
QUARTERLY REPORT

For the period ended:

July 2, 2017



**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

July 2, 2017

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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 “Outdoor Services” refers to Outdoor Services, LLC and (7) 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

This quarterly report contains statements that 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, businesses and the products of Remington Outdoor Company, Inc. 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 this quarterly report and the other reports we have made available on our website, including the matters set forth under the section entitled “Risk Factors,” could affect (and in some cases, have affected) our actual results and could cause such results to differ materially from estimates or expectations reflected in such forward-looking statements.

- Risks related to our indebtedness structure, including our ability to make scheduled payments of principal and interest on, or to refinance our obligations with respect to our indebtedness, our ability to comply with the covenants and restrictions contained in the instruments governing such indebtedness and the effect our high amount of indebtedness has on our operations and ability to implement our strategy.
- The seasonality of our business and our dependence on the fall hunting season.
- The development of rural property in many locations which could curtail or eliminate access to private and public lands previously available for hunting.
- Risks related to sales to the US and other governments including the use of indefinite delivery, indefinite quantity (“IDIQ”) contracts.

- Disruption in our relationships with suppliers of raw materials.
- Volatility of commodity prices, including those for lead, copper, steel, brass, zinc, oil and natural gas.
- Risks related to the competitive environment in which we operate, including the significant competition we face from domestic and international competitors.
- Risks related to governmental regulation, including the additional costs that could be imposed on us or our customers or the risk that regulation could affect our sales.
- Potential liability under regulations relating to anti-corruption, trade controls, economic sanctions and similar laws.
- Product recalls, class action and product liability litigation, as well as unfavorable publicity or public perception of the firearms industry generally.
- Failure to maintain the strength of our brands, which may affect our market position and thus our financial condition.
- Potential exposure to claw-back provisions for a failure to meet certain targets related to construction, development and renovation incentives at our Arkansas and Alabama facilities.
- A diversion in management's focus due to our realignment activities.
- The impact of presidential, congressional and state electoral outcomes on the demand for our products.
- Our reliance on sales made to Wal-Mart, which accounted for 7%, 9%, 13% and 9% of our total sales for the six-month period ended July 2, 2017 and the years ended December 31, 2016, 2015 and 2014, respectively.

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)

	July 2, 2017	December 31, 2016	June 26, 2016
	<i>Unaudited</i>		<i>Unaudited</i>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 116.5	\$ 116.2	\$ 118.7
Trade Receivables, net of \$3.5, \$2.1, and \$0.6 allowance for bad debts, respectively	141.5	99.6	199.6
Inventories	306.4	255.1	254.6
Prepaid Expenses and Miscellaneous Receivables	19.1	21.3	12.8
Assets Held for Sale	-	1.1	-
Total Current Assets	583.5	493.3	585.7
Property, Plant and Equipment, net of accumulated depreciation	236.3	237.9	239.9
Goodwill	51.3	79.9	80.0
Intangible Assets, net of accumulated amortization	83.5	89.9	93.1
Other Assets	20.4	19.8	17.4
Total Assets	\$ 975.0	\$ 920.8	\$ 1,016.1
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current Liabilities			
Accounts Payable	\$ 66.3	\$ 78.6	\$ 91.8
Short-Term Borrowings	7.4	7.9	6.3
Current Portion of Product Liability	11.1	8.2	9.2
Accrued Income Tax Provision	1.0	-	5.1
Accrued Expenses	97.1	117.1	120.7
Total Current Liabilities	182.9	211.8	233.1
Long-Term Debt, net of current portion	952.8	817.2	913.6
Retiree Benefits, net of current portion	80.5	81.6	77.8
Product Liability, net of current portion	19.6	19.6	17.2
Deferred Tax Liabilities	25.0	36.4	35.0
Other Long-Term Liabilities	51.7	51.4	51.4
Total Liabilities	1,312.5	1,218.0	1,328.1
Commitments and Contingencies (Note 13)			
Common Stock, Issued 351,472, 351,472 and 351,623 shares, respectively	0.2	0.2	0.2
Less: Treasury Stock	(0.2)	(0.2)	(0.2)
Paid-in Capital	12.8	12.3	11.6
Accumulated Other Comprehensive Loss	(77.4)	(81.1)	(85.9)
Accumulated Deficit	(272.9)	(228.4)	(237.5)
Total Parent's Deficit	(337.5)	(297.2)	(311.8)
Noncontrolling Interest Deficit	-	-	(0.2)
Total Stockholders' Deficit	(337.5)	(297.2)	(312.0)
Total Liabilities and Stockholders' Equity (Deficit)	\$ 975.0	\$ 920.8	\$ 1,016.1

