
QUARTERLY REPORT

For the period ended:

September 25, 2016



**REMINGTON OUTDOOR COMPANY,
INC.**

(Exact name of company as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

870 Remington Drive

P.O. Box 1776

Madison, North Carolina 27025-1776

(Address of principal executive offices) (Zip Code)

(336) 548-8700

(Company's telephone number, including area code)

REMINGTON OUTDOOR COMPANY, INC.

Quarterly Report

September 25, 2016

INDEX

	Page No.
Item 1. Consolidated Financial Statements.....	1
Notes to Consolidated Financial Statements.....	6
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.....	23
Item 3. Quantitative and Qualitative Disclosures About Market Risk.....	36
Item 4. Legal Proceedings.....	37
Item 5. Risk Factors.....	39

References in this report to (1) the terms “we,” “us,” “our,” the “Company,” “Remington Outdoor Company” and “Remington Outdoor” refer to Remington Outdoor Company, Inc. and its subsidiaries on a consolidated basis, (2) the term “FGI Holding” refers to FGI Holding Company, LLC, (3) the term “FGI Opco” refers to FGI Operating Company, LLC, (4) the term “FGI Finance” refers to FGI Finance, Inc., (5) the term “Remington” refers to Remington Arms Company, LLC and its direct and indirect subsidiaries, (6) the term “Remington UK” refers to Remington Outdoor (UK) Ltd., (7) the term “Outdoor Services” refers to Outdoor Services, LLC and (8) the terms “2020 Notes,” “Term Loan B,” “ABL,” “ABL Revolver” and “Promissory Note” have the respective meanings given to them in the “Notes to Consolidated Financial Statements – note 6 – Debt.”

FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated, all references to “dollars” and “\$” in this Quarterly Report are to, and all monetary amounts in this Quarterly Report are presented in, U.S. dollars. Unless otherwise indicated, the financial information contained in this Quarterly Report has been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”).

Certain monetary amounts, percentages and other figures included in this Quarterly Report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

In this Quarterly Report, we refer to and rely on publicly available information regarding our industry and our competitors. Although we believe the information is reliable, we cannot guarantee the accuracy and completeness of the information and have not independently verified it.

FORWARD-LOOKING STATEMENTS

Some of the statements in this Quarterly Report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements relating to trends in the operations, financial results, business and products of Remington Outdoor Company, as well as other statements including words such as “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend” and other similar expressions.

Forward-looking statements are made based upon management's current expectations and beliefs concerning future developments and their potential effects on us. Such forward-looking statements are not guarantees of future performance. The following important factors, and those important factors described elsewhere in our earlier quarterly and annual reports could affect our actual results and could cause such results to differ materially from estimates or expectations reflected in such forward-looking statements.

- Our ability to make scheduled payments of principal and interest on, or to refinance our obligations with respect to, our indebtedness, as well as our ability to comply with the covenants and restrictions contained in the instruments governing such indebtedness, will depend on our future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors beyond our control, including the responses of competitors, changes in customer inventory management practices, changes in customer and consumer buying patterns, regulatory developments and increased operating costs and capital expenditures, all of which could materially adversely affect our business.
- The degree to which we are leveraged could have important consequences, all of which could materially adversely affect our business, including the following: (i) our ability to obtain additional financing for working capital or other purposes in the future may be limited; (ii) a substantial portion of our cash flow from operations is dedicated to the payment of principal

and interest on our indebtedness, thereby reducing funds available for operations and growth; (iii) certain of our borrowings are at variable rates of interest, which could cause us to be vulnerable to increases in interest rates; and (iv) we may be more vulnerable to economic downturns and be limited in our ability to withstand competitive pressures.

- The development of rural property in many locations has curtailed or eliminated access to private and public lands previously available for hunting, and the continuation of the development of rural property could materially adversely affect our industry as well as our business and results of operations.
- A portion of our sales are seasonal. As a result of the seasonal nature of our sales, our historical working capital financing needs generally have exceeded cash provided by operations during certain parts of the year. Our ability to meet our debt service and other obligations depends in significant part on customers purchasing our products during the fall hunting season. Therefore, a decrease in demand during the fall hunting season for our higher priced, higher margin products would require us to further reduce costs or increase our reliance on borrowings under our credit facility to fund operations. If we are unable to reduce costs or increase our borrowings sufficiently to adjust to such a reduction in demand, our financial condition and results of operations could be adversely affected.
- Government orders, protocol and negotiations increase volatility and uncertainty in our results. Orders placed by the U.S. or foreign governments tend to be disproportionately large in value, which will affect net sales, the length of time that we carry inventory and other performance metrics from period-to-period. Procedures that we are required to follow relating to acquisition and negotiations can increase uncertainty in the contracting process, making it difficult for us to predict our supply and inventory needs.
- Commodity prices, including those for lead, copper, steel, brass, zinc, oil and natural gas can experience significant volatility primarily due to the global supply of and demand for the commodity as well as other factors such as the global economic environment. We currently purchase hedging instruments to hedge against price fluctuations of anticipated lead and copper purchases. However, we cannot assure you that our hedging activity will be effective risk management against significant volatility in the price of commodities, which could have a material adverse impact on our consolidated financial position, results of operations, or cash flows.
- We utilize numerous raw materials, including steel, lead, copper, zinc, plastics, gunpowder, and wood, as well as manufactured parts, which are purchased from one or a few suppliers. Any disruption in our relationship with suppliers of these materials could increase our cost of operations. Such a disruption may result from or be amplified by the volatility of and uncertainty in the U.S. and global financial markets.
- We face significant domestic and international competition and our competitors vary according to product line. Certain of these competitors are subsidiaries of large corporations with substantially greater financial resources and less leverage than we have. There can be no assurance that we will continue to compete effectively with all of our present competition, and our ability to so compete could be adversely affected by the degree to which we are leveraged.
- We are subject to business risks unique to companies engaged in supplying defense-related equipment and services to the U.S. government and other governments, including the use of indefinite delivery, indefinite quantity (“IDIQ”) contracts that are funded by government appropriations under which the customer places orders at its discretion. Our failure to realize anticipated revenues from IDIQ contracts, or the loss of, or a significant reduction in, government funding, for any program in which we participate, could have a material adverse effect on our sales and earnings and thus negatively affect our business, financial condition, results of operations or cash flows.

- The manufacture, sale and purchase of firearms, certain firearms parts/accessories and ammunition are subject to extensive governmental regulation on the federal, state and local levels. Changes in regulation could materially adversely affect our business by restricting the types of products we manufacture or sell or by imposing additional costs on us or our customers in connection with the manufacture or sale of our products. Regulatory proposals, even if never enacted, may affect firearms, certain firearms parts/accessories or ammunition sales as a result of consumer perceptions. While we do not believe that existing federal and state legislation relating to the regulation of firearms and ammunition will have a material adverse effect on our sales, no assurance can be given that more restrictive regulations, if proposed or enacted, will not have a material adverse effect on us in the future.
- Our operations expose us to potential liability under regulations relating to anti-corruption, trade controls, economic sanctions and similar laws. Our ability to comply with these laws is dependent upon sufficient internal procedures and monitoring of the activity at both the corporate level and on the level of individual employees or other agents. While we believe we are in compliance with applicable regulations, a breach or investigation of violations could result in civil or criminal liability or a loss of key contracts.
- Product recalls, class action and product liability litigation, as well as unfavorable publicity or public perception of the firearms industry generally, could adversely impact our operating results and reputation and may result in the delayed release of new products and offerings. Failure to maintain the strength of our brands may affect our market position and thus our financial condition.
- The Company has received various incentives for the development, construction and renovation of buildings and equipment in Huntsville, Alabama and Lonoke, Arkansas. These incentives are subject to certain claw back provisions. These provisions include commitments to achieve incentive targets associated with employment, capital and payroll. The inability to achieve these targets may require repayment of certain funds already received and thus impact our financial condition.
- Realignment activities related to the closure of any of our facilities or movements of our production lines into our Huntsville, Alabama facility will require additional attention and resources, which could divert management's focus from our continuing operations and delay our ability to ship products and provide services to certain customers.
- Concerns about presidential, congressional, and state elections and legislature and policy shifts resulting from those elections can affect the demand for our products. Assessments regarding the current Presidential election cycle and the results of that election could affect our business or perceptions about our business. In addition, speculation surrounding increased gun control at the federal, state, and local level and heightened fears of terrorism and crime can affect consumer demand for our products.
- The United Kingdom's decision to leave the European Union has caused, and is anticipated to continue to cause, significant new uncertainties and instability in the financial markets, which may affect the Company as a whole. These uncertainties could have an adverse effect on our business, financial condition and results of operations.

Any forward-looking statement speaks only as of the date on which it is made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Remington Outdoor Company, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Dollars in Millions, Except for Number of Stock Shares)

	September 25, 2016	December 31, 2015	September 27, 2015
	<i>Unaudited</i>		<i>Unaudited</i>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 116.4	\$ 118.4	\$ 117.4
Trade Receivables, net of \$1.0, \$0.8, and \$1.1 allowance for bad debts, respectively	159.5	99.2	161.9
Inventories, net	262.6	217.7	217.3
Prepaid Expenses and Miscellaneous Receivables	11.9	11.8	11.1
Assets Held for Sale	2.2	1.5	-
Deferred Tax Assets	-	-	41.4
Total Current Assets	552.6	448.6	549.1
Property, Plant and Equipment, net of accumulated depreciation	238.3	242.1	248.8
Goodwill	79.9	80.1	80.2
Intangible Assets, net of accumulated amortization	92.0	95.6	98.0
Noncurrent Deferred Tax Assets	0.1	-	13.1
Other Assets	18.1	18.8	17.4
Total Assets	\$ 981.0	\$ 885.2	\$ 1,006.6
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current Liabilities			
Accounts Payable	\$ 87.3	\$ 85.0	\$ 99.6
Short-Term Borrowings	6.0	7.4	6.3
Current Portion of Product Liability	10.1	9.0	6.7
Accrued Income Tax Provision	2.9	-	-
Accrued Expenses	134.0	118.4	133.7
Total Current Liabilities	240.3	219.8	246.3
Long-Term Debt, net of current portion	856.2	813.4	838.9
Retiree Benefits, net of current portion	77.7	77.9	62.0
Product Liability, net of current portion	17.2	17.2	20.8
Deferred Tax Liabilities	35.1	34.0	-
Other Long-Term Liabilities	50.6	51.5	53.7
Total Liabilities	1,277.1	1,213.8	1,221.7
Commitments and Contingencies (Note 13)			
Common Stock, Issued 351,623, 351,623 and 342,771 shares, respectively	0.2	0.2	0.2
Less: Treasury Stock	(0.2)	(0.2)	(0.2)
Paid-in Capital	12.1	10.7	10.0
Accumulated Other Comprehensive Loss	(80.0)	(91.8)	(74.6)
Accumulated Deficit	(228.2)	(247.1)	(150.1)
Total Parent's Deficit	(296.1)	(328.2)	(214.7)
Noncontrolling Interest Deficit	-	(0.4)	(0.4)
Total Stockholders' Deficit	(296.1)	(328.6)	(215.1)
Total Liabilities and Stockholders' Deficit	\$ 981.0	\$ 885.2	\$ 1,006.6

The accompanying notes are an integral part of these consolidated financial statements.

Remington Outdoor Company, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
(Dollars in Millions, Except for Number of Stock Shares)

	For the three months ended		For the nine months ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Net Sales	\$ 221.7	\$ 193.9	\$ 644.0	\$ 597.3
Cost of Goods Sold	161.1	149.4	470.0	455.8
Gross Profit	60.6	44.5	174.0	141.5
Selling, General and Administrative Expenses	31.0	40.2	88.1	138.4
Research and Development Expenses	3.6	4.2	10.6	13.1
Impairment Charges	2.3	-	2.3	-
Other Expense	1.1	2.5	3.4	6.4
Operating Income (Loss)	22.6	(2.4)	69.6	(16.4)
Interest Expense	14.6	15.9	45.6	45.9
Income (Loss) Before Income Taxes and Noncontrolling Interests	8.0	(18.3)	24.0	(62.3)
Income Tax Expense (Benefit)	(1.5)	(7.0)	4.7	(22.9)
Net Income (Loss)	9.5	(11.3)	19.3	(39.4)
Add: Net (Income) Loss Attributable to Noncontrolling Interest	-	0.3	(0.2)	0.3
Net Income (Loss) Attributable to Controlling Interest	\$ 9.5	\$ (11.0)	\$ 19.1	\$ (39.1)
Net Income (Loss) Applicable to Common Stock	\$ 9.5	\$ (11.0)	\$ 19.1	\$ (39.1)
Net Income (Loss) Per Common Share, Basic	\$ 27.35	\$ (62.49)	\$ 55.06	\$ (229.10)
Net Income (Loss) Per Common Share, Diluted	\$ 27.35	\$ (62.49)	\$ 55.06	\$ (229.10)
Weighted Average Number of Shares Outstanding, Basic	347,675	175,269	347,130	170,532
Weighted Average Number of Shares Outstanding, Diluted	347,675	175,269	347,130	170,532

Net Sales are presented net of Federal Excise taxes of \$20.7 and \$16.4 for the three months ended September 25, 2016 and September 27, 2015, respectively, and \$56.2 and \$49.3 for the six months ended September 25, 2016 and September 27, 2015, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

Remington Outdoor Company, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(Dollars in Millions)

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>September 25,</u> <u>2016</u>	<u>September 27,</u> <u>2015</u>	<u>September 25,</u> <u>2016</u>	<u>September 27,</u> <u>2015</u>
Net Income (Loss)	\$ 9.5	\$ (11.3)	\$ 19.3	\$ (39.4)
Other Comprehensive Income (Loss):				
Net Foreign Currency Translation Adjustments	0.1	-	(0.3)	-
Net Derivative Gains (Losses), net	5.8	(3.4)	12.1	(4.2)
Total Other Comprehensive Income (Loss)	<u>5.9</u>	<u>(3.4)</u>	<u>11.8</u>	<u>(4.2)</u>
Comprehensive Income (Loss)	15.4	(14.7)	31.1	(43.6)
Add: Comprehensive Loss (Income) Attributable to Noncontrolling Interests	-	0.3	(0.2)	0.3
Total Comprehensive Income (Loss) Attributable to Controlling Interests	<u>\$ 15.4</u>	<u>\$ (14.4)</u>	<u>\$ 30.9</u>	<u>\$ (43.3)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Remington Outdoor Company, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in Millions)

