



## Memorandum

**DATE:** SEPTEMBER 20, 2004  
**TO:** Distribution List  
**FROM:** David Chafin  
**RE:** Status of Capital Expenditures as of August 31, 2004

For the month ended August 31, 2004, year to date capital expenditures totaled \$2,899M compared to an annual budget of \$8,036M. Projects totaling \$7,019M have been authorized for spending in 2004. Shown below are projects authorized in August.

August 2004 Authorized Projects		
Location	Project	\$
Illion	M700 & 7 New Fire Control	\$ 1,746,436
Illion	Tooling for New Gun Boxes	58,000
Illion	M/870 & 1187 20 Ga M/M Rear Sight Base	13,375
	Total Illion	\$ 1,817,811
Mayfield	New 710 Receiver Tool for Extruded Receiver	\$ 52,000
Mayfield	Upgrade Laser Operating System	15,904
Mayfield	Model 710 Receiver Function Gauge	9,240
Mayfield	Plant Floor Covering	8,656
Mayfield	557 Bolt Tool	6,000
Mayfield	Break Room Electrical Expansion	5,700
Mayfield	Smooth Bolt Handle 710	4,800
Mayfield	Lead Containment Sump	3,960
	Total Mayfield	\$ 106,260
Lonoke	Phase 2, R&D Pilot Plant Facility	\$ 272,000
Lonoke	Rimfire AIM Primer Inspection	42,000
Lonoke	Modify Primer Lachaussee BC Press	24,500
	Total Lonoke	\$ 338,500
Etown	Security System Upgrade (3yr)	\$ 16,813
Etown	Buehler Isomet 4000 Precision Saw (5yr)	10,983
Etown	Thermal Analysis System Upgrade (LON)	8,100
	Total Etown	\$ 37,696
Madison	Tape Drive Replacement	\$ 10,000
Madison	4oz Beef Jerky Packaging Plates	9,000
	Total Madison	\$ 19,000
	Total August Authorizations	\$ 2,319,467

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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	\$737,000
	Total Ilion	\$737,000
Lonoke	Shotshell Buckshot Loader and Packer	\$384,300
Lonoke	Centerfire Unprimed Shell Inspection	251,700
Lonoke	Explosives Pilot Plant Facilities	66,000
	Total Lonoke	\$722,000
Madison	Parker	\$60,000
	Total Madison	\$60,000
	Total 2005 Carryover	\$1,509,000

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	\$5,308,962	\$1,290,015	\$4,018,947
Mayfield	300,000	300,414	96,296	204,118
Ada/Findlay	74,000	33,500	0	33,500
Lonoke	2,500,000	2,985,162	1,212,696	1,772,466
PMPd	150,000	142,392	-2,272	144,664
E-Town	126,000	134,796	20,619	114,177
Corp.	486,000	879,171	281,473	597,698
<b>Total Company</b>	<b>\$8,036,000</b>	<b>\$9,784,397</b>	<b>\$2,898,827</b>	<b>\$6,885,570</b>

Ilion's anticipated expenditures of \$5,309M includes \$1,771M for the model 105CTi project and \$1,009M for the M/700 & 7 New Fire Control project. Remaining expenditures in 2004 for the model 105CTi project and the M/700 & 7 trigger assembly project are \$1,277M and \$1,009M 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 \$394M. Projects with major impact include the Parker Project for \$250M, Sox Security Software for \$95M, John Galt

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Forecast System for \$45M, 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 August, total company authorized ROIC for 2004 projects is 76.5%. 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	\$2,961M	2149%	Sales
M700 Light Varmint Rifle Stock	Ilion	\$184M	721%	Lower material cost
SIMS (R3) Recoil Pad Conversion	Ilion	\$37M	25%	Higher gun price
Tooling for New Gun Boxes	Ilion	\$29M	51%	Lower material cost
Shotshell Buckshot Loader & Packer	Lonoke	\$1,074M	185%	Sales
5.56MM Linked Frang. Ammo Cap.	Lonoke	\$665M	125%	Sales

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

**Ilion**

For the month of August, capital expenditures were \$170M. Projects with major expenditures include the model 105CT project for \$76M, Water Tank Roof for \$58M, and the M870 Barrel Guide Ring for \$17M.

**Mayfield**

For August, capital expenditures totaled \$40M. Projects with major expenditures include the New Model 710 Receiver Tool for Extruded Receiver for \$16M, Magazine Box Alteration for \$10M and Plant Floor Covering for \$9M.

**Ada/Findlay**

For August, there were no expenditures.

**Lonoke**

For August, expenditures totaled \$165M. Projects with major expenditures include the 5.56mm Frangible Ammo Capability for \$33M, Upgrade Shotshell #422 Extruder Controls for \$22M, Shotshell Simplex Loader Electrical Upgrade for \$17, Centerfire Lead Kettle for \$16 and Shotshell Simplex Loader Transfer Units for \$16.

**Ilion — PMPd**

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

**Elizabethtown**

For August, expenditures totaled 9K, of which 8M related to Thermal Analysis System Upgrade.

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**Corporate**

For August, capital expenditures were \$46M. The Lucasware Voice Select System incurred expenditures of \$30M.

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

Description	Site	(1) Budget \$	(1) Approved GAR \$	Terms/ Payment Stream
New 710 Receiver Tool for Extruded Receiver	Mayfield	\$30,000	\$52,000	1/3 @ PO 1/3 Completion 1/3 Approval Net 45
Rimfire AIM Primer Inspection	Lonoke	\$0	\$42,000	Net 30
		\$30,000	\$94,000	

(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
Illion	2003	Barrel Cold Forging Machine #3	\$83,760	48,740	33.0%	Due October 2004
Illion	2003	Robotic Flat Receiver Polish	\$84,228	5,741	36.0%	Due November 2004
Illion	2003	Gun Drill	\$92,164	34,468	34.0%	Due November 2004
Illion	2002	M/1100 16 Gauge	\$138,806	40,883	321.0%	Completed, awaiting report at Corporate
Illion	2001	New 16 Gauge	25,840	111,940	836.0%	Submitted being reviewed by Corporate
Illion	2001	New Caliber Ultra Mag	32,870	117,873	962.0%	Submitted being reviewed by Corporate
Illion	2000	Rotary Machine Gun 1 Plates	175,200	24,850	45.0%	Submitted being reviewed by Corporate
Illion	1999	Barrel Machining Project	5,969,171	1,678,451	34.0%	Pending, to be completed 4th Qtr
Illion	1999	OUJ Project	578,600	166,310	170.0%	Due October 2004
Illion	1999	M/1167 3 1/2 Inch Super Mag	581,428	317,360	240.0%	Submitted being reviewed by Corporate
Illion	2000	Replace Miyano Lathe	782,734	16,382	31.0%	Due October 2004
Lonoke	2001	Centerfire Rifle Packing Automation	2,223,200	204,000	27.0%	Pending, to be completed 4th 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	38.0%	Pending, to be completed 4th Qtr
Lonoke	1999	Centerfire Rifle Machine Loader	160,000	25,000	52.0%	Complete, awaiting signature at plant.
Lonoke	2001	Centerfire Rifle Case Packing Equip.	165,800	0	17.0%	Pending, to be completed 4th Qtr
FMPd	2000	Cinemat-Molding Machine	187,647	25,496	227.8%	Pending, to be completed 4th Qtr