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 six months ended	
	July 2,	June 26,	July 2,	June 26,
	2017	2016	2017	2016
Net Sales	\$ 155.0	\$ 204.3	\$ 312.6	\$ 422.3
Cost of Goods Sold	121.5	151.8	247.9	308.9
Gross Profit	33.5	52.5	64.7	113.4
Selling, General and Administrative Expenses	22.3	25.7	50.1	57.1
Research and Development Expenses	3.1	3.4	6.3	7.0
Impairment Charges	-	-	33.2	-
Other Expense	1.3	1.2	2.2	2.3
Operating Income (Loss)	6.8	22.2	(27.1)	47.0
Interest Expense	15.5	15.7	30.1	31.0
Income (Loss) Before Income Taxes and Noncontrolling Interests	(8.7)	6.5	(57.2)	16.0
Income Tax Expense (Benefit)	0.8	11.1	(12.7)	6.2
Net Income (Loss)	(9.5)	(4.6)	(44.5)	9.8
Add: Net (Income) Loss Attributable to Noncontrolling Interest	-	(0.2)	-	(0.2)
Net Income (Loss) Attributable to Controlling Interest	\$ (9.5)	\$ (4.8)	\$ (44.5)	\$ 9.6
Net Income (Loss) Applicable to Common Stock	\$ (9.5)	\$ (4.8)	\$ (44.5)	\$ 9.6
Net Income (Loss) Per Common Share, Basic	\$ (27.00)	\$ (13.23)	\$ (127.42)	\$ 27.68
Net Income (Loss) Per Common Share, Diluted	\$ (27.00)	\$ (13.23)	\$ (127.42)	\$ 27.68
Weighted Average Number of Shares Outstanding, Basic	349,270	347,131	349,017	346,858
Weighted Average Number of Shares Outstanding, Diluted	349,270	347,131	349,017	346,858