	For the nine months ended September 25, 2016	For the nine months ended September 27, 2015
<u>Operating Activities</u>		
Net Income (Loss)	\$ 19.3	\$ (39.4)
Adjustments:		
Impairment Charges	2.3	-
Depreciation	17.5	18.5
Amortization	3.4	4.0
Retirement Plans' Expense (Income)	0.3	(1.1)
Deferred Income Taxes	1.1	(27.9)
Share Based Compensation Charges	1.3	2.6
Excess Tax Benefits Realized on Exercised Stock Options	-	(2.3)
Other Non-Cash Charges	5.5	7.1
Changes in Operating Assets and Liabilities:		
Trade Receivables	(60.4)	(51.5)
Inventories, net	(44.6)	2.3
Prepaid Expenses and Other Assets	3.3	23.3
Accounts Payable	1.6	29.3
Accrued Income Tax Provision	3.1	(0.5)
Contributions to Retirement Plans	(0.4)	(0.3)
Other Liabilities	26.8	2.8
Net Cash Used in Operating Activities	<u>(19.9)</u>	<u>(33.1)</u>
<u>Investing Activities</u>		
Purchase of Property, Plant and Equipment	(21.2)	(33.5)
Proceeds from Sale of Subsidiary, net	0.8	9.2
Proceeds from Sale of Property, Plant and Equipment	1.5	-
Net Cash Used in Investing Activities	<u>(18.9)</u>	<u>(24.3)</u>
<u>Financing Activities</u>		
Proceeds from Revolving Credit Facilities	261.5	189.3
Payments on Revolving Credit Facilities	(219.8)	(156.6)
Distribution	-	(48.6)
Principal Payments on Debt	(4.3)	(4.9)
Proceeds from Exercised Stock Options	-	0.4
Acquisition of Stock	-	9.5
Excess Tax Benefits Realized for Stock and Options	-	2.3
Payment of Stock Dividends	(0.2)	-
Proceeds from State and Local Incentives	2.2	17.5
Book Overdraft	(2.2)	7.3
Net Cash Provided by Financing Activities	<u>37.2</u>	<u>16.2</u>
Effect of Exchange Rate Changes on Cash	(0.4)	-
Change in Cash and Cash Equivalents	(2.0)	(41.2)
Cash and Cash Equivalents at Beginning of Period	118.4	158.6
Cash and Cash Equivalents at End of Period	<u>\$ 116.4</u>	<u>\$ 117.4</u>
Supplemental Cash Flow Information:		
Cash Paid During the Period for:		
Interest	\$ 35.6	\$ 30.8
Income Taxes, Net of Refunds	(0.2)	(20.4)
Noncash Financing and Investing Activities:		
Accrued Capital Expenditures	3.4	5.6
Capital Lease Obligations Incurred	-	-

The accompanying notes are an integral part of these consolidated financial statements.

Remington Outdoor Company, Inc. and Subsidiaries
Condensed Consolidated Statement of Stockholders' Equity (Deficit) and Accumulated Comprehensive Income (Loss) (Unaudited)
(Dollars in Millions)

	Common Stock	Treasury Stock	Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Controlling Interest Stockholders' Equity (Deficit)	Non- Controlling Interest	Total Stockholders' Equity (Deficit)
Balance, January 1, 2016	\$ 0.2	\$ (0.2)	\$ 10.7	\$ (91.8)	\$ (247.1)	\$ (328.2)	\$ (0.4)	\$ (328.6)
Net Income					19.1	19.1	0.2	19.3
Other Comprehensive Income				11.8		11.8		11.8
Share-Based Compensation			1.3			1.3		1.3
Dissolution of Noncontrolling Interest					(0.2)	(0.2)	0.2	-
Stock Subscription		-	0.1		-	0.1		0.1
Balance, September 25, 2016	<u>\$ 0.2</u>	<u>\$ (0.2)</u>	<u>\$ 12.1</u>	<u>\$ (80.0)</u>	<u>\$ (228.2)</u>	<u>\$ (296.1)</u>	<u>\$ -</u>	<u>\$ (296.1)</u>
	Common Stock	Treasury Stock	Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Controlling Interest Stockholders' Equity (Deficit)	Non- Controlling Interest	Total Stockholders' Equity (Deficit)
Balance, January 1, 2015	\$ 0.2	\$ -	\$ 17.5	\$ (70.4)	\$ (85.0)	\$ (137.7)	\$ (0.1)	\$ (137.8)
Net Loss					(39.1)	(39.1)	(0.3)	(39.4)
Other Comprehensive Loss				(4.2)		(4.2)		(4.2)
Share-Based Compensation			2.6			2.6		2.6
Exercise of Stock Options			0.4			0.4		0.4
Tax Benefits Related to Stock Plans			2.3			2.3		2.3
Net Losses Exceed Retained Earnings			-		0.1	0.1		0.1
Stock Issuance			9.8			9.8		9.7
Stock Subscription			(0.1)			(0.1)		
Distribution			(22.5)		(26.1)	(48.6)		(48.6)
Acquisition of Stock		(0.2)				(0.2)		(0.2)
Balance, September 27, 2015	<u>\$ 0.2</u>	<u>\$ (0.2)</u>	<u>\$ 10.0</u>	<u>\$ (74.6)</u>	<u>\$ (150.1)</u>	<u>\$ (214.7)</u>	<u>\$ (0.4)</u>	<u>\$ (215.1)</u>

The accompanying notes are an integral part of these consolidated financial statements.

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

1. Basis of Presentation

The accompanying unaudited interim condensed and consolidated financial statements include those of Remington Outdoor Company, Inc. (“Remington Outdoor Company,” “Remington Outdoor,” or the “Company”) and its subsidiaries. Remington Outdoor owns 100% of FGI Holding Company, LLC (“FGI Holding”), which in turn owns 100% of FGI Operating Company, LLC (“FGI Opco”). FGI Opco includes the financial results of Remington Arms Company, LLC (“Remington”), Barnes Bullets, LLC (“Barnes”) and RA Brands, L.L.C. FGI Opco also owns 100% of FGI Finance, Inc. (“FGI Finance”). Remington, in turn, owns Advanced Armament Corp., LLC (“AAC”) and Remington Outdoor (UK) Ltd. (“Remington UK”).

The accompanying unaudited interim condensed and consolidated financial statements have been prepared (i) in accordance with GAAP applicable to interim financial statements and (ii) consistent with the rules and regulations of the SEC for reporting interim financial information. Pursuant to such rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted. The unaudited interim condensed and consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company and its subsidiaries as of and for the year ended December 31, 2015. These unaudited interim statements include all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the periods presented. The results for the three and nine month periods may not be indicative of a full year’s result.

The Company uses a calendar year/5-4-4 based fiscal month reporting period. Under this fiscal cycle, each reporting quarter contains approximately 13 weeks of operations and ends on the last Sunday of the quarter, except for the last quarter which ends on December 31.

2. Fair Value Measurements

ASB ASC 820 “Fair Value Measurements and Disclosures” defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date (that is, an exit price). The exit price is based on the amount that the holder of the asset or liability would receive or need to pay in an actual transaction (or in a hypothetical transaction if an actual transaction does not exist) at the measurement date. In some circumstances, the entry and exit price may be the same; however, they are conceptually different. The accounting standards also establish a three-level hierarchy that prioritizes the inputs used in fair value measurements. The hierarchy consists of three broad levels as follows:

- Level 1 – Quoted market prices in active markets for identical assets or liabilities;
- Level 2 – Observable inputs other than quoted prices within Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These include certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

Recurring Fair Value Measurements

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of September 25, 2016 and the effects of master netting agreements:

	Level 1	Level 2	Level 3	Netting Adjustments	Net Fair Value
Assets:					
Commodity Derivative Contracts	\$ -	\$ 0.3	\$ -	\$ (0.2)	\$ 0.1
Interest Rate Derivative Contracts	-	0.9	-	(0.9)	-
Total Assets	\$ -	\$ 1.2	\$ -	\$ (1.1)	\$ 0.1
Liabilities:					
Commodity Derivative Contracts	\$ -	\$ 0.2	\$ -	\$ (0.2)	\$ -
Interest Rate Derivative Contracts	-	1.5	-	(0.9)	0.6
Total Liabilities	\$ -	\$ 1.7	\$ -	\$ (1.1)	\$ 0.6

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2015 and the effects of master netting agreements:

	Level 1	Level 2	Level 3	Netting Adjustments	Net Fair Value
Assets:					
Interest Rate Derivative Contracts	\$ -	\$ 1.7	\$ -	\$ (1.5)	\$ 0.2
Total Assets	\$ -	\$ 1.7	\$ -	\$ (1.5)	\$ 0.2
Liabilities:					
Commodity Derivative Contracts	\$ -	\$ 11.6	\$ -	\$ -	\$ 11.6
Interest Rate Derivative Contracts	-	1.5	-	(1.5)	-
Total Liabilities	\$ -	\$ 13.1	\$ -	\$ (1.5)	\$ 11.6

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of September 27, 2015 and the effects of master netting agreements:

	Level 1	Level 2	Level 3	Netting Adjustments	Net Fair Value
Assets:					
Interest Rate Derivative Contracts	\$ -	\$ 0.8	\$ -	\$ (0.8)	\$ -
Total Assets	\$ -	\$ 0.8	\$ -	\$ (0.8)	\$ -
Liabilities:					
Commodity Derivative Contracts	\$ -	\$ 16.1	\$ -	\$ -	\$ 16.1
Interest Rate Derivative Contracts	-	1.6	-	(0.8)	0.8
Total Liabilities	\$ -	\$ 17.7	\$ -	\$ (0.8)	\$ 16.9

The fair values of the Company's derivative contracts are determined using standard valuation models and observable market inputs which are classified as Level 2 inputs. Inputs used in the valuation models include spot and future prices, interest rates, forward rates, and discount rates that are based on London Inter Bank Offered Rate ("LIBOR") and U.S. Treasury rates. Refer to note 14.

All of the Company's derivative instruments are currently subject to master netting agreements which allow gain and loss positions with the same counterparty to be netted when settled. The fair values of all derivative instruments are presented on a net basis on the condensed consolidated balance sheet.

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

Nonrecurring Fair Value Measurements

The following table presents assets that were measured at fair value on a nonrecurring basis for the year ended December 31, 2015 and the subsequent fair value as of September 25, 2016:

	Fair Value at December 31, 2015	Subsequent Fair Value Using Level 3 Inputs	2016 Impairment Charge
Property, Plant and Equipment ¹	\$ 4.5	\$ 2.2	\$ 2.3
Total	\$ 4.5	\$ 2.2	\$ 2.3

¹ During 2016, the Company recognized a \$2.3 impairment charge related to the building and real property held for sale at Mayfield, Kentucky. The Company estimated the idle facility's fair value was \$2.2 after it was determined that the facility's best and highest use would be in commercial development. Its fair value was estimated using recent transaction prices from the local commercial real estate market as its unobservable inputs.

Other Fair Value Measurements and Concentrations of Credit Risk

Due to their liquid nature, the carrying values of cash and cash equivalents, trade receivables, accounts payable and other accrued liabilities are considered representative of their fair values. The Company's debt had an estimated fair value of \$792.4, \$637.9, and \$805.9 as of September 25, 2016, December 31, 2015, and September 27, 2015, respectively, and a carrying value of \$877.0, \$839.1, and \$864.6 as of September 25, 2016, December 31, 2015, and September 27, 2015, respectively. The fair value of the Company's fixed rate notes was measured using the active quoted trading price of its notes at September 25, 2016, December 31, 2015, and September 27, 2015, which is considered a Level 2 input.

The Company also has concentrations of credit risk with certain customers. Approximately 16.6% and 8.7% of total sales from all reportable business segments for the three months ended September 25, 2016 and September 27, 2015, respectively, and 10.6% and 9.3% of total sales for the nine months ended September 25, 2016 and September 27, 2015, respectively, consisted of sales made to one customer.

3. Inventories, net

	September 25, 2016	December 31, 2015	September 27, 2015
Raw Materials	\$ 64.1	\$ 62.1	\$ 64.9
Semi-Finished Products	44.5	39.7	39.4
Finished Products	154.0	115.9	113.0
Total	\$ 262.6	\$ 217.7	\$ 217.3

4. Intangible Assets

Goodwill

The changes in the carrying amount of goodwill for the periods ended September 25, 2016, December 31, 2015, and September 27, 2015 by reporting segment are as follows:

Goodwill by Segment:	September 25, 2016	Changes ¹	December 31, 2015	September 27, 2015
Firearms	\$ 43.2	\$ -	\$ 43.2	\$ 43.2
Ammunition	23.9	-	23.9	23.9
All Other	12.8	(0.2)	13.0	13.1
Total Goodwill	\$ 79.9	\$ (0.2)	\$ 80.1	\$ 80.2

¹ Goodwill decreased by \$0.2 due to changes in foreign currency exchange rates.

