## **Ilion Firearms**

Preliminary Budget 2006



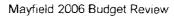
### General Assumptions

- 2006 production ~ 9,000 units lower than 2005 projections
- > Shore use 285,000 (comparable to '05 project

  Tillor 2.75 conference and project to the state of the stat
- - > 750 Woodsmaster (redesigned M/7400)
  - > R6 Auto loading Shotgun (12ga)
  - > 105 CTi Auto loading Shotgun (12ga)
  - In all, there are 54 new rifle SKU's (30,300 guns) & 17 new Skyttptii SKU's (44,322 guns)
- > New SPL Fire Control will be included on all polt action grass
- Steam will be supplied via temporary boilur system
- \$500 Lump Sum Payou: 9/10/06 to all hourly camplayees
- 3% salary increase effective WAX
- > S & K contract expires in May 06; transition to complete "piece price"

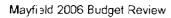
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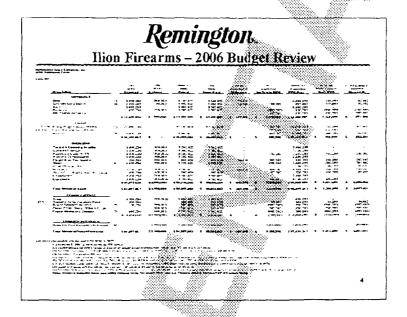
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### Remington. Ilion Firearms – 2006 Budget Review Ilion Firearms Manpower Dec 05 Proj. 12/31/06 Hourly: Direct Labor 559 545 <u>221</u> 780 Support <u>223</u> Total Hourly 768 Salary: Production 106 Non-Production (\*) 108 Total Salary 135 (\*) (2) new positions (Plant Manager, Gen'll Acetg Mgr 3

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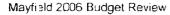
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## Material Cost Assumptions in 2006 Standards

- > Steel price increase of 10%
- Synthetic long stock unit price increase due to product mix (i.e. from ADL to XCR & SPS)
- Embellishment costs per gun increase over 165 budget (lower volume)
- S & K cost per standard bour increase over '95 budget (lower volume)

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## Changes in Material Costs From 2005 Spending

> Steel price increase

\$0,1 MM

> Change in mix of Synthetic Long Stocks

\$0.1 MM

> Embellishment Costs (\$500,000).

Volume 2005 Budget 29,577

Cost/Gun \$16.84

2005 Forecast 13,769 **5**36.18

2006 Budget 19,609

\$25.40





## Ilion Firearms - 2006 Budget Review

## Changes in Material Costs From 2005 Spending (cont'd)

≥ S&K:

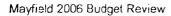
| Std Hours | Spending | Rate/Std Hi 2005 Budget | 103,737 | \$6.8MM | \$ 66 2006 Budget | 28,375 | \$2.5000 | \$ 92 \* Does not reflect "cash" outlay, reflects portion not assessed with "piece price"

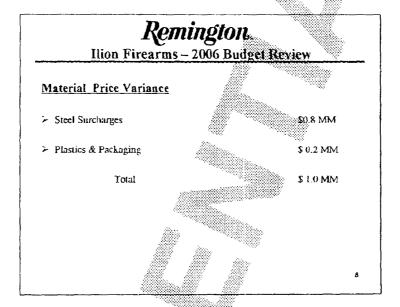
\*\* 2006 M-870 Express stock & fore self (ser) cost was increased by \$6 over P.O. price to more fairly account for a "fully burdened" cost

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### Labor Assumptions

- > Plant efficiencies budgeted at 70% (avg. for year).
- > Hourly wage lump sum payout of \$500 on 9/10/06
- > Budgeted direct labor overtime @ 12% (comparable to 2005 budget)
- > Direct labor headcount decreasing from 559 as of 12/31/05 to 545 employees as of 12/31/06
  - ❖ This includes the addition of (?) people for the new SPL fire control
    - = 7 machine operators & 2 builders