Net Sales are presented net of Federal Excise taxes of \$13.5 and \$18.1 for the three months ended July 2, 2017 and June 26, 2016, respectively, and \$25.7 and \$35.5 for the six months ended July 2, 2017 and June 26, 2016, 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 six months ended</u>	
	<u>July 2, 2017</u>	<u>June 26, 2016</u>	<u>July 2, 2017</u>	<u>June 26, 2016</u>
Net Income (Loss)	\$ (9.5)	\$ 44.8	\$ (44.5)	\$ 9.8
Other Comprehensive Income (Loss):				
Net Foreign Currency Translation Adjustments	-	(0.1)	-	(0.4)
Net Derivative Gains (Losses), net	(1.0)	3.9	3.7	6.3
Total Other Comprehensive Income (Loss)	(1.0)	3.8	3.7	5.9
Comprehensive Income (Loss)	(10.5)	48.6	(40.8)	15.7
Add: Comprehensive Loss Attributable to Noncontrolling Interests	-	(0.2)	-	(0.2)
Total Comprehensive Income (Loss) Attributable to Controlling Interests	<u>\$ (10.5)</u>	<u>\$ 48.4</u>	<u>\$ (40.8)</u>	<u>\$ 15.5</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 six months ended July 2, 2017	For the six months ended June 26, 2016
<u>Operating Activities</u>		
Net Income (Loss)	\$ (44.5)	\$ 9.8
Adjustments:		
Impairment Charges	33.2	-
Depreciation	10.7	11.7
Amortization	1.9	2.4
Retirement Plans' Expense (Income)	0.4	0.2
Deferred Income Taxes	(13.8)	1.0
Share Based Compensation Charges	0.5	0.9
Other Non-Cash Charges	2.3	4.5
Changes in Operating Assets and Liabilities:		
Trade Receivables	(42.0)	(100.4)
Inventories, net	(46.4)	(35.6)
Prepaid Expenses and Other Assets	3.8	(1.5)
Accounts Payable	(11.9)	9.9
Accrued Income Tax Provision	1.0	5.1
Contributions to Retirement Plans	(1.4)	(0.3)
Other Liabilities	(12.6)	5.2
Net Cash Used in Operating Activities	<u>(118.8)</u>	<u>(87.1)</u>
<u>Investing Activities</u>		
Purchase of Property, Plant and Equipment	(12.1)	(10.6)
Proceeds from Sale of Subsidiary, net	-	0.8
Proceeds from Sale of Property, Plant and Equipment	1.7	1.6
Net Cash Used in Investing Activities	<u>(10.4)</u>	<u>(8.2)</u>
<u>Financing Activities</u>		
Proceeds from Revolving Credit Facilities	212.5	203.1
Payments on Revolving Credit Facilities	(76.8)	(104.1)
Principal Payments on Debt	(4.6)	(2.5)
Payment of Stock Dividends	(0.2)	(0.2)
Proceeds from State and Local Incentives	1.8	2.3
Book Overdraft	(3.2)	(2.6)
Net Cash Provided by (Used in) Financing Activities	<u>129.5</u>	<u>96.0</u>
Effect of Exchange Rate Changes on Cash	-	(0.4)
Change in Cash and Cash Equivalents	0.3	0.3
Cash and Cash Equivalents at Beginning of Period	116.2	118.4
Cash and Cash Equivalents at End of Period	<u>\$ 116.5</u>	<u>\$ 118.7</u>
Supplemental Cash Flow Information:		
Cash Paid During the Period for:		
Interest	\$ 27.4	\$ 26.8
Income Taxes, Net of Refunds	(0.2)	(0.4)
Noncash Financing and Investing Activities:		
Accrued Capital Expenditures	1.9	4.4
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, 2017	\$ 0.2	\$ (0.2)	\$ 12.3	\$ (81.1)	\$ (228.4)	\$ (297.2)	\$ -	\$ (297.2)
Net Income					(44.5)	(44.5)	-	(44.5)
Other Comprehensive Income				3.7		3.7		3.7
Share-Based Compensation			0.5			0.5		0.5
Balance, July 2, 2017	<u>\$ 0.2</u>	<u>\$ (0.2)</u>	<u>\$ 12.8</u>	<u>\$ (77.4)</u>	<u>\$ (272.9)</u>	<u>\$ (337.5)</u>	<u>\$ -</u>	<u>\$ (337.5)</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, 2016	\$ 0.2	\$ (0.2)	\$ 10.7	\$ (91.8)	\$ (247.1)	\$ (328.2)	\$ (0.4)	\$ (328.6)
Net Income					9.6	9.6	0.2	9.8
Other Comprehensive Income				5.9		5.9		5.9
Share-Based Compensation			0.9			0.9		0.9
Balance, June 26, 2016	<u>\$ 0.2</u>	<u>\$ (0.2)</u>	<u>\$ 11.6</u>	<u>\$ (85.9)</u>	<u>\$ (237.5)</u>	<u>\$ (311.8)</u>	<u>\$ (0.2)</u>	<u>\$ (312.0)</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”). On October 14, 2016, the Company sold substantially all of the assets of its interest in Remington Outdoor (UK) Ltd. (“Remington UK”). The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, including Remington UK through the date of its sale. All significant intercompany accounts and transactions have been eliminated.

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, 2016. 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 six 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 and the effects of master netting agreements:

As of July 2, 2017	Level 1	Level 2	Level 3	Netting Adjustments	Net Fair Value
Assets:					
Commodity Derivative Contracts	\$ -	\$ 7.1	\$ -	\$ -	\$ 7.1
Interest Rate Derivative Contracts	-	1.5	-	(1.1)	\$ 0.4
Total Assets	\$ -	\$ 8.6	\$ -	\$ (1.1)	\$ 7.5
Liabilities:					
Commodity Derivative Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Interest Rate Derivative Contracts	-	1.1	-	(1.1)	-
Total Liabilities	\$ -	\$ 1.1	\$ -	\$ (1.1)	\$ -
As of December 31, 2016:					
Assets:					
Commodity Derivative Contracts	\$ -	\$ 5.7	\$ -	\$ (0.2)	\$ 5.5
Interest Rate Derivative Contracts	-	1.5	-	(1.4)	\$ 0.1
Total Assets	\$ -	\$ 7.2	\$ -	\$ (1.6)	\$ 5.6
Liabilities:					
Commodity Derivative Contracts	\$ -	\$ 0.2	\$ -	\$ (0.2)	\$ -
Interest Rate Derivative Contracts	-	1.4	-	(1.4)	-
Total Liabilities	\$ -	\$ 1.6	\$ -	\$ (1.6)	\$ -
As of June 26, 2016					
Assets:					
Interest Rate Derivative Contracts	\$ -	\$ 0.3	\$ -	\$ (0.3)	\$ -
Total Assets	\$ -	\$ 0.3	\$ -	\$ (0.3)	\$ -
Liabilities:					
Commodity Derivative Contracts	\$ -	\$ 6.5	\$ -	\$ -	\$ 6.5
Interest Rate Derivative Contracts	-	1.5	-	(0.3)	1.2
Total Liabilities	\$ -	\$ 8.0	\$ -	\$ (0.3)	\$ 7.7

