



Memorandum

DATE: JANUARY 18, 2005
TO: Distribution List
FROM: David Chafin
RE: Status of Capital Expenditures as of December 31, 2004.

For the month ended December 31, 2004, year to date capital expenditures totaled \$9,536M compared to an annual budget of \$8,036M. Projects totaling \$10,252M have been authorized for spending in 2004. Shown below are projects authorized in December.

| December 2004 Authorized Projects | | |
|-----------------------------------|---|------------|
| Location | Project | \$ |
| Ilion | Replace 2 Wasino Lathes with 2 Okuma Lathes | 237,288 |
| Ilion | Replace Jk Micro CMM with Brown & Sharp | 61,750 |
| Ilion | M870 Modular Combat System | 14,600 |
| Ilion | Ergonomic Improvements - Gallery | 14,600 |
| Ilion | Maintenance Lift Truck | 13,500 |
| | Total Ilion | \$ 341,738 |
| Mayfield | Floor Scrubber | 6,768 |
| | Total Mayfield | \$ 6,768 |
| Lonoke | Centerfire Peen Plater Frame | 6,200 |
| Lonoke | Centerfire Loading Vacuum System | 4,300 |
| | Total Lonoke | \$ 10,500 |
| Madison | Security Picture System | 6,600 |
| | Total Madison | \$ 6,600 |
| | Total December Authorizations | \$ 365,606 |

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Detailed in the following chart are expected carryovers into year 2005.

| 2005 Carryovers | | |
|-----------------|--|-------------|
| Location | Project | \$ |
| Ilion | M700 SPL Trigger Assembly Project | \$897,000 |
| Ilion | Model 105 CTI 12/26" & 12/28" RC VR Premier | \$200,000 |
| Ilion | Replace Lk Micro CMM with Brown & Sharp | \$61,750 |
| Ilion | Sims (R3) Recoil Pad Conversion | \$40,000 |
| Ilion | Tooling for New Gun Boxes | \$31,000 |
| Ilion | 700 Modular Overmolded Stock | \$20,000 |
| Ilion | M761SP Patrol Rifle .223 REM | \$13,000 |
| Ilion | Turnkey Laser Based Measurement System | \$12,800 |
| Ilion | Upgrade Powder Coat Equipment | \$9,000 |
| Ilion | Ergonomic Improvements - Gallery | \$6,000 |
| Ilion | Replace Wasino Lathe with Okuma Lathe | \$5,000 |
| Ilion | Replace Wasino Lathes with 2 Okuma Lathes | \$5,000 |
| Ilion | M700 CDL Left Hand | \$4,500 |
| | Total Ilion | \$1,305,050 |
| Mayfield | Rifle Gauging | \$10,898 |
| Mayfield | Smooth Bolt Handle 710 | \$1,600 |
| Mayfield | Dust Collector | \$1,000 |
| | Total Mayfield | \$13,498 |
| Lonoke | Shotshell Buckshot Loader and Packer | \$389,000 |
| Lonoke | Centerfire Unprimed Shell Inspection | 252,000 |
| Lonoke | 5.56mm Linked Frangible Ammo Capability | 118,000 |
| Lonoke | Phase 2 R&D Pilot Plant Facility | 94,800 |
| Lonoke | Waste Treatment Design Specifications | 40,500 |
| Lonoke | Replace Shotshell Lead Shot Kettle | 30,800 |
| Lonoke | Upgrade Shotshell Load/Pack Equipment | 23,500 |
| Lonoke | Modify Primer Mixing Bowl Lifting Mechanisms | 21,400 |
| Lonoke | Overhaul #25 Centerfire Duplex Loader | 20,000 |
| Lonoke | Rimfire AIM Primer Inspection | 13,000 |
| Lonoke | Overhaul Primer Battery Cup Press #828 | 12,400 |
| Lonoke | Materials/Engineering Office Area | 9,300 |
| Lonoke | Overhaul Shotshell 486 Triplex AH&P | 8,700 |
| Lonoke | Modify Scrap Shot Separator Vacuum System | 3,200 |
| Lonoke | Shotshell Cap Press Water Treatment | 2,700 |
| Lonoke | Centerfire Loading Vacuum System | 1,300 |
| Lonoke | Waste Treatment Caustic Pump | 1,000 |
| | Total Lonoke | \$1,041,400 |
| Etowah | 200 yd Range Enhancement (Lon) | \$9,500 |
| | Total Etowah | \$9,500 |
| Madison | Parker | \$50,000 |
| Madison | Parking Lot Repaving | \$42,700 |
| Madison | Spartan Racking (OHL) | \$25,850 |
| Madison | Office exterior column replacement | \$17,730 |
| Madison | Stretchwrap Machine (OHL) | \$11,500 |
| Madison | Memphis Servers | \$4,848 |
| | Total Madison | \$152,628 |
| | Total 2005 Carryover | \$2,522,076 |

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Ilion has capital expenditures of \$737M in the 2005 budget carryover section for the M700 and 7 Fire Control System project. Estimated capital carryover for this project in December is \$897M, \$160M more than budgeted. Other projects with significant capital carryovers include the 105 CTI project for \$200M, Replacement of Lk Micro CMM w/ Brown & Sharp for \$62M, Sims (R3) Recoil Conversion project for \$40M, and Tooling for New Gun Boxes for \$31M. The budget shortfall for Ilion projects creates unanticipated capital expenditures for 2005 of \$568M.