## Changes in Labor Cost from 2005 Spending

۴	Efficiency Improvement	(\$ 0.3 MM)
خز	\$500 Lump Sum Payout on 9/10/06 (3.3/2 months)*	> \$ 0.1 MM
خز	Full year impact of 2.75% wage increase in Sept '05	\$ 0.5 MM
<b>&gt;</b>	Direct Labor Overtime (à 12%	(\$ 0.3 MM)
۶	Manpower reduction of (14)*	(\$ 0.3 MM)
	Total Labor Cost Changes	(\$ 0.3 MM)

<sup>\*</sup> Budget as variance Sept - Dec



<sup>\*\*</sup> Net of additional 9 heads for SPL



### Overhead Assumptions

- 🔀 (2) new Salary positions (Plant Manager, General Accept Manager)
- > 3% Salary increase effective July 1, 2006
- > 11% increase in health care costs.
- Worker's Compensation costs slightly less than '45 levels
- Department spending @ '05 spending levels
- > Steam costs reflect -40% increase in fuel cost from 305 levels
  - > \$17/Klbs vs \$12/Klbs
- > 20+% increase in electricity costs (rate related)
- Maintenance costs @ 05 spending levels
- Freight cost increase based on fuel prices

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## Changes in Overhead Cost from 2005 Spending

		mct/(Tyect)
2 Salary Positions		3 02 MM
General Salary Increase	2000	\$ 0.2 MM
Health Care		\$ 0.7 MM
Worker's Comp		(\$ 0.1 MM)
401K Match		\$ 0.1 MM
Stcam*		\$ LIMM
Electricity		\$ 0.7 MM
Freight (Non-Raw Material)		\$ 0.3 MM

Total Overhead Cost Changes: \$ 3.2 MM

\* Reflects cost of fuel only, document include cost associated with temporary boiler

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## Remington

## Ilion Firearms - 2006 Budget Review

## Impact of Capitalized Variances

2006 Budget 2006 Budget 2006 Budget 2008 Budget

 Beginning Balance - 12/31/xx
 \$2.6 MM

 Standards Change - 1/1/xx
 (\$1.4 MM)

 Variances Incurred
 \$9.9 MM

 Variances Released To P&L
 (\$6.9 MM)

 Ending Inventory - 12/31/xx
 \$4.2 MM

Standards Change & Variances Incurred for 2006 not yet developed



## Inventory Adjustments

(\$ in millions)	'05 Fest	'06 Budget	Schunge
Scrap*	\$ 1.9	\$ 1.7	<b>(\$</b> 0.2)
Cycle Counts	\$ 0.2	\$ 0.2	\$
Physical Inv. Adj.	\$ 0.2	\$4.2	S
Excess/Obsolete**	\$ 0.9	<u>\$10.3</u>	(\$ 0.4)
Total Inv. Adjs.	\$ 3,2	\$2.6	(\$ 0.6)

(\*) 10% reduction in scrap from "05 lexels."

(\*\*) 05 includes provision for Q/U components & S&K related stores items

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## Non-Inventoriable Manufacturing Costs

(\$ in millions)	'05 Fcst	'06 Bodget	Schange
Warranty	\$ 2.3	\$ 2.4	+ <b>\$</b> -0.1
Project Op's Exp.	\$ 1.3	\$ 0.9	(\$ 0.4)
Other Period Cost	\$ 1.3	\$ 2.2	+\$ 0.9
Pcnsion/OPEB	<b>\$</b> 6.8	5 43	(\$ 2.0)
Total	\$11.7	\$10.3	(\$ 1.4)

3% increase in Warranty based on increased labor rates for RARC's.

Project Operations expense based on 106 Capital Hudget

Other Period Costs include rental & labor associated with temporary boiler for steam production of \$1.2MM in 106,3\$58M in legal fees and \$26M accruals in 105

Pension & OPEB expense based ou data from corporate



## Risk Assessment

- Meeting Production schedule
- Unpredictability of utility costs
- Additional cost associated with the SPL Fire Control Project
- > 5 & K (performance; impact of contract negotiations "piece price")

### Upside Assessment

- Volume Increase
- > Freight Cost containment &
- Lean Manufacturing Initiative