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.

Nonrecurring Fair Value Measurements

The following table presents assets that were measured at fair value on a nonrecurring basis as of December 31, 2016 and July 2, 2017:

	Fair Value as of December 31, 2016	Fair Value as of July 2, 2017	Impairment Charge
Goodwill ¹	\$ 42.3	\$ 13.7	\$ 28.6
Intangible Assets ¹	15.5	11.0	4.5
Property, Plant and Equipment ²	0.1	-	0.1
Total	\$ 57.9	\$ 24.7	\$ 33.2

¹ The Company recognized impairment charges of \$33.1 on intangible assets in its Firearms segment, consisting of \$28.6 of goodwill impairment and \$4.5 of intangible assets impairment. The charge was

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

determined by comparing the fair value of the assets to their carrying value. The fair value was calculated using the discounted cash flow method based on Level 3 inputs and the market approach based on Level 2 inputs. Refer to note 4.

² In 2017, the Company recognized impairment charges of \$0.1 on the write off of equipment related to the consolidation of the Kennesaw, Georgia facility into the Huntsville, Alabama facility.

Other Fair Value Measurements

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 fair value of the Company's fixed rate notes was measured using the quoted trading price of its notes at July 2, 2017, December 31, 2016, and June 26, 2016, which is considered a Level 2 input. The following table describes the estimated fair value of the Company's debt for the periods indicated:

	July 2, 2017	December 31, 2016	June 26, 2016
Fair Value	\$ 853.3	\$ 768.6	\$ 778.9
Carrying Value	\$ 971.4	\$ 838.8	\$ 935.9

Concentrations of Credit Risk

Sales to one customer represented 7.4% and 10.3% of sales for the three and six months ended July 2, 2017. Sales to the same customer represented 12.1% and 10.0% of sales for the three and six months ended June 26, 2016.

3. Inventories

	July 2, 2017	December 31, 2016	June 26, 2016
Raw Materials	\$ 65.0	\$ 65.5	\$ 65.2
Semi-Finished Products	50.5	45.1	45.9
Finished Products	190.9	144.5	143.5
Total	\$ 306.4	\$ 255.1	\$ 254.6

4. Intangible Assets

Goodwill

The following table summarizes the carrying amounts of goodwill for the periods ended July 2, 2017, December 31, 2016, and June 26, 2016:

Goodwill by Segment:	July 2, 2017	December 31, 2016	June 26, 2016
Firearms ¹	\$ 14.6	\$ 43.2	\$ 43.2
Ammunition	23.9	23.9	23.9
Consumer	12.8	12.8	12.9
Total Goodwill	\$ 51.3	\$ 79.9	\$ 80.0

¹ The Company recognized a \$28.6 impairment charge related to goodwill in its Firearms segment as a result of the goodwill impairment testing completed during the three months ended April 2, 2017.

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 July 2, 2017, December 31, 2016, and June 26, 2016:

	July 2, 2017	December 31, 2016	June 26, 2016
<i>Indefinite-Lived Intangible Assets:</i>			
Trademarks ¹	\$ 62.6	\$ 67.1	\$ 67.7
<i>Definite-Lived Intangible Assets:</i>			
Customer Relationships	19.7	21.2	23.4
Developed Technology	1.0	1.3	1.7
Other	0.2	0.3	0.3
Total Intangible Assets Other than Goodwill	\$ 83.5	\$ 89.9	\$ 93.1

¹ The Company recognized a \$4.5 impairment charge related to trademarks in its Firearms segment as a result of the trademark impairment testing completed during the three months ended April 2, 2017.