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

Intangible Assets Other Than Goodwill

The following table summarizes the carrying amounts of intangible assets other than goodwill for the periods ended September 25, 2016, December 31, 2015, and September 27, 2015:

	September 25, 2016	December 31, 2015	September 27, 2015
<i>Indefinite-Lived Intangible Assets:</i>			
Trademarks	\$ 67.7	\$ 67.6	\$ 68.7
<i>Definite-Lived Intangible Assets:</i>			
Customer Relationships	22.5	25.5	26.5
Developed Technology	1.5	2.1	2.3
Other	0.3	0.4	0.5
Total Intangible Assets Other than Goodwill	\$ 92.0	\$ 95.6	\$ 98.0

The following table summarizes changes related to the carrying amounts of the Company's definite-lived intangible assets for the nine months ended September 25, 2016:

Definite-Lived Intangible Assets:	September 25, 2016	Changes ¹	December 31, 2015
Customer Relationships, net	\$ 22.5	\$ (3.0)	\$ 25.5
Developed Technology, net	1.5	(0.6)	2.1
Other, net ²	0.3	(0.1)	0.4
Total Definite-Lived Intangible Assets, net	\$ 24.3	\$ (3.7)	\$ 28.0

¹ Amortization expense of intangible assets was \$1.0 and \$1.3 for the three months ended September 25, 2016 and September 27, 2015, respectively, and \$3.4 and \$4.0 for the nine months ended September 25, 2016 and September 27, 2015, respectively. The remainder of the changes related to foreign currency translation adjustments.

² Represents patents, in-process technology and non-compete agreements.

5. Accrued Liabilities

Accrued Liabilities consisted of the following at:

	September 25, 2016	December 31, 2015	September 27, 2015
Product Safety Reserve	\$ 10.4	\$ 10.9	\$ 11.1
Settlement Reserve	24.2	26.1	26.6
Excise Tax	19.6	18.1	16.2
Marketing	18.0	15.0	16.0
Other	61.8	48.3	63.8
Total	\$ 134.0	\$ 118.4	\$ 133.7

6. Debt

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, "Presentation of Debt Issuance Costs". The new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This guidance was effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The Company implemented the new guidance beginning in the first quarter of 2016 and all prior period information has been retrospectively adjusted.

The effect of the change on the financial statement line items was to reduce assets and long-term debt by \$14.8, \$18.3 and \$19.4 as of September 25, 2016, December 31, 2015, and September 27, 2015, respectively.

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

In accordance with ASU 2015-03, the Company’s long-term debt consisted of the following as of September 25, 2016, December 31, 2015 and September 27, 2015:

September 25, 2016			
	Total Debt	Debt Issuance Costs	Total Debt Net of Debt Issuance Costs
7.875% Senior Secured Notes due 2020 (the “2020 Notes”)	\$ 250.0	\$ (5.2)	\$ 244.8
Seven Year Term Loan B (the “Term Loan B”)	557.2	(7.6)	549.6
Credit Facility (the “ABL Revolver” or “ABL”)	57.1	(2.0)	55.1
Promissory Note	12.5	-	12.5
Other Debt ¹	0.2	-	0.2
Subtotal	\$ 877.0	\$ (14.8)	\$ 862.2
Less: Current Portion	(6.0)	-	(6.0)
Total	\$ 871.0	\$ (14.8)	\$ 856.2

December 31, 2015			
	Total Debt	Debt Issuance Costs	Total Debt Net of Debt Issuance Costs
2020 Notes	\$ 250.0	\$ (6.1)	\$ 243.9
Term Loan B	559.6	(9.6)	550.0
ABL Revolver	15.4	(2.6)	12.8
Promissory Note	12.5	-	12.5
Other Debt ¹	1.6	-	1.6
Subtotal	\$ 839.1	\$ (18.3)	\$ 820.8
Less: Current Portion	(7.4)	-	(7.4)
Total	\$ 831.7	\$ (18.3)	\$ 813.4

September 27, 2015			
	Total Debt	Debt Issuance Costs	Total Debt Net of Debt Issuance Costs
2020 Notes	\$ 250.0	\$ (6.4)	\$ 243.6
Term Loan B	562.3	(10.2)	552.1
ABL Revolver	39.2	(2.8)	36.4
Promissory Note	12.5	-	12.5
Other Debt ¹	0.6	-	0.6
Subtotal	\$ 864.6	\$ (19.4)	\$ 845.2
Less: Current Portion	(6.3)	-	(6.3)
Total	\$ 858.3	\$ (19.4)	\$ 838.9

¹ Other Debt consists of borrowings under short-term financings for insurance premiums and capital lease obligations.

7.875% Senior Secured Notes due 2020

The 2020 Notes, co-issued by FGI Opco and FGI Finance (the “Issuers”) are guaranteed by Remington Outdoor, FGI Holding and each of FGI Opco’s wholly-owned domestic restricted subsidiaries that are borrowers or guarantors under the ABL and Term Loan B (collectively, the “Guarantors”). Interest is payable on the 2020 Notes semi-annually on May 1 and November 1 of each year. The Issuers may redeem some or all of the 2020 Notes in whole or in part including accrued and unpaid interest at the prices set forth in the indenture governing the 2020 Notes.

Term Loan B

The Term Loan B agreement was entered into by FGI Opco, as the borrower, and is guaranteed by FGI Holding and each of FGI Opco’s wholly-owned direct and indirect domestic subsidiaries, excluding Outdoor Services. Borrowings under the Term Loan B bear interest at an annual rate of either (a) the LIBOR rate (with a

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

floor of 1.25%) plus a spread or (b) the base rate (with a floor of 2.25%) plus a spread. The Term Loan B has annual amortization payments due each year in an amount equal to 1% of the original principal balance thereof, with the balance due at the April 2019 maturity date. FGI Opco may voluntarily prepay the Term Loan B in whole or in part without premium or penalty. The Term Loan B also had an accordion feature that has been exercised on two occasions.

At September 25, 2016, the weighted average interest rate on the Term Loan B was 5.5%.

ABL Revolver

The ABL Revolver is a \$225.0 Asset-Based Revolving Credit Facility, including sub-limits for letters of credit and swingline loans, which has a June 2019 maturity. Borrowings under the ABL Revolver bear interest at an annual rate of either (a) the LIBOR rate plus a spread or (b) the base rate plus a spread. The LIBOR and base rate spreads fluctuate based on the amount of available borrowing capacity under the ABL Revolver as provided in the ABL Revolver. The ABL Revolver includes an unused line fee of 0.375% that will be charged at an annual rate to be paid monthly in arrears. FGI Opco will pay a fee on letters of credit equal to the applicable LIBOR margin and a fronting fee equal to 0.125% per annum, in each case to be paid monthly in arrears.

As of September 25, 2016, the Company had \$57.1 of outstanding borrowings under the ABL Revolver with a 2.99% weighted average interest rate. At September 25, 2016, the Company had the ability to borrow an additional amount of approximately \$120.1 under the ABL Revolver after taking into account the \$33.75 minimum availability condition (the “Excess Availability”). If the Excess Availability falls below \$33.75, the Company will be required to comply with certain restrictive covenants including covenants related to permitted investments, repurchase of capital stock, incurrence of indebtedness, sales of assets and dividend distributions. In addition, if the Excess Availability falls below \$22.5, lenders have the right to enforce collections and amounts owed to FGI Opco on certain accounts and collateral.

Outstanding standby letters of credit at September 25, 2016 were approximately \$14.1.

Promissory Note

In February 2014, the Company entered into a Promissory Note (the “Promissory Note”) with the city of Huntsville, Alabama for \$12.5. Borrowings from the Promissory Note bear interest at an annual rate of 5.0% per annum. The Promissory Note has an eleven-year term with annual amortization payments due each year beginning on the second anniversary of the issuance equal to 10% of the original principal balance. If the Company meets certain employment goals for the year preceding the principal and interest payment dates, the annual principal and related interest for that payment period will be forgiven. As of December 31, 2015, the Company had met the criteria for the year preceding and no principal and interest payments are due in 2016.

Other Debt

Other debt consists of an unsecured, fixed interest agreement for financing premiums on the Company’s insurance policy. The interest rate under this annual agreement is 3.13% and the agreement matures in November 2016.

The Company was in compliance with its debt covenants at September 25, 2016.

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

7. Stock Compensation

Restricted Stock/Restricted Units

There were no changes in the restricted common unit/shares for the nine months ended September 25, 2016 as compared to the year ended December 31, 2015:

	Restricted Common Units/Shares Outstanding	Weighted-Average Grant Date Fair Value	Units/Shares Vested
Balance at December 31, 2015	9,469	\$ 2,023.74	7,236
Balance at September 25, 2016	9,469	\$ 2,023.74	7,800

Compensation expense related to restricted share incentive awards was approximately \$0.3 and \$0.7 for the three and nine months ended September 25, 2016, respectively. Compensation expense related to restricted share incentive awards was approximately \$0.4 and \$2.5 for the three and nine months ended September 27, 2015. The compensation expense is included in Other Expense on the consolidated statement of operations. The Company expects to recognize an additional \$1.2 in compensation expense through 2017 for the non-vested restricted shares.

Stock Options

On May 14, 2008, the Company’s Board of Directors (the “Board”) adopted the Remington Outdoor Company, Inc. 2008 Stock Incentive Plan (formerly the American Heritage Arms, Inc. 2008 Stock Incentive Plan, as amended and restated through December 31, 2013) (the “Plan”). The Plan is designed to provide a means by which certain current employees, officers, non-employee directors and other individual service providers may be given an opportunity to benefit from increases in the value of Remington Outdoor common stock (the “Common Stock”), through the grant of awards. Remington Outdoor, by means of the Plan, seeks to retain the services of such eligible persons and to provide incentives for such persons to exert maximum efforts for the success of Remington Outdoor and its subsidiaries. In the first quarter of 2016, the Board amended the Plan to increase the maximum number of Common Stock awards that may be granted under the Plan from 48,500 to 56,000. No other changes were made to the Plan.

The awards under the Plan may be in the form of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards and stock unit awards. The maximum aggregate number of shares of Common Stock that may be issued under all awards granted to participants under the Plan is 56,000 shares, including 1,234 shares which are restricted shares and not stock options, subject to certain adjustments as set forth in the Plan.

Also on May 14, 2008, the Board adopted the form of Nonqualified Stock Option Award Agreement (the “Form Award Agreement”). The Form Award Agreement outlines terms relating to stock option awards issued under the Plan, including (I) the exercise price per share of each option granted, which shall be the fair market value of a share of the Common Stock on the date of grant (as defined in the Plan), (ii) the vesting schedule of the options granted, and (iii) acceleration provisions upon the occurrence of a change in control, termination of employment without cause or termination of employment for good reason.

The Company recognized approximately \$0.1 and \$0.6 of compensation expense for the three and nine months ended September 25, 2016, respectively. The Company recognized zero and \$0.1 of compensation expense for each of the three and nine months ended September 27, 2015 as a result of option modifications related to the departure of certain employees. The Company expects to recognize \$1.3 in additional compensation expense through 2020 related to the outstanding options.

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

A summary of the stock option activity for the Plan for the nine months ended September 25, 2016 is as follows:

	Number of Awards	Weighted-Average Exercise Price
Awards outstanding at December 31, 2015	665	\$ 492.26
Awards Granted	34,453	\$ 56.99
Awards Forfeited	966	\$ 56.99
Awards outstanding at September 25, 2016	34,152	\$ 65.47
Awards vested at September 25, 2016	7,708	\$ 94.54
Shares available for grant at September 25, 2016	4,502	

8. Stockholders' Equity

The Company is authorized to issue 200,000 shares of \$0.01 par value preferred stock as approved by the Board. As of September 25, 2016, there were 190,000 shares of preferred stock approved for issuance as Series A preferred stock, with no other approved classes of preferred stock issued or outstanding. There were 186,977 shares issued and zero shares outstanding of the Company's Series a preferred stock for all periods presented. All issued preferred shares are held in treasury.

The Company is also authorized to issue 400,000 shares of \$0.01 par value common stock. There were no changes in the Company's common stock for the nine months ended September 25, 2016:

Common Stock	Issued	Held in Treasury	Outstanding
Shares of Common Stock at December 31, 2015	351,623	(685)	350,938
Shares of Common Stock at September 25, 2016	351,623	(685)	350,938

9. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) ("OCI") and their related tax effects for the three months ended September 25, 2016 and September 27, 2015 are as follows:

Three Months Ended September 25, 2016	Before Taxes	Taxes	After Taxes
Foreign currency translation adjustments ^{1,2}	\$ 0.1	\$ -	\$ 0.1
Net derivatives: ³			
Net unrealized gains (losses) recognized in OCI	4.1	-	4.1
Net (gains) losses reclassified into earnings	1.7	-	1.7
Net derivative gains (losses) ²	\$ 5.8	\$ -	\$ 5.8
Other Comprehensive Income (Loss) ²	\$ 5.9	\$ -	\$ 5.9
Three Months Ended September 27, 2015			
Foreign currency translation adjustments ^{1,2}	\$ -	\$ -	\$ -
Net derivatives: ³			
Net unrealized gains (losses) recognized in OCI	(8.1)	3.1	(5.0)
Net (gains) losses reclassified into earnings	2.5	(0.9)	1.6
Net derivative gains (losses) ²	\$ (5.6)	\$ 2.2	\$ (3.4)
Other Comprehensive Income (Loss) ²	\$ (5.6)	\$ 2.2	\$ (3.4)

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

The components of OCI and their related tax effects for the nine months ended September 25, 2016 and September 27, 2015 are as follows:

Nine Months Ended September 25, 2016	Before Taxes	Taxes	After Taxes
Foreign currency translation adjustments ^{1,2}	\$ (0.3)	\$ -	\$ (0.3)
Net derivatives: ³			
Net unrealized gains (losses) recognized in OCI	2.5	-	2.5
Net (gains) losses reclassified into earnings	9.6	-	9.6
Net derivative gains (losses) ²	\$ 12.1	\$ -	\$ 12.1
Other Comprehensive Income (Loss) ²	\$ 11.8	\$ -	\$ 11.8
Nine Months Ended September 27, 2015			
Foreign currency translation adjustments ^{1,2}	\$ -	\$ -	\$ -
Net derivatives: ³			
Net unrealized gains (losses) recognized in OCI	(14.5)	5.6	(8.9)
Net (gains) losses reclassified into earnings	7.7	(3.0)	4.7
Net derivative gains (losses) ²	\$ (6.8)	\$ 2.6	\$ (4.2)
Other Comprehensive Income (Loss) ²	\$ (6.8)	\$ 2.6	\$ (4.2)

¹ U.S. income taxes are not accrued on foreign currency translation adjustments.

