

The proposed Model 742X meets the product design criteria established by Marketing with the exception of cost. The same is true for the 1100X shotgun.

The retail selling price required to maintain earnings on these new guns is too high for the medium to upper medium price segment of the firearms market where we compete now with our current gun models. For this reason, we could not recommend proceeding with a full sales replacement program. However, we concur with the Study Committee's recommendation to proceed with the 742X program on a limited volume basis for the following reasons:

1. It will give us an opportunity to market test the break action concept and enable us to determine the price premium shooters will pay for the improved product features.
2. It will allow Ilion to determine possible cost reductions which might lead to a sufficient breakthrough to permit using the X line guns as replacements for current models.

We believe the 742X should be the pilot gun in this program because its features, primarily the magnum cartridge capability and interchangeable calibers, provide the best opportunity of carrying a premium selling price.

While the estimated return on investment for the 742X program would normally be unacceptable, we feel the expenditures are justified because -

- it provides the opportunity to evaluate the new concept both from a marketing and production standpoint at a relatively low risk;
- and recognizing the uncertainties in timing and selection of an ultimate design, it provides a logical and desirable starting point for beginning the transition to a new family of guns.

Because of the possibility that the X gun line concept is inherently too costly to permit considering using these guns as a replacement for our current line, we will continue work with R&D and Production on upgrading our present line, particularly the Model 1100 shotgun.

10/26/73

EXHIBIT 2