The following table summarizes changes related to the carrying amounts of the Company's definite-lived intangible assets for the six months ended July 2, 2017:

Definite-Lived Intangible Assets:	December 31, 2016	Changes ¹	July 2, 2017
Customer Relationships, net	\$ 21.2	\$ (1.5)	\$ 19.7
Developed Technology, net	1.3	(0.3)	1.0
Other, net ²	0.3	(0.1)	0.2
Total Definite-Lived Intangible Assets, net	\$ 22.8	\$ (1.9)	\$ 20.9

¹ Amortization expense of intangible assets was \$0.9 and \$1.1 for the three months ended July 2, 2017 and June 26, 2016, respectively, and \$1.9 and \$2.4 for the six months ended July 2, 2017 and June 26, 2016, respectively.

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

5. Accrued Liabilities

Accrued Liabilities consisted of the following at:

	July 2, 2017	December 31, 2016	June 26, 2016
Product Safety Reserve	\$ 9.5	\$ 10.2	\$ 10.5
Settlement Reserve	22.3	23.5	25.1
Excise Tax	13.1	17.5	17.0
Marketing	9.0	21.2	13.9
Other	43.2	44.7	54.2
Total	\$ 97.1	\$ 117.1	\$ 120.7

6. Debt

The Company's long-term debt consisted of the following as of July 2, 2017, December 31, 2016 and June 26, 2016:

July 2, 2017	Total Debt	Debt Issuance Costs	Net Debt
7.875% Senior Secured Notes due 2020 (the "2020 Notes")	\$ 250.0	\$ (4.2)	\$ 245.8
Seven Year Term Loan B (the "Term Loan B")	551.9	(5.5)	546.4
Credit Facility (the "ABL Revolver" or "ABL")	155.4	(1.5)	153.9
Promissory Note	12.5	-	12.5
Other Debt ¹	1.6	-	1.6
Subtotal	\$ 971.4	\$ (11.2)	\$ 960.2
Less: Current Portion	(7.4)	-	(7.4)
Total	\$ 964.0	\$ (11.2)	\$ 952.8

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December 31, 2016	Total Debt	Debt Issuance Costs	Net Debt
2020 Notes	\$ 250.0	\$ (4.9)	\$ 245.1
Term Loan B	554.5	(6.9)	547.6
ABL Revolver	19.7	(1.9)	17.8
Promissory Note	12.5	-	12.5
Other Debt ¹	2.1	-	2.1
Subtotal	\$ 838.8	\$ (13.7)	\$ 825.1
Less: Current Portion	(7.9)	-	(7.9)
Total	\$ 830.9	\$ (13.7)	\$ 817.2

June 26, 2016	Total Debt	Debt Issuance Costs	Net Debt
2020 Notes	\$ 250.0	\$ (5.5)	\$ 244.5
Term Loan B	558.5	(8.3)	550.2
ABL Revolver	114.4	(2.2)	112.2
Promissory Note	12.5	-	12.5
Other Debt ¹	0.5	-	0.5
Subtotal	\$ 935.9	\$ (16.0)	\$ 919.9
Less: Current Portion	(6.3)	-	(6.3)
Total	\$ 929.6	\$ (16.0)	\$ 913.6

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

2020 Notes

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 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 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 July 2, 2017, 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.

On April 25, 2017, the Company entered into an Incremental Amendment No. 2 to the ABL Revolver. The amendment utilizes existing provisions within the ABL Revolver to temporarily increase total borrowing availability

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under the existing ABL Revolver from \$225.0 to \$264.7 until December 4, 2017. During this period, the minimum availability condition was increased to \$39.7 (the “Excess Availability”).

As of July 2, 2017, the Company had \$155.4 of outstanding borrowings under the ABL Revolver with a 3.33% weighted average interest rate. At July 2, 2017, the Company had the ability to borrow an additional \$32.1 under the ABL Revolver after taking into account the Excess Availability. If the Excess Availability falls below \$39.7, 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 \$26.5, lenders have the right to enforce collections and amounts owed to FGI Opco on certain accounts and collateral.

Outstanding standby letters of credit at July 2, 2017 were approximately \$8.2.