Mayfield has an unbudgeted estimated capital carryover of \$13M for 2005.

Lonoke has \$896M in the 2005 capital budget carryover section for four projects. One project, the Amortized Shotshell SWad Mold, was budgeted to have a carryover of \$174 but was capitalized in December 2004. Projects with significant unbudgeted capital carryover amounts include the 5.56 Linked Frangible Ammo Capability project for \$118M, the Waste Treatment Design Specifications project for \$40M, and the Replace Shotshell Lead Shot Kettle project for \$31M. The budget shortfall for Lonoke projects creates unanticipated capital expenditures for 2005 of \$145M.

Elizabethtown has an unbudgeted estimated carryover of \$9M for 2005.

Corporate has capital expenditures of \$50M in the 2005 budget carryover section for the Parker Project. Projects with significant unbudgeted capital carryover amounts include the Parking Lot Repaving project for \$42M, Spartan Racking at OHL for \$26M, and the Office Exterior Column Replacement project for \$18M. The budget shortfall for Corporate projects creates unanticipated capital expenditures for 2005 of \$102M.

These unanticipated expenditures will need to be accommodated through the reduction of other 2005 budgeted projects.

Shown below is a comparison of budgeted expenditures, anticipated expenditures, and year-to-date actual expenditures by location.

| | Budgeted \$ | Anticipated \$ | YTD YTD Actual \$ | Remaining Anticipated |
|----------------------|--------------------|-----------------------|------------------------------|----------------------------------|
| Ilion | \$4,400,000 | \$4,543,095 | \$4,543,095 | \$0 |
| Mayfield | 300,000 | 267,545 | 267,545 | 0 |
| Ada/Findlay | 74,000 | 39,869 | 39,869 | 0 |
| Lonoke | 2,500,000 | 3,754,181 | 3,754,181 | 0 |
| PMPd | 150,000 | 49,515 | 49,515 | 0 |
| E-Town | 126,000 | 104,071 | 104,071 | 0 |
| Corp. | 486,000 | 777,232 | 777,232 | 0 |
| Total Company | \$8,036,000 | \$9,535,508 | \$9,535,508 | \$0 |

Ilion's expenditures of \$4,543M exceed budget by \$143M. Projects with significant expenditures include \$1,150M for the model 105CTI project and \$852M for the M/700 &

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7 New Fire Control project. Additional expenditures for these projects for 2005 include carryover amounts of \$200M for the 105CTI project and \$897M for the M700 & New Fire Control project.

Lonoke's expenditures exceeds budget by \$1,254M. Projects with significant expenditures include the Amortized Shotgun Wad Mold Conversion project for \$667M, the 5.56mm linked frangible ammo capability project for \$366M, and the Amortized Shotgun GL 12 SWad Mold for \$290M

Corporate's expenditures exceeds budget by \$291M. Projects with major impact include the Parker Project for \$250M, Sox Security Software for \$95M, John Galt Forecast System for \$44M, PBX Upgrade for \$44M, and Spartan Gun Works for \$40M. These overages are partially offset by reductions in E-commerce and IT anticipated expenditures.

Total company budgeted ROIC for 2004 projects is 10.9%. Through December, total company authorized ROIC for 2004 projects is 58.8%. Shown below is a list of projects with substantial authorized returns.

| Project | Location | Annualized Savings/Earnings | ROIC % | Basis for Savings/Earnings |
|--------------------------------------|----------|-----------------------------|--------|----------------------------|
| M/700 CDL | Ilion | \$1,672M | 4573% | Sales |
| M700 SPS Stainless Steel | Ilion | \$3,581M | 2149% | Sales |
| M/7615P Patrol Rifle .223 Rem | Ilion | \$307M | 277% | Sales |
| M/700 Light Varmint Rifle Stock | Ilion | \$184M | 721% | Lower material cost |
| Shotshell Buckshot Loader & Packer | Lonoke | \$1,074M | 185% | Sales |
| 5.56MM Linked Frang. Ammo Cap. | Lonoke | \$669M | 125% | Sales |
| Centerfire Unprimed Shell Inspection | Lonoke | \$127M | 27% | Labor Reduction |

The following information has been adapted from narratives provided by management at the various manufacturing sites.

