

1996 was a very challenging year for Remington's firearm business. After enjoying more than five consecutive years of progressive growth in unit sales and dollar volume, the company experienced a 19.2% downturn in volume last year. This softness was primarily the result of declining demand by the Marts. Wal\*Mart's focus to lower working capital and increase turns, along with their heavy inventory carryover from 1995 resulted in a 47% decline in dollar shipments for 1996. K-Mart, a credit cripple, conducted business predicated on a bank budget which resulted in a 52% decline in dollar shipments. Combined, the Marts accounted for a \$27.5 million dollar reduction in firearm shipments from the previous year. Business with our other channel partners was essentially unchanged from 1995.

Overall, the 19% reduction in shipments resulted in a 12% decline in dollar sales for the company in 1996. Faking the hardest hit, shotgun unit sales were down 28% resulting in a 25% decline in dollar volume. Another hard hit area was the Centerfire rifle category which experienced a 7% reduction in units and a 1% reduction in dollars. Despite a record year for bolt action sales, repeating rifle sales were off by 45% in units and 42% in dollars which ruined category performance results.

Second and third quarter orders continued to decline resulting in a revenue growth that was significantly below plan. As a result, decisions were made to reduce Ilion's manufacturing workforce in October, followed by a 30 day plant shutdown in December. Although tough, these decisions had a positive impact on year end inventories, allowing only a 12% increase in units over 1995, with closing results similar to 1994.

The following matrix provides a quick look at statistical specifics regarding 1996's performance when compared to the previous six years.

|                      | 1 <b>990</b> 1991<br><u>Actual Actual</u> | 1992<br><u>Actual</u> | 1993<br><u>Actual</u> | 1994<br><u>Actual</u> | 1995<br><u>Actual</u> | 1996<br><u>Actual</u> | 1997<br><u>Budget</u> |
|----------------------|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Unit Sales           | 397.0 490                                 | 581.0                 | 633.0                 | 661.5                 | 761.9                 | 615.8                 | 650.0                 |
| Sales Dollars (MM)   | 3. 117.3 130                              | 0.3 153.5             | 163.3                 | 176.2                 | 202.6                 | 178.5                 | 181.9                 |
| Gross Margin (MM)    | 39.0 25                                   | 35.6                  | 44.8                  | 53.8                  | 68.7                  | 52.1                  | 57.3                  |
| Gross Margin % Stles | <b>33.2</b> 19                            | 23.2                  | 27.4                  | 30.5                  | 33.9                  | 29.2                  | 31.5                  |
| Operating discourse  | (2.8)                                     | .5) .3                | 8.1                   | 14.0                  | 28.4                  | (1.3)                 | 19.7                  |
| Ending liversory     | 263.6 164                                 | 1.2 111.9             | 70.3                  | 95.2                  | 82.1                  | 92.0                  | 115.3                 |

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