



Memorandum

DATE: AUGUST 17, 2004
TO: Distribution List
FROM: David Chafin
RE: Status of Capital Expenditures as of July 31, 2004

For the month ended July 31, 2004, year to date capital expenditures totaled \$2,468M compared to an annual budget of \$8,036M. Projects totaling \$4,699M have been authorized for spending in 2004. Shown below are projects authorized in July.

July 2004 Authorized Projects		
Location	Project	\$
Ilion	M700 SPS Stainless Steel	\$116,080
Ilion	Replace 1 (one) Air Compressor	96,622
Ilion	Purchase 2 Surface Grinders	20,450
Ilion	Transfer Line Optical Comparator	20,345
	Total Ilion	\$253,497
Targets	Ada Water Chiller	25,000
Targets	Ada Concrete Site Apron	4,000
Targets	Findlay Warehouse Electric Pallet Truck	4,500
	Total Targets	33,500
Lonoke	Centerfire Bullet Refinish Closed Loop Cooling	\$15,000
Lonoke	Lonoke Mail Server	8,900
Lonoke	Centerfire Turret Trim Stroke Sensor	5,000
Lonoke	Used CNC Milling Machines	23,500
Lonoke	Primer Shotshell Cupping Die Set	20,000
Lonoke	Primer Bldg #722 Air Conditioner	9,100
	Total Lonoke	\$81,500
PMPd.	Hayes #4 Furnace Hot Zone Rebuild	\$54,654
	Total PMPd.	\$54,654
Madison	Parker	\$300,000
Madison	Consulting Remington Country Store	\$20,000
Madison	PBX Upgrade	\$43,000
	Total Madison	\$363,000
	Total July Authorizations	\$786,161

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

2005 Carryovers		
Location	Project	\$
Ilion	M/700 SPL Trigger Assembly Project	\$366,000
	Total Ilion	\$366,000
Lonoke	Shotshell Buckshot Loader and Packer	\$384,300
	Centerfire Unprimed Shell Inspection	251,700
	Explosives Pilot Plant Facilities	88,000
	Total Lonoke	\$722,000
Madison	Parker	\$150,000
	Total Madison	\$150,000
Total 2005 Carryover		\$1,238,000

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	\$5,467,647	\$1,119,607	\$4,348,040
Mayfield	300,000	300,801	55,925	244,876
Ada/Findlay	74,000	33,500	0	33,500
Lonoke	2,500,000	2,985,081	1,047,815	1,937,266
PMPd	150,000	142,392	-2,272	144,664
E-Town	126,000	120,232	12,100	108,132
Corp.	486,000	784,617	235,287	549,330
Total Company	\$8,036,000	\$9,834,270	\$2,468,462	\$7,365,808

Ilion's anticipated expenditures of \$5,468M includes \$1,791M for the model 105CTi project and \$1,521M for the M/700 SPL trigger assembly project. Remaining expenditures in 2004 for the model 105CTi project and the M/700 trigger assembly project are \$1,373M and \$1,521M respectively.

Lonoke's anticipated expenditures exceeds budget by \$485M. The overage is due to the 5.56mm linked frangible ammo capability project for \$485M.

Corporate anticipated expenditures exceeds budget by \$299M. Projects with major impact include the Parker Project for \$150M, Sox Security Software for \$95M, John Galt

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Forecast System for \$55M, PBX Upgrade for \$43M, 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 July, total company authorized ROIC for 2004 projects is 131.4%. Shown below is a list of projects with substantial authorized returns.

Project	Location	Annualized Savings/ Earnings	ROIC %	Basis for Savings/Earnings
M700 CDL	Ilion	\$1,672M	4573%	Sales
M700 SPS Stainless Steel	Ilion	\$2,981	2149%	Sales
M700 Light Varmint Rifle Stock	Ilion	\$184M	721%	Lower material cost
SIMS (R3) Recoil Pad Conversion	Ilion	\$37M	25%	Higher gun price
Shotshell Buckshot Loader & Packer	Lonoke	\$1,074M	185%	Sales
5.56MM Linked Frang. Ammo Cap.	Lonoke	\$360M	125%	Sales

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

Ilion

For the month of July, capital expenditures were \$391M. Projects with major expenditures include the model 105CTi project for \$99M, 700 Modular Overmolded Stock for \$70M, Roof Replacement (Bldg #84) for \$69M, and Model 870 Exp 410/20 IC/RS project for \$30M.

Mayfield

For July, capital expenditures were \$9M for the Magazine Box Alteration project.

Ada/Findlay

For July, there were no expenditures.

Lonoke

For July, expenditures totaled \$249M. Projects with major expenditures include the 5.56mm Frangible Ammo Capability for \$57M, Relocate Primer Bldg 711 Scrubber Unit for \$41M, Upgrade Shotshell Load/Pack Equip for \$30M, R&D Pilot Plant Facility for \$29M, and Used CNC Milling Machine for \$19M.

Ilion – PMPd

For July, there were no expenditures. Materials were returned to C.I. Hayes in January creating a year-to-date credit of \$2M.

Elizabethtown

For July, there were no expenditures.

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Corporate

For July, capital expenditures were \$57M. The Lucasware Voice Select System incurred expenditures of \$55M.

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

Description	Site	(1) Budget \$	(1) Approved CAR \$	Terms/ Payment Stream
Replace 1 (one) Air Compressor	Ilion	\$100,000	\$98,622	Net 45
Hayes #4 Furnace Hot Zone Rebuild	PMPd	\$65,000	\$59,664	Net 45
		\$165,000	\$158,286	

(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 %	Status
Ilion	2002	M/1100 16 Gauge	138,805	40,683	321.0%	Due August 2004.
Ilion	2001	New 16 Gauge	26,840	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	46.0%	Submitted being reviewed by Corporate
Ilion	1999	Barrel Machining Project	5,969,171	1,678,451	34.0%	Pending, to be completed 3rd Qtr
Ilion	1999	Q/U Project	578,600	166,310	170.0%	Due July 2004
Ilion	1999	M/1187 3 1/2 Inch Super Mag	581,428	317,360	240.0%	Submitted being reviewed by Corporate
Ilion	2000	Replace Myano Lathe	732,734	18,362	31.0%	Due August 2004.
Lonoke	2001	Centerfire Rifle Pack Automation	2,223,200	204,000	27.0%	Pending, to be completed 3rd Qtr
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	36.0%	Pending, to be completed 3rd Qtr
Lonoke	1999	Centerfire 9MM Makarhin Loader	180,000	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 3rd Qtr
PMPd	2000	Cincinnati Milling Machine	187,647	25,496	227.8%	Pending, to be completed 3rd Qtr