attributed to non-controlling interest	$ (84,000)		$ 84,000	

Summary of Significant Accounting Policies (Details 2) (USD $)	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Summary of Significant Accounting Policies			
Long-lived assets reclassified to held for sale	$ 0	$ 0	
Net carrying value of intangible assets with definite lives			
Gross Carrying Amount	13,362,000	13,150,000	
Accumulated Amortization	(7,325,000)	(6,515,000)	
Net	6,037,000	6,635,000	
Amortization expense	704,000	742,000	749,000
Amortization expenses included in cost of sales	202,000	201,000	201,000
Expected annual amortization expense			
2013	666,000		
2014	635,000		
2015	604,000		
2016	573,000		
2017	542,000		
Customer relationship Canadian Government			
Net carrying value of intangible assets with definite lives			
Gross Carrying Amount	2,533,000	2,478,000	
Accumulated Amortization	(640,000)	(544,000)	
Net	1,893,000	1,934,000	
Estimated Useful Life	30 years	30 years	
Customer relationships other			
Net carrying value of intangible assets with definite lives			
Gross Carrying Amount	7,219,000	7,062,000	
Accumulated Amortization	(4,603,000)	(4,091,000)	
Net	2,616,000	2,971,000	
Estimated Useful Life	20 years	20 years	
Technology-based intangibles			
Net carrying value of intangible assets with definite lives			
Gross Carrying Amount	3,610,000	3,610,000	
Accumulated Amortization	(2,082,000)	(1,880,000)	
Net	$ 1,528,000	$ 1,730,000	
Estimated Useful Life	15 years	15 years	

Consolidated Statements of Changes in Cash Flows (USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Operating Activities			
Net (loss) income	$ (7,055)	$ 4,988	$ (11,149)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Loss from discontinued operations			873
Depreciation and amortization	5,696	5,476	4,562
Amortization of financing fees	1,653	1,498	1,918
Pension curtailment expense	1,325		
Deferred foreign income taxes	39	(271)	(161)
Loss (gain) on sale/disposals of fixed assets	4	(12)	(8)
Amortization of debt discount	381	348	318
Debt prepayment expense		295	1,246
Amortization of deferred income	(79)	(125)	(188)
Common unit compensation expense	17		
Changes in operating assets and liabilities:			
Accounts receivable	8,091	(15,761)	5,501
Inventories	(4,158)	(4,765)	3,901
Prepaid expenses and other current assets	(984)	405	(198)
Accounts payable and accrued expenses	5,201	8,001	(5,052)
Accrued pension and retirement liabilities	(172)	(622)	(1,075)
Customer advances and deferred income	2,001	(46)	1,967
Other liabilities, net	463	(71)	(69)
Net cash provided by (used in) operating activities from continuing operations	12,423	(662)	2,386
Net cash used in operating activities from discontinued operations		(33)	(732)
Net cash provided by (used in) operating activities	12,423	(695)	1,654
Investing Activities			
Purchases of property and equipment	(4,410)	(5,600)	(7,440)
Proceeds from sale/disposal of property	66	12	19
Change in restricted cash	464	(1,380)	465
Net cash used in investing activities from continuing operations	(3,880)	(6,968)	(6,956)
Net cash provided by investing activities from discontinued operations			14
Net cash used in investing activities	(3,880)	(6,968)	(6,942)
Financing Activities			
Debt issuance costs		(1,636)	(75)
Line of credit advance	6		
Capital lease obligation payments	(1,148)	(1,229)	(1,146)
Distributions paid to members	(3,343)	(12,889)	(4,976)
Net cash used in financing activities from continuing operations	(4,485)	(15,754)	(6,197)
Net cash used in financing activities from discontinued operations			(15)

Net cash used in financing activities	(4,485)	(15,754)	(6,212)
Effect of exchange rates on cash	79	209	239
Change in cash and cash equivalents	4,137	(23,208)	(11,261)
Cash and cash equivalents, beginning of period	38,236	61,444	72,705
Cash and cash equivalents, end of period	42,373	38,236	61,444
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	22,198	22,075	22,817
Cash paid for foreign income taxes	3,207	2,574	3,313
Non-cash consideration for sale of equipment	75		
Accrued debt issuance costs		17	
Accrued purchases of fixed assets	516	364	78
Accrued distributions to members		$ 3,343	$ 15,606

Inventories	12 Months Ended Dec. 31, 2012

Inventories

Inventories

4. Inventories

Inventories consist of:

	December 31, 2012	December 31, 2011
Materials	$ 29,177	$ 22,422
Work in process	7,829	8,211
Finished products	3,555	5,582
	$ 40,561	$ 36,215

Pension, Savings and Postretirement Benefits (Details 3) (USD $) In Thousands, unless otherwise specified	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012 Level 1	Dec. 31, 2011 Level 1	Dec. 31, 2012 Level 2	Dec. 31, 2011 Level 2	12 Months Ended Dec. 31, 2012 Total equities	Dec. 31, 2012 Equity mutual funds	Dec. 31, 2011 Equity mutual funds	Dec. 31, 2012 Equity mutual funds Level 1	Dec. 31, 2011 Equity mutual funds Level 1	12 Months Ended Dec. 31, 2012 Fixed income payments	Dec. 31, 2012 Money market	Dec. 31, 2011 Money market	Dec. 31, 2012 Money market Level 1	Dec. 31, 2011 Money market Level 1	Dec. 31, 2012 Fixed income mutual funds	Dec. 31, 2011 Fixed income mutual funds	Dec. 31, 2012 Fixed income mutual funds Level 1	Dec. 31, 2011 Fixed income mutual funds Level 1	Dec. 31, 2012 Stable value	Dec. 31, 2011 Stable value	Dec. 31, 2012 Stable value Level 2	Dec. 31, 2011 Stable value Level 2	12 Months Ended Dec. 31, 2012 Cash equivalents	Dec. 31, 2012 Pension plans	Dec. 31, 2011 Pension plans	Dec. 31, 2010 Pension plans	Dec. 31, 2012 Postretirement Healthcare Coverage
Target allocation																													
Plan's target allocation (as a percent)							50.00%					45.00%													5.00%				
Fair Value Measurements																													
Total	$ 22,372	$ 19,609	$ 19,181	$ 16,453	$ 3,191	$ 3,156		$ 11,344	$ 9,858	$ 11,344	$ 9,858		$ 644	$ 384	$ 644	$ 384	$ 7,193	$ 6,211	$ 7,193	$ 6,211	$ 3,191	$ 3,156	$ 3,191	$ 3,156		$ 22,372	$ 19,609	$ 19,328	
Allocation Percent	100.00%	10.00%						51.00%	50.00%				3.00%	2.00%			32.00%	32.00%			14.00%	16.00%							
Employer contributions																													
Anticipated pension contributions to the plans in 2013																										1,500			
Benefit payments expected to be paid																													
2013																										1,337			626
2014																										1,349			672
2015																										1,354			709
2016																										1,403			750
2017																										1,445			784
2018-2022																										$ 7,756			$ 4,228

Other Long-Term Liabilities (Details) (USD $) In Thousands, unless otherwise specified	Dec. 31, 2012	Dec. 31, 2011
Other Long-Term Liabilities		
Deferred Canadian income taxes	$ 1,515	$ 1,501
Deferred income	905	
Other	3	
Other long-term liabilities	$ 2,423	$ 1,501

Discontinued Operations (Tables)	12 Months Ended Dec. 31, 2012
Discontinued Operations	
Summary of components of the discontinued operations	

	2012	2011	2010
Net sales	$ —	$ —	$ 612
Loss from discontinued operations	—	—	(665)
Loss on disposal of discontinued operations	—	—	(208)

Quarterly Operating Results (Unaudited) (Tables)

12 Months Ended Dec. 31, 2012

Quarterly Operating Results (Unaudited)

Schedule of quarterly operating results (unaudited)

	For The Year Ended December 31, 2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 43,853	$ 45,836	$ 56,555	$ 67,084
Gross profit	7,829	8,834	16,442	18,046
Net (loss) income	(7,088)	(6,237)	2,894	3,376

	For The Year Ended December 31, 2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 48,497	$ 36,550	$ 58,877	$ 64,886
Gross profit	13,039	10,983	18,830	22,480
Net (loss) income	(1,792)	(1,919)	3,373	5,326

Concentration of risk	12 Months Ended Dec. 31, 2012

Concentration of risk
Concentration of risk

14. Concentration of risk

Accounts Receivable

Financial instruments, which potentially subject us to concentration of credit risk, consist primarily of accounts receivable. At December 31, 2012, the two largest individual trade receivable balances accounted for 55% and 25% of total accounts receivables. At December 31, 2011, the three largest individual trade receivable balances accounted for 53%, 15% and 10% of total accounts receivables.

Labor

The Union represents approximately 68% of our U.S. workforce. On March 31, 2012, we and the Union agreed to a new, two-year collective bargaining agreement.