² Amounts net of tax appear on the condensed consolidated statements of comprehensive income (loss).

³ Net derivative gains and losses that are reclassified out of Accumulated Other Comprehensive Income (“AOCI”) are recognized in their entirety in Cost of Sales on the Company’s condensed consolidated statement of operations in the same reporting period during which they were realized. For additional information on the Company’s derivative instruments that are designated as cash flow hedges, refer to note 14.

10. Net Income (Loss) Per Share

The following table sets forth the computation of basic and diluted net income (loss) per share for the periods indicated (in millions, except share and per share amounts):

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Numerator:				
Net income (loss) applicable to common shareholders	\$ 9.5	\$ (11.0)	\$ 19.1	\$ (39.1)
Denominator:				
Weighted average common shares outstanding (basic)	347,675	175,269	347,130	170,532
Weighted average common shares outstanding (diluted)	347,675	175,269	347,130	170,532
Loss per Common Share:				
Basic	\$ 27.35	\$ (62.49)	\$ 55.06	\$ (229.10)
Diluted	\$ 27.35	\$ (62.49)	\$ 55.06	\$ (229.10)

The following table shows the common equivalent shares related to non-vested restricted stock and stock options that were not included in the computation of diluted earnings per share, as their effect would have been antidilutive:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Restricted Stock	3,262	2,783	3,262	2,783
Stock Options	35,109	665	35,109	665
Total	38,371	3,448	38,371	3,448

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

11. Income Taxes

The effective tax rate on continuing operations for the nine months ended September 25, 2016 and September 27, 2015 was 19.6% and 36.8%, respectively.

The difference between the actual effective tax rate and the federal statutory rate of 35% for the nine months ended September 25, 2016 was principally due to an increase in deferred tax liabilities associated with indefinite lived intangible assets.

The difference between the actual effective tax rate and the federal statutory rate of 35% for the nine months ended September 27, 2015 was principally due to state income taxes, permanent differences and utilization of available tax credits.

As of September 25, 2016, a valuation allowance of \$91.3 was recorded against deferred tax assets in accordance with the provisions of ASC 740. Realization of deferred tax assets is largely dependent upon future profitable operations and the reversals of existing temporary differences. Although there can be no assurance that such events will occur, the valuation allowance may be reversed in future periods to the extent that related deferred income tax assets no longer require a valuation allowance under the provisions of ASC 740.

12. Retiree Benefits

Defined Benefit Pension Plans:

The Company sponsors two defined benefit pension plans and a supplemental defined benefit pension plan for certain of its employees. For disclosure purposes, the three defined benefit plans have been combined and are collectively referred to as the “Plans”. Vested employees who retire will receive an annual benefit equal to a specified amount per month per year of credited service, as defined by the Plans.

The following table summarizes the components of net periodic pension cost for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Service cost	\$ 0.1	\$ -	\$ 0.2	\$ -
Interest Cost	2.6	2.5	7.8	7.4
Expected Return on Assets	(3.6)	(3.9)	(10.7)	(11.8)
Recognized Net Actuarial Losses	0.9	0.9	2.8	2.7
Net Periodic Pension (Benefit)/Cost	\$ -	\$ (0.5)	\$ 0.1	\$ (1.7)

The Company made approximately \$0.3 of contributions to its Plans in the nine months ended September 25, 2016. The Company expects to make aggregate cash contributions totaling approximately \$0.4 to the Plans during the current fiscal year.

Other Postretirement Benefit Plans

The following table summarizes the components of net periodic post-retirement cost for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Interest Cost	\$ -	\$ 0.2	\$ 0.2	\$ 0.5
Amortization of Prior Service Cost	(0.1)	-	(0.1)	-
Net Periodic Post-Retirement(Benefit) Cost	\$ (0.1)	\$ 0.2	\$ 0.1	\$ 0.5

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

13. Commitments and Contingencies

Purchase Commitments

The Company has various purchase commitments for services incidental to the ordinary course of business, including, among other things, a services contract with its third party warehouse provider. Such commitments are not at prices in excess of current market prices. Included in the purchase commitment amounts are the Company's purchase contracts with certain raw material suppliers, for periods ranging from one to four years, some of which contain firm commitments to purchase specified minimum quantities.

Contingencies

The Company is subject to various lawsuits and claims with respect to product liabilities, governmental regulations and other matters arising in the normal course of business. Pursuant to an asset purchase agreement (the "Purchase Agreement") on December 1, 1993, Remington acquired certain assets and assumed certain liabilities (the "Asset Purchase") of the sporting goods business formerly operated by E. I. du Pont de Nemours and Company ("DuPont") and one of DuPont's subsidiaries (together with DuPont, the "1993 Sellers"). Under the Purchase Agreement, the Company generally bears financial responsibility for all product liability cases and claims relating to occurrences after the closing of the Asset Purchase, except for certain specified costs. The Company's assumption of financial responsibility was largely limited to a fixed amount that has now been fully paid, and due to a reduction in expected litigation due to factors including, among others, increased prevalence of insurance and passage of time, the Company believes that product liability cases and claims involving occurrences arising prior to the Asset Purchase are not likely to have a material adverse effect upon the financial condition, results of operations or cash flows of the Company. Nonetheless, in part because the nature and extent of manufacturer liability based on the manufacture and/or sale of allegedly defective products (particularly as to firearms and ammunition) is uncertain, there can be no assurance that the Company's resources will be adequate to cover pending and future product liability and other product related occurrences, cases or claims, in the aggregate, or that such a material adverse effect upon the Company's financial condition, results of operations or cash flows will not result therefrom. Because of the nature of its products, the Company anticipates that it will continue to be involved in product liability and product related litigation in the future. The Company's accruals for losses relating to product liability cases and claims include accruals for all probable losses for which the amount can be reasonably estimated. Based on the relevant circumstances (including the current availability of insurance involving post-Asset Purchase occurrences, the Company's accruals for the uninsured costs of such cases and claims and the 1993 Sellers' agreement to be responsible for a portion of certain specified costs, as well as the type of firearms products made by the Company), the Company does not believe with respect to product liability and product related cases and claims that any reasonably possible loss exceeding amounts already recognized through the Company's accruals exists.

At September 25, 2016, December 31, 2015, and September 27, 2015, the Company's accrual for product liability cases and claims was \$27.3, \$26.2, and \$27.5, respectively.

As of September 25, 2016, the Company had two class action cases pending relating to breach of warranty claims concerning certain of its firearms products where economic damages were being claimed. The Company and the plaintiffs entered into a settlement agreement in late 2014. The court has scheduled a final approval hearing on February 14, 2017. If we are not successful in achieving a final court approval of the settlement or in our defense of these cases, we cannot predict the potential damages for which we would be held liable.

14. Derivatives

The Company's activities are exposed to several market risks which could have an adverse effect on its earnings and financial performance. As part of the Company's risk management program, these market risks are regularly monitored and managed and the Company utilizes derivative instruments to mitigate the effects of those market risks.

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

All of the Company's current derivative instruments are subject to master netting agreements and payments for the derivative contracts are allowed to be netted. The fair values of all derivative instruments are presented on a net basis on the condensed consolidated balance sheet. Refer to note 2 for the net fair value presentation of the Company's derivative instruments as presented on the condensed consolidated balance sheet.

Cash Flow Hedges

The Company periodically enters into copper and lead commodity swap or option contracts to mitigate price fluctuations on future commodity purchases. Both commodity option and swap contracts qualify for and have been designated as cash flow hedges and changes in the fair values of these contracts are recorded in AOCI until sales of ammunition that included previously hedged purchases of copper and lead have been recognized. Approximately \$0.7 of the net commodity contracts' loss (net of deferred taxes) included in AOCI is expected to be reclassified into earnings within the next twelve months.

At September 25, 2016, the fair values of the Company's outstanding swap contracts were \$0.1 and hedged firm commitments of an aggregate notional amount of 39.5 million pounds of copper and lead. The commodity swap contracts outstanding at September 25, 2016 will settle at various times over the next 15 months. At December 31, 2015, the fair values of the Company's outstanding swap contracts were \$(11.6) and hedged firm commitments of an aggregate notional amount of 39.2 million pounds of copper and lead and were expected to settle over 16 months. At September 27, 2015, the fair values of the Company's outstanding swap contracts were \$(16.1) and hedged firm commitments of an aggregate notional amount of 51.2 million pounds of copper and lead. The commodity swap contracts outstanding at September 27, 2015 were expected to settle over 19 months.

The following table presents the fair value of the Company's derivative instruments that were designated as cash flow hedges on a gross basis without the effect of master netting agreements at the following dates:

Derivatives Designated as Cash Flow Hedges	Balance Sheet Location	September 25, 2016	December 31, 2015	September 27, 2015
Assets				
Commodity Contracts	Other Assets	\$ 0.3	\$ -	\$ -
Total Assets ¹		\$ 0.3	\$ -	\$ -
Liabilities				
Commodity Contracts	Accounts Payable	\$ -	\$ 11.1	\$ 14.0
Commodity Contracts	Accrued Expenses	0.2	-	-
Commodity Contracts	Other Long-Term Liabilities	-	0.5	2.1
Total Liabilities ¹		\$ 0.2	\$ 11.6	\$ 16.1

¹ For information on the effect master netting agreements have on the Company's derivative instruments qualifying as cash flow hedges and their estimated fair values, refer to note 2.

The following tables present the impact changes in fair values of derivatives designated as cash flow hedges had on earnings and AOCI, net of taxes, for the three and nine months ended September 25, 2016 and September 27, 2015:

Derivatives Designated as Cash Flow Hedges	Gain (Loss) Recognized in OCI	Location of Loss Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Earnings (Effective Portion)	Gain (Loss) Recognized in Earnings (Ineffective Portion and Amounts Excluded from Effectiveness Testing)
Three Months Ended September 25, 2016				
Commodity Contracts	\$ 4.1	Cost of Sales	\$ (1.7)	\$ -
Total ¹			\$ (1.7)	\$ -
Three Months Ended September 27, 2015				
Commodity Contracts	\$ (5.0)	Cost of Sales	\$ (1.6)	\$ -
Total ¹			\$ (1.6)	\$ -

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

Derivatives Designated as Cash Flow Hedges	Gain (Loss) Recognized in OCI	Location of Loss Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Earnings (Effective Portion)	Gain (Loss) Recognized in Earnings (Ineffective Portion and Amounts Excluded from Effectiveness Testing)
Nine Months Ended September 25, 2016				
Commodity Contracts	\$ 2.5	Cost of Sales	\$ (9.6)	\$ -
Total ¹	\$ 2.5		\$ (9.6)	\$ -
Nine Months Ended September 27, 2015				
Commodity Contracts	\$ (8.9)	Cost of Sales	\$ (4.7)	\$ -
Total ¹	\$ (8.9)		\$ (4.7)	\$ -

¹ For information on the tax effects and pre-tax net gains and losses on derivative instruments reflected in OCI, refer to note 9.

Economic Hedges

The Company uses interest rate swaps to manage volatility in LIBOR benchmark interest rates by swapping a portion of its variable-rate debt with fixed-rate debt. These interest rate swaps effectively allow the Company to pay a fixed rate of interest. Changes in the fair value of the interest rate swap are immediately recognized in earnings as the derivative did not qualify for hedge accounting.

The interest rate swaps settle on the 19th day of each month concluding with the April 19, 2018 settlement. The notional amount of the interest rate swaps was \$150.0 at September 25, 2016 and will remain at that amount until the settlement date.

The following table presents the fair value of the Company's derivative instruments that were not designated as hedging instruments on a gross basis without the effect of master netting agreements at the following dates:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	September 25, 2016	December 31, 2015	September 27, 2015
Assets				
Interest Rate Swaps	Other Assets	\$ 0.9	\$ 1.7	\$ 0.8
Total Assets ¹		\$ 0.9	\$ 1.7	\$ 0.8
Liabilities				
Interest Rate Swaps	Accrued Expenses	\$ 1.5	\$ 1.5	\$ 1.6
Total Liabilities ¹		\$ 1.5	\$ 1.5	\$ 1.6

¹ For information on the effect master netting agreements have on the Company's economic hedges and their estimated fair values, refer to note 2.

The following tables present the pre-tax effect that changes in the fair values of derivatives not designated as hedging instruments had on earnings for the three and nine months ended September 25, 2016 and September 27, 2015:

Derivatives Not Designated as Hedging Instruments	Location of Loss Recognized in Earnings	Gain (Loss) Gain Recognized in Earnings
Three Months Ended September 25, 2016		
Interest Rate Swaps	Interest Income (Expense)	\$ 0.4
Three Months Ended September 27, 2015		
Interest Rate Swaps	Interest Income (Expense)	\$ 1.4

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

Derivatives Not Designated as Hedging Instruments	Location of Loss Recognized in Earnings	Gain (Loss) Recognized in Earnings
Nine Months Ended September 25, 2016		
Interest Rate Swaps	Interest Income (Expense)	\$ (1.4)
Nine Months Ended September 27, 2015		
Interest Rate Swaps	Interest Income (Expense)	\$ 2.9

15. Segment Information

The Company’s business is classified into two reportable segments: Firearms, which designs, manufactures, imports and markets primarily sporting shotguns, rifles, handguns and modular firearms; and Ammunition, which designs, manufactures and markets sporting ammunition and ammunition reloading components. The remaining operating segments, which include accessories, silencers, other gun-related products, licensed products and lifestyle products, including apparel and pet accessories, are aggregated into the Consumer category.

As a result of the changes to Chief Operating Decision Maker reporting, the Company has changed the way it evaluates performance for its reporting segments. Specifically, certain items, such as pension income and expense, certain inventory adjustments, inventory write downs and commodities costs, which were previously included in “Other Corporate Items” are now charged directly to the segments. In addition, the segments are now shown net of Adjusted EBITDA add backs, which is how management views the segments. The CODM’s measure of segment profit and loss is Adjusted Gross Profit, which is Consolidated Gross Profit net of Adjusted EBITDA add backs and allocated Other Corporate Items.