Ilion

For the month of December, capital expenditures were \$1,610M. Projects with major expenditures include the M/700 & 7 New Fire Control for \$470M, the Replacement of 2 Wasino Lathes with 2 Okuma Lathes for \$208M, the 700 Modular Overmolded Stock project for \$133M, the Replacement of Gas Cylinder Braze Machine for \$118M, and the M/700 SPS Stainless Steel project for \$108M.

Mayfield

For December, capital expenditures totaled \$93M. Projects with major expenditures include the Dust Collector project for \$25M and the M710 Stock Tool Refurbishment project for \$19M.

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Ada/Findlay

For December, capital expenditures totaled \$4M for the Findlay Warehouse Electric Pallet Truck.

Lonoke

For December, expenditures totaled \$1,051M. Projects with major expenditures include the Amortized Shotgun GL 12 SWad Mold for \$290M, Phase 2, R&D Pilot Plant Facility for \$147M, the 5.56mm Frangible Ammo Capability for \$119M, the Upgrade Shotgun Load/Pack Equipment project for \$55M, the Shotgun Buckshot Loader and Packer for \$41M, Replace Shotgun Lead Shot Kettle for \$40M, and the Materials & Engineering Office Area project for \$39M.

Ilion – PMPd

For December there were no significant expenditures for PMPd.

Elizabethtown

For December, expenditures totaled \$26M for the Security System Upgrade project for \$18M, the CMM Tip Changer for \$5M and the Lonoke 200 yd. Range Enhancement project for \$3M.

Corporate

For December, capital expenditures totaled \$33M. Projects with major expenditures include NAS for \$13M, Tape Drive Replacement for \$11M and Memphis Servers for \$9M.

Listed below is a payment stream summary for projects approved in December that have expenditures greater than \$25M and do not require CFO authorization.

| Description | Site | (1) Budget \$ | (1) Approved CAR \$ | Terms/ Payment Stream |
|-----------------------------|-------|------------------|---------------------------|--------------------------|
| M/870 Modular Combat System | Ilion | \$0 | \$47,740 | Net 45 |
| | | \$0 | \$47,740 | |

(1) Includes total project dollars

Shown in the below table are projects with post audits currently due and their status.

| Location | Year Approved | Project | Capital Expenditures | Operating Expenses | ROI/C % | Status |
|---------------|------------------|--------------------------------------|-------------------------|-----------------------|---------|---|
| Ilion | 2000 | Patrol Cold Forging Machine #6 | 965,760 | 46,740 | 53.0% | Being Reviewed at Plant - Comp 01/06 |
| Ilion | 2003 | Robotic Flat Receiver Polish | 264,228 | 5,741 | 36.0% | Being Reviewed at Plant - Comp 01/05 |
| Ilion | 2003 | Gun Drill | 392,184 | 34,466 | 34.0% | Being Reviewed at Plant - Comp 01/05 |
| Ilion | 2003 | M/100 16 Gauge | 138,805 | 40,683 | 321.0% | Completed; awaiting report at Corporate |
| Ilion | 2001 | New 16 Gauge | 25,840 | 111,940 | 835.0% | Submitted being reviewed by Corporate |
| Ilion | 2001 | New Caliber Ultra Mag | 32,670 | 117,873 | 962.0% | Submitted being reviewed by Corporate |
| Ilion | 2000 | Rotary Machine Syn T-Plates | 175,200 | 24,850 | 45.0% | Submitted being reviewed by Corporate |
| Ilion | 1999 | Barrel Machining Project | 5,969,171 | 1,678,451 | 34.0% | Pending, to be completed 1st Qtr |
| Ilion | 1999 | Q&Q Project | 578,600 | 166,310 | 170.0% | Being Reviewed at Plant - Comp 01/05 |
| Ilion | 1999 | M/1182 3 1/2 Inch Super Mag | 581,428 | 317,360 | 240.0% | Submitted being reviewed by Corporate |
| Ilion | 2000 | Replace Miyano Lathe | 732,734 | 18,362 | 31.0% | Being Reviewed at Plant - Comp 01/05 |
| Elizabethtown | 2001 | Centerfire Rifle Pack Automation | 2,223,200 | 204,000 | 27.0% | Pending, to be completed 1st Qtr '05 |
| Lonoke | 2001 | Centerfire 6 Cone Bullet Wash Equip. | 145,000 | 5,000 | 55.0% | Complete; awaiting signature at plant |
| Lonoke | 2000 | Centerfire Pistol Packing Automation | 3,100,000 | 190,000 | 38.0% | Pending, to be completed 1st Qtr '05 |
| Lonoke | 1999 | Centerfire 9MM Manurhin Loader | 160,000 | 25,000 | 52.0% | Complete; awaiting signature at plant |
| Lonoke | 2001 | Centerfire 9MM Case Packing Equip. | 165,800 | 0 | 17.0% | Pending, to be completed 1st Qtr '05 |
| PMPd | 2000 | Cincinnati Molding Machine | 167,647 | 25,498 | 227.8% | Pending, to be completed 1st Qtr '05 |