

Business Outlook

In general, *overall growth of the firearms market is anticipated to be flat or slightly declining in the future.* Contributing factors to this trend are an increase in the average age of the hunting population, less public access to hunting land, a 65% or more decrease in FFL holders over the last three years, and increasing restrictions in International markets. *Despite these challenges, Remington can achieve share growth at the expense of competition by executing timely introductions of high quality and high value products which create competitive advantages.*

After having completed the second quarter of 1997, performance is on track to meet the budget requirements in terms of unit sales and net sales dollars. *Gross profit, however, is expected to be below budget.* This is due to an unfavorable mix, caused by fewer sales of centerfire rifles, the Bernadelli bankruptcy, unexpected quality cost and increased manufacturing cost attributable to Mayfield startup cost and Ilion idle mills charges.

1997's booked orders for shotguns have exceeded budget expectations, rebounding nicely from a disappointing 1996. *Softness in centerfire rifle orders is a major concern, with year-to-date bookings running approximately 27% behind last year.* We do, however, expect strengthening in this category as firm orders are received from the Marts and seasonal reorders are placed by resellers. Due to the high gross profit per unit of centerfire rifles, focus is being given to special non catalog offerings which should boost sales for this category later this year.

Building on the design and strengths of the M700, *our new Bolt Action Muzzleloader has revolutionized the black powder firearms industry segment.* 1997 orders for the 700 Muzzleloader have nearly doubled since last year's introduction, making this category of bolt action product our number one selling class of rifle. Competition quickly responded with similar offerings that may infringe on Remington's issued patent. The matter is currently under legal review.

Pressure on pricing has been very intense particularly at the Marts. Value added products in both shotguns and rifles are gaining shelf space with the mass merchants. Savage and Mossberg are the principal competitors which have put pressure on our 700 ADL and 870 Express businesses. It is clear that our *net pricing for these products by trade channel has become a source of irritation for the Marts when compared to Big Box competition supplied by two step distribution.*