We use the term Adjusted EBITDA throughout this interim report. Adjusted EBITDA is not a measure of performance defined in accordance with GAAP. We use Adjusted EBITDA as a supplement to our GAAP results in evaluating certain aspects of our business, as described below. We calculate Adjusted EBITDA based on the definition in the indenture governing the 2020 Notes.

Under GAAP, the Company is required to disclose management’s measure of segment profit or loss and any changes made in the computation or measure from what was utilized and disclosed in prior periods. Recasting of prior period segment profit measures is not required; however, the Company has determined that comparability would be enhanced if prior period segment disclosures were recast. Changes made in the computation of gross profit for the three and nine months ended September 27, 2015 are as follows:

For the three months ended September 27, 2015:

Gross Profit by Segment	As Previously Presented	Adjustments	As Recast
Firearms	\$ 18.0	\$ 1.3	\$ 19.3
Ammunition	29.6	(1.7)	27.9
Consumer	4.1	0.3	4.4
Adjusted Gross Profit			\$ 51.6
EBITDA Adjustments	-	(7.1)	(7.1)
Other Corporate	(7.2)	7.2	-
Consolidated Gross Profit	\$ 44.5	\$ -	\$ 44.5

For the nine months ended September 27, 2015:

Gross Profit by Segment	As Previously Presented	Adjustments	As Recast
Firearms	\$ 53.8	\$ 6.7	\$ 60.5
Ammunition	86.2	(6.9)	79.3
Consumer	20.7	2.8	23.5
Adjusted Gross Profit			\$ 163.3
EBITDA Adjustments	-	(21.8)	(21.8)
Other Corporate	(19.2)	19.2	-
Consolidated Gross Profit	\$ 141.5	\$ -	\$ 141.5

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

Results for the Company's reporting segments under the new segment disclosure for the three months ended September 25, 2016 and recast September 27, 2015 are as follows:

Three Months Ended	September 25, 2016	September 27, 2015
Net Sales from External Customers:		
Firearms	\$ 110.2	\$ 96.0
Ammunition	93.2	82.0
Consumer	18.3	15.9
Total Net Sales from External Customers	\$ 221.7	\$ 193.9
Net Sales between Segments:		
Firearms	\$ -	\$ 0.1
Ammunition	-	-
Consumer	-	1.0
Eliminations	-	(1.1)
Total Net Sales between Segments	\$ -	\$ -
Adjusted Gross profit:		
Firearms	\$ 24.5	\$ 19.3
Ammunition	33.8	27.9
Consumer	7.8	4.4
Segment Adjusted Gross Profit	\$ 66.1	\$ 51.6
Less Adjusted EBITDA Adjustments ¹	5.5	7.1
Consolidated Gross Profit	\$ 60.6	\$ 44.5
Adjusted Operating expenses	\$ 32.1	\$ 38.6
Add Adjusted EBITDA Adjustments ¹	5.9	8.3
Consolidated Operating Expenses	\$ 38.0	\$ 46.9
Interest Expense ¹	\$ 14.6	\$ 15.9
Income Before Income Taxes and Noncontrolling Interest ¹	\$ 8.0	\$ (18.3)

¹ Adjusted EBITDA was \$34.0 and \$13.0 for the three months ended September 25, 2016 and September 27, 2015, respectively.

Results for the Company's reporting segments under the recast segment disclosure for the nine months ended September 25, 2016 and September 27, 2015 are as follows:

Nine Months Ended	September 25, 2016	September 27, 2015
Net Sales from External Customers:		
Firearms	\$ 320.3	\$ 273.5
Ammunition	272.3	261.9
Consumer	51.4	61.9
Total Net Sales from External Customers	\$ 644.0	\$ 597.3
Net Sales between Segments:		
Firearms	\$ -	\$ 0.4
Ammunition	-	-
Consumer	-	9.9
Eliminations	-	(10.3)
Total Net Sales between Segments	\$ -	\$ -
Adjusted Gross profit:		
Firearms	\$ 78.2	\$ 60.5
Ammunition	91.4	79.3
Consumer	19.3	23.5
Segment Adjusted Gross Profit	\$ 188.9	\$ 163.3
Less EBITDA Adjustments ¹	14.9	21.8
Consolidated Gross Profit	\$ 174.0	\$ 141.5

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

Nine Months Ended	September 25, 2016	September 27, 2015
Adjusted Operating expenses	\$ 91.3	\$ 122.0
Add EBITDA Adjustments ¹	13.1	35.9
Consolidated Operating Expenses	\$ 104.4	\$ 157.9
Interest Expense ¹	\$ 45.6	\$ 45.9
Income Before Income Taxes and Noncontrolling Interest ¹	\$ 24.0	\$ (62.3)

¹ Adjusted EBITDA was \$97.6 and \$41.3 for the nine months ended September 25, 2016 and September 27, 2015, respectively.

16. Restructuring Costs

On May 5, 2016, the Company announced its plan to close its Mayfield, Kentucky firearms production facility in an effort to become more organizationally focused and competitive. The production at this facility will be consolidated into the Company’s Huntsville, Alabama facility. The Company notified affected employees of this decision on May 5, 2016.

The Company’s current estimate to complete its restructuring initiatives related to the closure of the Mayfield facility is in a range of \$3.5 to \$5.0, including costs incurred to date of \$1.7 and a \$2.3 impairment charge on the facility. Refer to Note 2. At September 25, 2016, the Company had \$1.3 accrued for restructuring costs and had disbursed \$0.6 in cash as a result of these restructuring activities.

Cumulative restructuring and start-up costs incurred to date and costs incurred in the three and nine months ended September 25, 2016 by cost type are as follows:

	Cumulative Costs Incurred to Date	Costs Incurred During the Three Months Ended September 25, 2016	Costs Incurred During the Nine Months Ended September 25, 2016
Severance and Other Employee Benefits	\$ 0.7	\$ 0.2	\$ 0.7
Equipment Transfer and Facility Decommissioning	1.0	1.0	1.0
Total Restructuring Cost	\$ 1.7	\$ 1.2	\$ 1.7

17. Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-15, “—Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”. This ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments apply to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows. The guidance is effective for public entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early application is permitted, including adoption in an interim period. The Company is currently evaluating the impact of this guidance on its financial statements and the timing of adoption.

In May 2016, the FASB issued ASU 2016-12, “—Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients”. The amendments in this ASU address narrow-scope improvements to the guidance on collectibility, noncash consideration, and completed contracts at transition. Additionally, the amendments in this ASU provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The guidance is effective January 1, 2018. Topic 606 is effective for nonpublic entities one year later. The Company is currently evaluating the impact of this guidance on its financial statements and the timing of adoption.

In May 2016, the FASB issued ASU 2016-11, “Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16

REMINGTON OUTDOOR COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share and per share amounts) – Unaudited

Pursuant to Staff Announcements at the March 2016 EITF Meeting”. This ASU rescinds SEC paragraphs pursuant to the SEC Staff Announcement, “Rescission of Certain SEC Staff Observer Comments upon Adoption of Topic 606,” and the SEC Staff Announcement, “Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or Equity,” announced at the March 3, 2016 Emerging Issues Task Force (EITF) meeting. The guidance is effective upon adoption of ASU 2014-09. The Company is currently evaluating the impact of this guidance on its financial statements and the timing of adoption.

In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing”. This ASU clarifies guidance related to identifying performance obligations and licensing implementation guidance in the new revenue recognition standard. The guidance is effective January 1, 2018 with early adoption permitted. The effective date for nonpublic entities is one year later. The Company is currently evaluating the impact of this guidance on its financial statements and the timing of adoption.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting (Topic 718)”. This guidance changes the accounting for certain aspects of share-based payments to employees. The guidance will become effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The effective date for nonpublic entities is one year later. The Company is currently evaluating the impact of this guidance on its financial statements and the timing of adoption.

In March 2016, the FASB issued ASU 2016-08, “Revenues from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)”. The standard is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations by amending certain existing illustrative examples and adding additional illustrative examples to assist in the application of the guidance. The guidance is effective January 1, 2018 with early adoption permitted. The effective date for nonpublic entities is one year later. The Company is currently evaluating the impact of this guidance on its financial statements and the timing of adoption.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”. The new standard revises the current guidance for lessees, lessors and sale-leaseback transactions. The guidance is effective in 2019 with early adoption permitted. The effective date for nonpublic entities is one year later. The Company is currently evaluating the impact of this guidance on its financial statements and the timing of adoption.

18. Subsequent Events

On October 14, 2016, the Company sold substantially all of the assets of its subsidiary, Remington UK for approximately \$3.4.

Subsequent events have been evaluated through November 14, 2016, which is the date the financial statements were available to be issued.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the accompanying unaudited interim consolidated financial statements and related notes of Remington Outdoor Company, Inc. (“Remington Outdoor Company,” “Remington Outdoor,” or the “Company”) and its subsidiaries. Remington Outdoor owns 100% of FGI Holding Company, LLC (“FGI Holding”), which in turn owns 100% of FGI Operating Company, LLC (“FGI Opco”). FGI Opco includes the financial results of Remington Arms Company, LLC (“Remington”), Barnes Bullets, LLC (“Barnes”) and RA Brands, L.L.C. FGI Opco also owns 100% of FGI Finance, Inc. (“FGI Finance”). Remington, in turn, owns Advanced Armament Corp., LLC (“AAC”) and Remington Outdoor (UK) Ltd. (“Remington UK”).

Management’s Discussion and Analysis of Financial Condition and Results of Operations is separated into the following sections:

- Company Overview
- Current Market Conditions
- Recent Company Developments
- EBITDA Measurements
- Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Policies and Estimates
- Recent Accounting Pronouncements
- Environmental Matters
- Regulatory Developments

Company Overview

We are a leading global manufacturer of firearms, ammunition and related products for commercial, military and law enforcement markets with a diverse portfolio of category-defining brands, including *Remington*, *Marlin*, *Bushmaster*, *Barnes Bullets*, *Advanced Armament Corp.*, and *DPMS*, among others. We are America’s oldest manufacturer of firearms and ammunition with our *Remington* brand dating back to 1816. We are one of the largest major U.S. manufacturers of both firearms and ammunition and have strong brand recognition. Our approximately 3,400 employees represent one of the largest domestic manufacturing presence in the firearms and related industries. This scale enables us to deliver our products throughout the United States and internationally to approximately 46 countries.

Remington represents an iconic brand born from a passion for precision and a pride in craftsmanship dating back to Eliphalet Remington. From the beginning, Remington built its reputation on these two core principles. We are celebrating our 200th anniversary this year and are using this milestone to ensure that pride and precision are engrained in everything we do and that our culture embodies these principles for years to come.

Current Market Conditions

In the firearms segment, the market for modern sporting rifle (“MSR”) products continues to see high demand, especially in the opening price point segments. In response to this demand, we increased production and launched the QRC rifle, an entry level price point Bushmaster MSR. The overall handgun market continues to grow; however, this growth is primarily in the polymer pistol, subcompact and micro pistol categories. We have launched the Remington RM380 Micro Pistol as our first introduction into the growing handgun market for self-defense and concealed carry pistols. In July, we introduced the newly enhanced Model R51 concealed carry pistol. Channel inventories for hunting products are high in anticipation of the hunting season.

The ammunition segment rebounded in the third quarter from the softness experienced in recent quarters. Customers continue to shift toward value target and range ammunition. In response to this demand, we recently

launched the new 9mm, .223 Remington and .300 AAC UMC range buckets and the new American Clay and Field Shotshell target ammunition is gaining traction in the market.

Recent Company Developments

Plant Consolidation

On May 5, 2016, we announced our plan to close the Mayfield, Kentucky firearms production facility in an effort to become more organizationally focused and competitive. The production at this facility will be consolidated into our Huntsville, Alabama facility. The Company notified affected employees of this decision on May 5, 2016.

Our current estimate to complete our restructuring initiatives related to the closure of the Mayfield facility is in a range of \$3.5 million to \$5.0 million, including costs incurred to date of \$1.7 million and a \$2.3 million impairment charge on the facility.

EBITDA Measurements

We use the term Adjusted EBITDA throughout this interim report. Adjusted EBITDA is not a measure of performance defined in accordance with GAAP. We use Adjusted EBITDA as a supplement to our GAAP results in evaluating certain aspects of our business, as described below. We calculate Adjusted EBITDA based on the definition in the indenture governing the 2020 Notes.

We believe that Adjusted EBITDA is useful to investors in evaluating our performance because similar measures are commonly used financial metrics for measuring and comparing the operating performance of companies in our industry. We believe that the disclosure of Adjusted EBITDA offers additional financial metrics that, when coupled with the GAAP results and the reconciliation to GAAP results, provide a more complete understanding of our results of operations and the factors and trends affecting our business.

Adjusted EBITDA should not be considered as an alternative to net income (loss), as an indicator of our performance, as an alternative to net cash provided by operating activities, as a measure of liquidity, or as an alternative to any other measure prescribed by GAAP. We believe that Adjusted EBITDA may make an evaluation of our operating performance more consistent because such measures remove items that do not reflect our core operations. There are, however, limitations to using non-GAAP measures such as:

- (i) other companies in our industry may define Adjusted EBITDA differently than we do and, as a result, such measures may not be comparable to similarly titled measures used by other companies in our industry; and
- (ii) such measures exclude financial information that some may consider important in evaluating our performance.

Because of these limitations, Adjusted EBITDA calculations should not be considered in isolation or as a measure of the income generated by our business or discretionary cash available to us to invest in the growth of our business. Our management compensates for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA as a supplemental financial metric for evaluation of our operating performance. See our consolidated statements of operations and consolidated statements of cash flows in our consolidated financial statements included elsewhere in this interim report.

We provide a reconciliation of Adjusted EBITDA to our GAAP results to enable investors to perform their own analysis of our operating results. See “–Results of Operations–Adjusted EBITDA” for a reconciliation of Net Income (Loss) to Adjusted EBITDA.

Results of Operations

Three and Nine Month Periods Ended September 25, 2016 as Compared to the Three and Nine Month Periods Ended September 27, 2015

Net Sales

The following table compares net sales by reporting segment for each of the periods presented:

Three Months Ended	September 25, 2016	Percentage of Total	September 27, 2015	Percentage of Total	Increase (Decrease)	Percentage Change
(in millions except percentages)						
Firearms	\$ 110.2	49.7%	\$ 96.0	49.5%	\$ 14.2	14.8%
Ammunition	93.2	42.0	82.0	42.3	11.2	13.6
Consumer	18.3	8.3	15.9	8.2	2.4	15.1
Total	\$ 221.7	100.0%	\$ 193.9	100.0%	\$ 27.8	14.3%

Nine Months Ended	September 25, 2016	Percentage of Total	September 27, 2015	Percentage of Total	Increase (Decrease)	Percentage Change
(in millions except percentages)						
Firearms	\$ 320.3	49.7%	\$ 273.5	45.8%	\$ 46.8	17.1%
Ammunition	272.3	42.3	261.9	43.8	10.4	4.0
Consumer	51.4	8.0	61.9	10.4	(10.5)	(17.0)
Total	\$ 644.0	100.0%	\$ 597.3	100.0%	\$ 46.7	7.8%

Firearms

Net sales for the three months ended September 25, 2016 were \$110.2 million, an increase of \$14.2 million, or 14.8%, as compared to the three months ended September 27, 2015. Overall, demand for MSRs continues to be strong. Excluding the impact of a \$20.2 million Philippines sale in the three months ended September 27, 2015, sales of MSRs would have increased \$14.1 million in the three months ended September 25, 2016. For the three months ended September 25, 2016, sales of shotguns, centerfire rifles and handguns increased by \$8.3 million, \$8.1 million and \$6.8 million, respectively. These increases were partially offset by decreased sales of MSRs, rimfire rifles and other firearms of \$6.1 million, \$0.3 million and \$2.6 million, respectively.

Net sales for the nine months ended September 25, 2016 were \$320.3 million, an increase of \$46.8 million, or 17.1%, as compared to the nine months ended September 27, 2015. MSR sales increased \$30.9 million and handgun sales increased \$10.8 million. Sales of shotguns and centerfire rifles increased by \$9.7 million and \$2.0 million, respectively. These increases were partially offset by lower sales of rimfire rifles of \$5.2 million and lower sales of other firearms and higher accrued discounts of \$1.4 million.

Ammunition

Net sales for the three months ended September 25, 2016 were \$93.2 million, an increase of \$11.2 million, or 13.6%, as compared to the three months ended September 27, 2015. Sales of centerfire ammunition and shotshell ammunition increased \$12.0 million and \$4.6 million, respectively. These increases were partially offset by decreased sales of rimfire ammunition and other ammunition products of \$1.6 million and \$3.8 million, respectively.

Net sales for the nine months ended September 25, 2016 were \$272.3 million, an increase of \$10.4 million, or 4.0%, as compared to the nine months ended September 27, 2015. Sales of shotshell ammunition, centerfire ammunition and rimfire ammunition increased \$7.6 million, \$6.5 million, and \$3.0 million, respectively. These increases were partially offset lower sales of other ammunition products of \$6.7 million.

Consumer

Net sales for the three months ended September 25, 2016 were \$18.3 million, an increase of \$2.4 million, or 15.1%, as compared to the three months ended September 27, 2015. The increase was primarily due to higher sales of after-market parts of \$6.1 million, partially offset by lower sales of accessories of \$3.7 million.

Net sales for the nine months ended September 25, 2016 were \$51.4 million, a decrease of \$10.5 million, or 17.0%, as compared to the nine months ended September 27, 2015. The decrease was primarily due to lower sales of accessories and after-market parts of \$9.9 million and \$0.6 million, respectively.

Cost of Goods Sold and Gross Profit

We recently changed certain of our management reports to charge certain items directly to segments. Specifically, pension income and expense, certain inventory adjustments, inventory write downs and commodities costs, which were previously included in “Other Corporate Items” are now charged directly to the segments. In addition, the segments are now shown net of Adjusted EBITDA addbacks. See “—Adjusted EBITDA.”

Our cost of goods sold includes all costs of material, labor and overhead associated with product manufacturing, except for transfer costs from our plants to our distribution center which are included in selling, general and administrative expense.

The table below compares Cost of Goods Sold and Gross Profit by reporting segment for each of the periods presented:

Three Months Ended	September 25, 2016	Percentage of Net Sales	September 27, 2015	Percentage of Net Sales	Increase (Decrease)	Percentage Change
(in millions except percentages)						
Cost of Goods Sold						
Firearms	\$ 85.7	77.8%	\$ 76.7	79.9%	\$ 9.0	11.7%
Ammunition	59.4	63.7	54.1	66.0	5.3	9.8
Consumer	10.5	57.4	11.5	72.3	(1.0)	(8.7)
EBITDA Adjustments	5.5	*	7.1	*	(1.6)	(22.5)
Total	\$ 161.1	72.7%	\$ 149.4	77.1%	\$ 11.7	7.8%
Gross Profit						
Firearms	\$ 24.5	22.2%	\$ 19.3	20.1%	\$ 5.2	27.2%
Ammunition	33.8	36.3	27.9	34.0	5.9	21.0
Consumer	7.8	42.6	4.4	27.7	3.4	77.3
EBITDA Adjustments	(5.5)	*	(7.1)	*	1.6	*
Total	\$ 60.6	27.3%	\$ 44.5	22.9%	\$ 16.1	36.2%
Nine Months Ended	September 25, 2016	Percentage of Net Sales	September 27, 2015	Percentage of Net Sales	Increase (Decrease)	Percentage Change
(in millions except percentages)						
Cost of Goods Sold						
Firearms	\$ 242.1	75.6%	\$ 213.0	77.9%	\$ 29.1	13.7%
Ammunition	180.9	66.4	182.6	69.7	(1.7)	(0.9)
Consumer	32.1	62.5	38.4	62.0	(6.3)	(16.4)
EBITDA Adjustments	14.9	*	21.8	*	(6.9)	*
Total	\$ 470.0	73.0%	\$ 455.8	76.3%	\$ 14.2	3.1%
Gross Profit						
Firearms	\$ 78.2	24.4%	\$ 60.5	22.1%	\$ 17.7	29.3%
Ammunition	91.4	33.6	79.3	30.3	12.1	15.2
Consumer	19.3	37.5	23.5	38.0	(4.2)	(17.9)
EBITDA Adjustments	(14.9)	*	(21.8)	*	6.9	*
Total	\$ 174.0	27.0%	\$ 141.5	23.7%	\$ 32.5	23.0%

*Not applicable

Firearms

Gross profit for the three months ended September 25, 2016 was \$24.5 million, an increase of \$5.2 million, or 27.2%, as compared to the three months ended September 27, 2015. Gross margin was 22.2% for the three months ended September 25, 2016 and 20.1% for the three months ended September 27, 2015. The increase in gross profit was primarily due to higher sales volumes of \$5.6 million, lower manufacturing costs of \$5.3 million due to process improvements and fewer disruptions at our plants, and favorable pricing of \$1.6 million. These increases were partially offset by higher accrued discounts of \$4.1 million and an unfavorable sales mix of \$3.2 million as a result of a consumer trend to lower price point products.

Gross profit for the nine months ended September 25, 2016 was \$78.2 million, an increase of \$17.7 million, or 29.3%, as compared to the nine months ended September 27, 2015. Gross margin was 24.4% for the nine months ended September 25, 2016 and 22.1% for the nine months ended September 27, 2015. The increase in gross profit was primarily due to higher sales volumes of \$16.7 million, lower manufacturing costs of \$9.6 million due to process improvements and fewer disruptions at our plants, and favorable pricing of \$3.5 million. These increases were partially offset by higher accrued discounts of \$7.7 million and an unfavorable sales mix of \$4.4 million as a result of a consumer trend to lower price point products.

Ammunition

Gross profit for the three months ended September 25, 2016 was \$33.8 million, an increase of \$5.9 million, or 21.0%, as compared to the three months ended September 27, 2015. Gross margin was 36.3% for the three months ended September 25, 2016 and 34.0% for the three months ended September 27, 2015. The increase in gross profit was primarily due to a favorable sales mix of \$5.8 million, higher sales volumes of \$4.5 million and favorable pricing of \$1.1 million. These increases were partially offset by higher manufacturing costs of \$1.9 million, resulting primarily from unfavorable labor and overhead variances, and higher accrued discounts of \$3.6 million.

Gross profit for the nine months ended September 25, 2016 was \$91.4 million, an increase of \$12.1 million, or 15.2%, as compared to the nine months ended September 27, 2015. Gross margin was 33.6% for the nine months ended September 25, 2016 and 30.3% for the nine months ended September 27, 2015. The increase in gross profit was primarily due to a favorable sales mix of \$16.1 million, higher sales volumes of \$3.8 million and favorable pricing of \$4.8 million. These increases were partially offset by higher manufacturing costs of \$6.5 million, resulting primarily from hedging losses and unfavorable labor and overhead variances, and higher accrued discounts of \$6.1 million.

Consumer

Gross profit for the three months ended September 25, 2016 was \$7.8 million, an increase of \$3.4 million, or 77.3%, as compared to the three months ended September 27, 2015. Gross margin was 42.6% for the three months ended September 25, 2016 and 27.7% for the three months ended September 27, 2015. The increase in gross profit was primarily due higher sales volumes, a favorable sales mix, favorable pricing, lower inventory adjustments and lower accrued discounts. Gross margin improvements in the quarter were driven by an increased focus on improvements in customer deliveries and improved product mix.

Gross profit for the nine months ended September 25, 2016 was \$19.3 million, a decrease of \$4.2 million, or 17.9%, as compared to the nine months ended September 27, 2015. Gross margin was 37.5% for the nine months ended September 25, 2016 and 38.0% for the nine months ended September 27, 2015. The decrease in gross profit was primarily due to lower sales volumes, an unfavorable sales mix, unfavorable pricing and higher accrued discounts.

Operating Expenses

Operating expenses consist of selling, general and administrative expenses, research and development expenses and other expenses. The following table sets forth certain information regarding operating expenses for the three and nine months ended September 25, 2016 and September 27, 2015:

Three Months Ended	September 25, 2016	Percentage of Net Sales	September 27, 2015	Percentage of Net Sales	Increase (Decrease)	Percentage Change
(unaudited, in millions except percentages)						
Selling, General and Administrative Expenses	\$ 31.0	14.0%	\$ 40.2	20.7%	\$ (9.2)	(22.9)%
Research and Development Expenses	3.6	1.6	4.2	2.2	(0.6)	(14.3)
Impairment Expense	2.3	1.0	-	-	2.3	100.0
Other Expense	1.1	0.5	2.5	1.3	(1.4)	(56.0)
Total	\$ 38.0	17.1%	\$ 46.9	24.2%	\$ (8.9)	(19.0)%

Total operating expenses for the three months ended September 25, 2016 were \$38.0 million, a decrease of \$8.9 million, or 19.0%, as compared to the three months ended September 27, 2015.

Selling, general and administrative expenses decreased \$9.2 million, or 22.9%, as compared to the three months ended September 27, 2015. The primary components of this decrease were lower restructuring costs of \$2.4 million, lower selling and marketing expense of \$1.9 million, lower product liability expense of \$1.7 million and lower salaries and benefit expense of \$1.6 million. In addition, professional fees and travel expenses decreased by a total of \$1.9 million. The reductions resulted from our efforts to reduce spending, the realization of the benefits of our restructuring activities and fewer nonrecurring items.

Research and development expenses decreased \$0.6 million, or 14.3%, as compared to the three months ended September 27, 2015, primarily due to decreased salaries and travel expense.

Impairment expense of \$2.3 million consisted of a write-down of assets held for sale related to the closure of our Mayfield facility.

Other expenses decreased \$1.4 million, or 56.0%, as compared to the three months ended September 27, 2015, primarily due to \$0.2 million of lower amortization expense and \$1.2 million in lower other expenses.

Nine Months Ended	September 25, 2016	Percentage of Net Sales	September 27, 2015	Percentage of Net Sales	Increase (Decrease)	Percentage Change
(unaudited, in millions except percentages)						
Selling, General and Administrative Expenses	\$ 88.1	13.7%	\$ 138.4	23.2%	\$ (50.3)	(36.3)%
Research and Development Expenses	10.6	1.6	13.1	2.2	(2.5)	(19.1)
Impairment Expense	2.3	0.4	-	-	2.3	100.0
Other Expense	3.4	0.5	6.4	1.1	(3.0)	(46.9)
Total	\$ 104.4	16.2%	\$ 157.9	26.4%	\$ (53.5)	(33.9)%

Total operating expenses for the nine months ended September 25, 2016 were \$104.4 million, a decrease of \$53.5 million, or 33.9%, as compared to the nine months ended September 27, 2015.

Selling, general and administrative expenses decreased \$50.3 million, or 36.3%, as compared to the nine months ended September 27, 2015. The primary components of this decrease were lower restructuring costs of \$13.7 million, lower salaries and benefit expense of \$9.1 million, lower selling and marketing expense of \$7.4 million, lower legal expense of \$6.5 million and lower product liability expense of \$6.2 million. In addition, professional fees, travel expense, commission expense and relocation expense decreased by a total of \$7.3 million. The reductions resulted from our efforts to reduce spending, the realization of benefits of our restructuring activities and fewer nonrecurring items.

Research and development expenses decreased \$2.5 million, or 19.1%, as compared to the nine months ended September 27, 2015, primarily due to decreased salaries and travel expense.

Impairment expense of \$2.3 million consisted of a write-down of assets held for sale related to the closure of our Mayfield facility.

Other expenses decreased \$3.0 million, or 46.9%, as compared to the nine months ended September 27, 2015, primarily due to lower stock compensation expense of \$1.3 million, lower amortization expense of \$0.6 million and lower other expenses of \$1.1 million.

Adjusted EBITDA

The following tables illustrate the calculation of Adjusted EBITDA by reconciling Net Income (Loss) to Adjusted EBITDA:

Three Months Ended	September 25, 2016	September 27, 2015	Increase (Decrease)	Percentage Change
<i>(unaudited, in millions except percentages)</i>				
Net Income (Loss)	\$ 9.5	\$ (11.3)	\$ 20.8	184.1%
Adjustments:				
Depreciation	5.8	6.1	(0.3)	(4.9)
Interest	14.6	15.9	(1.3)	(8.2)
Income Tax Benefit	(1.5)	(7.0)	5.5	78.6
Amortization of Intangibles	1.0	1.3	(0.3)	(23.1)
Impairment Expense	2.3	-	2.3	100.0
Other Non-cash Charges	0.7	0.3	0.4	133.3
Nonrecurring Charges ¹	1.6	7.7	(6.1)	(79.2)
Total Adjusted EBITDA	\$ 34.0	\$ 13.0	\$ 21.0	161.5%

¹ As defined in our Indenture.

Other non-cash charges of \$0.7 million for the three months ended September 25, 2016 consisted of \$0.4 million of stock compensation expense, a \$0.2 million loss on disposal of assets and \$0.1 million of retiree benefit expense.

Other non-cash charges of \$0.3 million for the three months ended September 27, 2015 consisted of \$0.4 million of stock compensation expense and a \$0.3 million loss on disposal of assets, partially offset by \$0.4 million of retiree benefit income.

Nonrecurring charges of \$1.6 million for the three months ended September 25, 2016 consisted of \$1.2 million in restructuring costs, \$0.3 million in employee related expenses and \$0.2 million in bank fees, partially offset by \$0.1 million in other nonrecurring income.

Nonrecurring charges of \$7.7 million for the three months ended September 27, 2015 consisted of \$3.6 million in restructuring and start-up costs, \$2.8 million in employee related expenses, \$0.8 million in project and consulting fees, \$0.2 million in bank fees, \$0.2 million in certain litigation fees and \$0.1 million in relocation costs.

Nine Months Ended	September 25, 2016	September 27, 2015	Increase (Decrease)	Percentage Change
(unaudited, in millions except percentages)				
Net Income (Loss)	\$ 19.3	\$ (39.4)	\$ 58.7	149.0%
Adjustments:				
Depreciation	17.5	18.5	(1.0)	(5.4)
Interest	45.6	45.9	(0.3)	(0.7)
Income Tax Expense (Benefit)	4.7	(22.9)	27.6	120.5
Amortization of Intangibles	3.4	4.0	(0.6)	(15.0)
Impairment Expense	2.3	-	2.3	100.0
Other Non-cash Charges	2.5	2.2	0.3	13.6
Nonrecurring Charges ¹	2.3	33.0	(30.7)	(93.0)
Total Adjusted EBITDA	\$ 97.6	\$ 41.3	\$ 56.3	136.3 %

¹ As defined in our Indenture.

Other non-cash charges of \$2.5 million for the nine months ended September 25, 2016 consisted primarily of \$1.3 million of stock compensation expense, a \$0.8 million loss on disposal of assets, \$0.3 million of retiree benefit expense and \$0.1 million of other non-cash charges.

Other non-cash charges of \$2.2 million for the nine months ended September 27, 2015 consisted of \$2.6 million of stock compensation expense and a \$0.8 million loss on disposal of assets, partially offset by \$1.2 million of retiree benefit income.

Nonrecurring charges of \$2.3 million for the nine months ended September 25, 2016 consisted of \$1.7 million in restructuring costs, \$0.8 million in employee related expenses, \$0.6 million in bank fees and \$0.4 million in consulting fees, partially offset by a \$0.8 million gain on the sale of a subsidiary and \$0.4 million in other nonrecurring income.

Nonrecurring charges of \$33.0 million for the nine months ended September 27, 2015 consisted of \$15.4 million in restructuring and start-up costs, \$7.9 million in employee related expenses, \$5.3 million in litigation related expenses, \$2.5 million in project and consulting fees, a \$0.8 million loss on the sale of a subsidiary, \$0.7 million in bank fees and \$0.4 million in relocation costs.

Interest Expense

Interest expense was \$14.6 million for the three months ended September 25, 2016, compared to \$15.9 million for the three months ended September 27, 2015. The \$1.3 million decrease in interest expense over the three months ended September 27, 2015 was primarily due to \$1.8 million of lower interest expense on our interest rate swap, partially offset by \$0.4 million of higher interest expense related to our ABL Revolver and \$0.1 million of higher other interest expense.

Interest expense was \$45.6 million for the nine months ended September 25, 2016, compared to \$45.9 million for the nine months ended September 27, 2015. The \$0.3 million decrease in interest expense over the nine months ended September 27, 2015 was primarily due to \$1.5 million of lower interest expense on our interest rate swap and \$0.1 million of lower other interest expense, partially offset by \$1.3 million of higher interest expense related to our ABL Revolver.

Income Tax Provision

The effective tax rate on continuing operations for the nine months ended September 25, 2016 and September 27, 2015 was 19.6% and 36.8%, respectively.

The difference between the actual effective tax rate and the federal statutory rate of 35% for the nine months ended September 25, 2016 was principally due to an increase in deferred tax liabilities associated with indefinite lived intangible assets.

The difference between the actual effective tax rate and the federal statutory rate of 35% for the nine months ended September 27, 2015 was principally due to state income taxes, permanent differences and utilization of available tax credits.

At September 25, 2016, a valuation allowance of \$91.3 million was recorded against deferred tax assets in accordance with the provisions of ASC 740. Realization of deferred tax assets is largely dependent upon future profitable operations and the reversals of existing temporary differences. Although there can be no assurance that such events will occur, the valuation allowance may be reversed in future periods to the extent that related deferred income tax assets no longer require a valuation allowance under the provisions of ASC 740.

We are subject to ongoing audits by federal and various state tax authorities. Depending on the outcome of these audits, we may be required to pay additional taxes. However, we do not believe that any additional taxes and related interest or penalties would have a material impact on our financial position, results of operations, or cash flows.

Our continuing practice is to recognize interest and/or penalties related to income tax matters within income tax expense.

Liquidity and Capital Resources

Cash Flows and Working Capital

Net cash used in operating activities was \$19.9 million for the nine months ended September 25, 2016 compared to net cash used in operating activities of \$33.1 million for the nine months ended September 27, 2015. The significant changes comprising the \$13.2 million improvement in net cash used in operating activities for the nine months ended September 25, 2016 compared to the nine months ended September 27, 2015 resulted primarily from:

- net income of \$19.3 million for the nine months ended September 25, 2016 compared to a net loss of \$39.4 million for the nine months ended September 27, 2015, a net improvement of \$58.7 million;
- deferred taxes decreasing by \$1.1 million over the nine months ended September 25, 2016 compared to an increase of \$27.9 million over the nine months ended September 27, 2015, a net decrease in cash used of \$29.0 million, due primarily to the valuation allowance we established at the end of 2015; offset by
- inventory increasing by \$44.6 million over the nine months ended September 25, 2016 compared to a decrease of \$2.3 million over the nine months ended September 27, 2015, a net increase in cash used of \$46.9 million, due primarily to planned increases for new products, safety stock and maintaining higher levels of products to improve customer fill rates ahead of the fall season; and
- accounts payable increasing by \$1.6 million over the nine months ended September 25, 2016 compared to an increase of \$29.3 million over the nine months ended September 27, 2015, a net increase in cash used of \$27.7 million. In the nine months ended September 27, 2015, we focused on vendor payment terms and experienced increased losses on our commodity hedges which resulted in accounts payable increasing in the prior year. This focus on vendor payment terms has not recurred in the current year and our commodity hedges are now classified as accrued liabilities instead of accounts payable.

Net cash used in investing activities was \$18.9 million for the nine months ended September 25, 2016 and consisted of \$21.2 million related to the purchase of property, plant and equipment, partially offset by \$1.5 million in proceeds received from the sale of property, plant and equipment and \$0.8 million of proceeds received from the sale of a subsidiary. Net cash used in investing activities was \$24.3 million for the nine months ended September 27, 2015 and consisted of \$33.5 million related to the purchase of property, plant and equipment, partially offset by \$9.2 million of net proceeds received from the sale of a subsidiary.

Net cash provided by financing activities was \$37.2 million for the nine months ended September 25, 2016 and consisted primarily of \$41.7 million in net borrowings under the ABL Revolver and the receipt of \$2.2 million of various state and local incentives. These receipts were partially offset by a \$2.2 million increase in our book overdraft, \$4.3 million for principal payments on our debt and capital lease obligations and a \$0.2 million payment of stock dividends.

Net cash provided by financing activities was \$16.2 million for the nine months ended September 27, 2015 and consisted primarily of \$32.7 million in net borrowings from the ABL Revolver and the receipt of \$17.5 million of various state and local incentives. We also received \$9.7 million from the issuance of stock, realized \$2.3 million of tax benefits from restricted stock modifications, received \$0.4 million from exercised stock options and had a \$7.3 million increase in our book overdraft. These receipts were partially offset by a \$48.6 million distribution of indirect interests, \$4.9 million of principal payments on our debt and \$0.2 million in stock repurchases.

Sources and Uses of Liquidity

We generally expect to fund expenditures for operations, administrative expenses, capital expenditures, debt service obligations and our working capital needs with internally generated funds from operations, existing cash and borrowings under our ABL Revolver. We believe that we will be able to meet our debt service obligations and fund our short-term and long-term operating requirements in the near term with borrowings under the ABL Revolver and existing cash and cash flow from operations, although no assurance can be given in this regard.

We continue to focus on our working capital by monitoring inventory, accounts receivable and accounts payable key performance indicators while recognizing that changes in market demand, seasonal needs and timing can impact our working capital strategies.

We were in compliance with our debt covenants at September 25, 2016 and had access to \$120.1 million in available borrowings under our ABL Revolver after taking into account the minimum availability requirement of \$33.75 million, and \$14.1 million in outstanding letters of credit.

Debt

As of September 25, 2016, we had outstanding indebtedness of approximately \$877.0 million, which consisted of the following:

- \$250.0 million of outstanding 2020 Notes;
- \$557.2 million outstanding under our Term Loan B;
- \$57.1 million outstanding under the ABL Revolver;
- \$12.5 million outstanding under the Promissory Note; and
- \$0.2 million of capital lease obligations and other debt.

Capital and Operating Leases and Other Long-Term Obligations

We maintain capital leases mainly for computer equipment. We have several operating leases, including a new distribution center lease that expires in 2026 and leases for several facilities that expire on various dates through 2023. We also maintain contracts including, among other things, a services contract with our third party warehouse provider. We also have various pension plan obligations.

Capital Expenditures

Gross capital expenditures for the nine months ended September 25, 2016 and September 27, 2015 were \$21.2 million and \$33.5 million, respectively, consisting primarily of capital expenditures both for new equipment

related to the manufacture of firearms and ammunition and capital maintenance of existing facilities. We expect total capital expenditures for 2016 to be in the range of \$30.0 million to \$35.0 million, of which approximately \$15.0 million is expected to be related to capital maintenance projects and the remainder related to capital expenditures for new assets in order to improve production and produce new products.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition, results of operations and cash flows are based upon our unaudited interim and audited annual consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Our significant accounting policies are described in note 2 of the consolidated financial statements and supplementary data included in our Annual Report on Form 10-K for the year ended December 31, 2015. Our critical accounting estimates are described in Item 7. — Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2015.

Environmental Matters

Our operations are subject to extensive and frequently changing federal, state and local environmental laws and regulations, including those related to the discharge and release of hazardous materials into the environment, the handling, treatment, storage, disposal and remediation of, and exposure to, such materials. Failure to comply with environmental laws and regulations could result in severe fines and penalties. Certain environmental laws can impose joint and several liability without regard to fault on responsible parties, including past and present owners and operators of sites, related to the investigation and cleanup of contaminated properties.

Under the terms of the 1993 Purchase Agreement with DuPont, DuPont agreed to retain responsibility for certain pre-closing environmental liabilities. Remington also entered into an agreement with DuPont with respect to cooperation and responsibility for certain specified environmental matters. See “Item 4.—Legal Proceedings” and “Item 4. —Legal Proceedings—Certain Indemnities.” To date, DuPont has honored its responsibilities under the Purchase Agreement and our obligations are not expected to be material. However, no assurance can be given that this will continue to be true in the future.

While we believe that we are in compliance with applicable environmental laws in all material respects and are not subject to any environmental proceedings or claims that would have a material adverse effect on our business, we cannot assure you that future events, such as new or more stringent environmental laws and regulations, the discovery of currently unknown environmental conditions, any related claims, or more vigorous enforcement or a new interpretation of existing environmental laws and regulations would not have a material adverse effect on our business. We do not anticipate incurring any material capital expenditures for environmental control facilities for 2016.

Regulatory Developments

The manufacture, sale, purchase, possession, import, export, and use of firearms are subject to extensive federal, state and local governmental regulations. The primary federal laws are the National Firearms Act of 1934 (“NFA”), the Gun Control Act of 1968 (“GCA”), the Arms Export Control Act of 1976 (“AECA”) and the Internal Revenue Code provisions applicable to the Firearms and Ammunition Excise Tax (“FAET”), which have been amended from time to time. These regulations are administered and enforced by government agencies including the Bureau of Alcohol, Tobacco, Firearms and Explosives, the Department of Justice, the Directorate of Defense Trade Controls, the Department of State, the Bureau of Industry and Security, the Department of Commerce, the Alcohol and Tobacco Tax and Trade Bureau, and the Department of Treasury.

We maintain valid federal licenses and registrations at our locations as required by these agencies for us to import, export, manufacture and sell firearms and ammunition. The NFA places various additional restrictions on certain firearms defined in that law and its regulations including fully automatic firearms, short barreled rifles, short barreled shotguns, silencers and destructive devices. We manufacture or import a limited number of products that are regulated under the NFA primarily for official government and law enforcement end users. The GCA places certain restrictions on the interstate sale of firearms, among other things. The AECA requires approved licenses or other authorizations to be in place prior to the import or export of certain defense articles or services. The FAET imposes a federal excise tax on the sale of or use by the manufacturer, producer or importer of firearms and ammunition. There is no assurance that the administrative branches responsible for approving import and export licenses, as well as authorizations or transfers of NFA firearms or other firearms to our customers will do so in all cases, and failure to obtain such approvals could adversely affect our business. In addition, changes in the tax laws or rates could adversely affect our business.

In 2004, the United States Congress declined to renew the Assault Weapons Ban (“AWB”) which generally prohibited the manufacture of certain firearms defined under that statute as “assault weapons” as well as the sale or possession of “assault weapons” except for those that were manufactured prior to the law’s enactment. Various states and local jurisdictions have adopted their own version of the AWB and some of those apply to Bushmaster, DPMS and certain Remington sporting firearms products. We cannot guarantee that an “assault weapons” ban similar to the AWB, or another version thereof, will not be re-enacted. Legislation of this type, if enacted, could have a material adverse effect on our business.

In January 2016, in light of recurring high-profile crimes by individuals involving firearms, President Obama announced executive actions that serve to, among other things, enhance background checks and broaden the definition of a “dealer” under current gun laws. Other objectives of the executive actions are to reduce sales of guns that are not required to be tracked and for which the seller is not required to conduct a background check, to increase reporting by dealers of unauthorized attempts to acquire guns, to provide greater access to information for sellers about prospective buyers of guns, to include mental health treatment and reporting as part to the firearm background check system, and to fund research in gun safety technology. The 2016 executive actions follow a previous attempt by President Obama to act through executive action in 2013, when he announced 23 executive actions intended to reduce violent acts by individuals, which were overridden by Congress. No assurance can be given as to whether some or all of these actions will be adopted, and if they are adopted, the effect they may have on our business, results of operations and financial condition.

At the federal level, bills have, in the past, been introduced in Congress in connection with increasing regulation of firearms, including with respect to the establishment of a nationwide database recording so-called “ballistic images” of ammunition fired from new firearms to restrict or prohibit the manufacture, transfer, importation or sale of certain calibers of handgun ammunition, to impose a tax and import controls on bullets designed to penetrate bullet-proof vests, to impose a special occupational tax and registration requirements on manufacturers of handgun ammunition, and to increase the tax on handgun ammunition in certain calibers. Should these or any other such regulatory bills become law in the future, the cost to the Company and its customers could be significant.

In addition to federal requirements, state and local laws and regulations may place additional restrictions on firearms and ammunition manufacture, sale, purchase, possession and use, some of which would apply to ammunition and firearms of the kind that we produce. Since the beginning of 2013, more than a dozen states and Washington, D.C. have enacted new laws aimed at strengthening restrictions against guns, which have included proposals in respect of the establishment of “ballistic imaging” registries of ammunition fired from new handguns or requirements for “bullet serialization” for ammunition or “microstamping” capabilities for certain firearms. California passed semi-automatic pistol microstamping legislation that went into effect in May 2013, and has resulted in the cessation of semi-automatic pistol sales in California by some large manufacturers.

Federal regulations ban, and certain states (including California, Utah and Arizona) either partially ban or encourage voluntary reductions in, the use of lead based ammunition for certain types of hunting, and environmental groups have been pushing for further restrictions on its use through litigation or proposing legislation. Additionally, numerous jurisdictions presently have mandatory waiting periods for the sale of handguns (and some for the sale of long guns as well), although there are currently few restrictive state or municipal regulations applicable to handgun

ammunition. Our firearms are covered under several state regulations requiring guns to be sold with internal or external locking mechanisms, and some states are considering mandating certain design features on safety grounds, most of which would be applicable only to handguns. Further restrictions on lead-based ammunition or handgun ammunition or design could have an adverse effect on certain of our products or our costs associated with producing such products. No assurance can be given as to the effect such legislation may have on our business, results of operations and financial condition.

We are no longer a defendant in any lawsuits brought by municipalities against participants in the firearms industry. In addition, legislation has been enacted in approximately 34 states precluding such actions. Similar federal legislation, the Protection of Lawful Commerce in Arms Act (“PLCAA”) was signed into law in 2005. However, the applicability of the law to various types of governmental and private lawsuits has been challenged. Any court decision restricting the applicability of the law could adversely impact the business of the Company.

We believe that existing federal and state regulation regarding firearms and ammunition has not had a material adverse effect on our sales of these products to date. However, there can be no assurance that federal, state, local or foreign regulation of firearms and/or ammunition will not become more restrictive in the future and that any such development would not have a material adverse effect on our business either directly or by placing additional burdens on those who distribute and sell our products or those consumers who purchase our products. In addition, future incidents of violence by individuals involving firearms could increase pressure to adopt some or all of the proposed regulations described above or spur additional regulatory proposals at the state and federal levels and call for the adoption of such proposals. Any such development might have a material adverse effect on our business, financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary market risks our financial instruments are exposed to are fluctuations in commodity prices and interest rates. These risks are monitored as part of our risk management control system, and we have established policies and procedures governing our management of market risks. Negotiating favorable prices of raw materials, matching raw material purchases with our short and long-term forecasts and engaging in hedge activities with derivative instruments are some of the strategies we use to manage these market risks. Our activity with derivative instruments is used exclusively as a risk management tool.

Commodity Price Risk

We negotiate with our suppliers to obtain the most favorable prices for our raw materials. We also enter into derivative financial instruments for those commodities that experience greater price volatility. We typically enter into commodity swap contracts for our anticipated purchases of copper and lead. At September 25, 2016, our commodity derivative instruments had a notional amount of 39.5 million pounds and will settle over the next 15 months. The fair values of the open commodity contracts resulted in a \$0.1 million asset. Assuming a hypothetical 10% increase in copper and lead commodity prices which are currently hedged at September 25, 2016, our cost for those related purchases would result in a \$5.2 million loss. Due to the increase in the related hedging instruments' fair values, the hypothetical cost would be offset by \$4.8 million.

Interest Rate Risk

Our Term Loan B and ABL Revolver bear interest at variable rates using LIBOR and Alternate Base Rate interest rates and are susceptible to interest rate fluctuations. We occasionally enter into interest rate swap agreements to manage this risk. Approximately \$614.3 million of our total outstanding debt at September 25, 2016 bears interest at variable rates. Assuming no changes in the monthly average variable-rate debt levels of \$625.5 million for the nine months ended September 25, 2016, we estimate that a hypothetical change of 100 basis points in the LIBOR and Alternate Base Rate interest rates would increase interest expense by \$0.7 million for the nine months ended September 25, 2016.

Item 4. Legal Proceedings

Certain Indemnities

As of the closing of the Asset Purchase in December 1993 under the Purchase Agreement, Remington assumed a number of specified liabilities, including (i) certain trade payables and contractual obligations of DuPont and its affiliates; (ii) limited financial responsibility for specified product liability claims and environmental claims relating to the operation of the Remington business prior to the Asset Purchase; and (iii) liabilities for product liability claims relating to certain occurrences after the Asset Purchase. All other liabilities relating to or arising out of the operation of the Remington business prior to the Asset Purchase from DuPont are excluded liabilities (“Excluded Liabilities”), which DuPont and its affiliates retained. DuPont and its affiliates are required to indemnify us in respect of the Excluded Liabilities.

DuPont and its affiliates’ overall liability in respect of their representations, covenants and the Excluded Liabilities under the Purchase Agreement, excluding environmental liabilities and product liability matters relating to events occurring prior to the purchase but not disclosed, or relating to discontinued products, is limited to \$324.8 million. With a few exceptions, DuPont and its affiliates’ representations under the Purchase Agreement have expired. We made claims for indemnification involving product liability issues prior to such expiration. See “—Product Related Litigation.”

In 1996, DuPont and its affiliates agreed to indemnify Remington in the future (without any survival period limitation or liability cap) in respect of certain product liability and environmental claims. We and DuPont and its affiliates are also party to separate agreements setting forth agreed procedures for the management and disposition of environmental and product liability claims and proceedings relating to the operation or ownership of the Remington business prior to the Asset Purchase, and are currently engaged in the joint defense of certain product liability claims and proceedings. See “—Product Related Litigation.”

Additionally, as part of our recent acquisitions, the Company has received customary product liability, environmental, and legal indemnifications.

Product Related Litigation

We maintain insurance coverage for product liability claims subject to certain self-insured retentions on a per-occurrence basis for personal injury or property damage with respect to Remington (for occurrences arising after the Asset Purchase), Marlin, Bushmaster, DPMS and our other brands and products. We believe that our current product liability insurance coverage for personal injury and property damage, which expires on December 1, 2016, is adequate for our needs. Based in part on the nature of our products, there can be no assurance that we will be able to obtain adequate product liability insurance coverage upon the expiration of the current policy.

As a result of contractual arrangements, we manage the joint defense of product liability litigation involving *Remington* brand firearms and our ammunition products for both Remington and DuPont and its affiliates. As of September 25, 2016, we had a number of individual bodily injury cases and pre-litigation claims in various stages pending relating to firearms and our ammunitions products, primarily alleging defective product design, defective manufacture and/or failure to provide adequate warnings. The pending individual cases and claims involve pre- and post-Asset Purchase occurrences for which we or DuPont bear responsibility under the Purchase Agreement.

The relief sought in individual product liability cases includes compensatory and, in some cases, punitive damages. Certain of the claims and cases seek unspecified compensatory and/or punitive damages. In others, including most recent post-Asset Purchase claims, compensatory damages sought may range from less than \$50,000 to in excess of \$1 million and punitive damages sought may exceed \$1 million, although initial demands have often been reduced as a case proceeds based on a review of the facts and circumstances of a particular matter. We believe that our accruals for product liability cases and claims, as described below, are a better quantitative measure of the cost of product liability cases and claims.

The Company is involved in lawsuits, claims, investigations and proceedings, including commercial, environmental and employment matters, which arise in the ordinary course of business. From late 2012 through 2013, five class actions alleging economic harm were filed in four states (Florida, Missouri (two filings), Washington and Montana), all of which alleged claims of economic harm to gun owners due to an alleged defect. In order to avoid the uncertainties and expense of protracted litigation, following mediation, Remington and the plaintiffs entered into a proposed class settlement. In late 2014, the parties requested preliminary approval of the proposed settlement, which was granted in April of 2015. Prior to the final approval hearing, the court required the parties to develop a supplemental notice plan. In August, 2016, the Court adopted the parties' plan and scheduled a final approval hearing on February 14, 2017. Three of the cases have been voluntarily dismissed without prejudice pending the outcome of the potential settlement and the remaining two class actions are still pending.

At September 25, 2016, our accrual for product liability cases and claims was approximately \$27.3 million, which we believe is adequate. The amount of our accrual for these liability cases and claims is based upon estimates for all claims that can be reasonably estimated. We establish reserves for anticipated defense and disposition costs for those pending cases and claims for which we are financially responsible. Based on those estimates and an actuarial analysis of actual defense and disposition costs incurred by us with respect to product liability cases and claims in recent years, we determine the estimated defense and disposition costs for unasserted product liability cases and claims. We combine the estimated defense and disposition costs for both pending cases and threatened but unasserted claims to determine the amount of our accrual for product liability and product related cases and claims. Based on the relevant circumstances (including, with respect to Remington-based claims, the current availability of insurance involving post-Asset Purchase occurrences, our accruals for the uninsured costs of such cases and claims and DuPont's agreement to be responsible for a portion of certain post-Asset Purchase product liability costs, as well as the type of firearms products that we make), we do not believe with respect to product liability and product related cases and claims that any probable loss exceeding amounts already recognized through our accruals has been incurred.

The Company's assumption of financial responsibility was largely limited to a fixed amount that has now been fully paid, and due to a reduction in expected litigation due to factors including, among others, increased prevalence of insurance and passage of time, the Company believes that product liability cases and claims involving occurrences arising prior to the Asset Purchase are not likely to have a material adverse effect upon the financial condition, results of operations or cash flows of the Company. Nonetheless, in part because the nature and extent of manufacturer liability based on the manufacture and/or sale of allegedly defective products (particularly as to firearms and ammunition) is uncertain, there can be no assurance that the Company's resources will be adequate to cover pending and future product liability and other product related occurrences, cases or claims, in the aggregate, or that such a material adverse effect upon the Company's financial condition, results of operations or cash flows will not result therefrom. Because of the nature of its products, the Company anticipates that it will continue to be involved in product liability and product related litigation in the future.

Other Litigation

We are involved in lawsuits, claims, investigations and proceedings, including commercial, environmental, trade mark, trade dress and employment matters, which arise in the ordinary course of business. In December 2014, we were named as a defendant in a wrongful death litigation case related to the use of one of our *Bushmaster* firearms in the 2012 shooting in Newtown, Connecticut. We filed a motion to dismiss the suit. That motion was denied in April 2016 and a trial date was set for April 2018. Subsequently, we filed a motion to strike plaintiff's amended complaint as well as a summary judgment motion. On October 14, 2016, the court granted the motion to strike. The plaintiffs have indicated that they plan to appeal the court's decision.

Item 5. Risk Factors

In connection with the restatement of our previously issued financial statements for the three months ended March 27, 2016, March 29, 2015 and June 28, 2015 (the “Original Reports”), management has concluded that we had a material weakness in our internal controls over financial reporting.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and effectively prevent or detect fraud. In connection with the restatement of our previously issued financial statements, management has concluded that as of June 26, 2016, and for the periods covered by the Original Reports, we had a material weakness in our internal control over financial reporting. Although we believe that as of the date of this quarterly report we have remediated this material weakness, should we identify any other material weakness, such weakness could have a material adverse effect on our business, results of operations and financial condition, in addition to impairing our ability to meet the reporting requirements under the indenture governing the 2020 Notes in a timely manner and in accordance with GAAP. These effects could in turn result in a material misstatement of our financial position or results of operations and require a further restatement of our financial statements.

Other than as noted above, there have been no other material changes to our Risk Factors from those disclosed in Item 1A of our 2015 Annual Report.