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, 2016, the Company had met the criteria for the year preceding and no principal and interest payments are due in 2017.

Other Debt

Short-Term Borrowings consist of unsecured, fixed interest agreements for financing premiums on the Company’s insurance policies. The interest rates under these annual agreements range from 3.25%-3.44% mature within the next year.

The Company was in compliance with its debt covenants at July 2, 2017. For a further description of our other indebtedness, see “7. Debt—Other Debt” on our form 10-K for the year ended December 31, 2016 available on our website.

7. Stock Compensation

Restricted Stock/Restricted Units

There were no changes in the restricted common unit/shares for the six months ended July 2, 2017 as compared to the year ended December 31, 2016:

	Restricted Common Units/Shares Outstanding	Weighted-Average Grant Date Fair Value	Units/Shares Vested
Balance at December 31, 2016	9,318	\$ 2,006.47	8,320
Balance at July 2, 2017	9,318	\$ 2,006.47	8,816

Compensation expense related to restricted share incentive awards was approximately \$0.1 and \$0.3 for the three and six months ended July 2, 2017, respectively. Compensation expense related to restricted share incentive awards was approximately \$0.2 and \$0.4 for the three and six months ended June 26, 2016. The Company expects to recognize an additional \$0.3 in compensation expense through 2017 for the non-vested restricted shares.

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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 \$0.2 of compensation expense for the three and six months ended July 2, 2017, respectively. The Company recognized approximately \$0.3 and \$0.5 of compensation expense for the three and six months ended June 26, 2016, respectively. The Company expects to recognize \$0.8 in additional compensation expense through 2020 related to the outstanding options.

A summary of the stock option activity for the Plan for the six months ended July 2, 2017 is as follows:

	Number of Awards	Weighted-Average Exercise Price
Awards outstanding at December 31, 2016	33,186	\$ 65.71
Awards Forfeited	2,634	\$ 145.46
Awards outstanding at July 2, 2017	30,552	\$ 58.84
Awards vested at July 2, 2017	15,123	\$ 60.72
Awards available for grant at July 2, 2017	8,253	

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 June 26, 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.

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 six months ended July 2, 2017:

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Common Stock	Issued	Held in Treasury	Outstanding
Shares of Common Stock at December 31, 2016	351,472	(685)	350,787
Shares of Common Stock at July 2, 2017	351,472	(685)	350,787

9. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) (“OCI”) and their related tax effects for the three months ended July 2, 2017 and June 26, 2016 are as follows:

Three Months Ended July 2, 2017	Before Taxes	Taxes	After Taxes
Foreign currency translation adjustments ^{1,2}	\$ -	\$ -	\$ -
Net derivatives: ³			
Net unrealized gains (losses) recognized in OCI	(0.4)	0.1	(0.3)
Net (gains) losses reclassified into earnings	(1.3)	0.6	(0.7)
Net derivative gains (losses) ²	\$ (1.7)	\$ 0.7	\$ (1.0)
Other Comprehensive Income (Loss) ²	\$ (1.7)	\$ 0.7	\$ (1.0)

Three Months Ended June 26, 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	(1.7)	-	(1.7)
Net (gains) losses reclassified into earnings	4.1	1.5	5.6
Net derivative gains (losses) ²	\$ 2.4	\$ 1.5	\$ 3.9
Other Comprehensive Income (Loss) ²	\$ 2.3	\$ 1.5	\$ 3.8

The components of OCI and their related tax effects for the six months ended July 2, 2017 and June 26, 2016 are as follows:

Six Months Ended July 2, 2017	Before Taxes	Taxes	After Taxes
Foreign currency translation adjustments ^{1,2}	\$ -	\$ -	\$ -
Net derivatives: ³			
Net unrealized gains (losses) recognized in OCI	6.4	(2.5)	3.9
Net (gains) losses reclassified into earnings	(0.4)	0.2	(0.2)
Net derivative gains (losses) ²	\$ 6.0	\$ (2.3)	\$ 3.7
Other Comprehensive Income (Loss) ²	\$ 6.0	\$ (2.3)	\$ 3.7

Six Months Ended June 26, 2016	Before Taxes	Taxes	After Taxes
Foreign currency translation adjustments ^{1,2}	\$ (0.4)	\$ -	\$ (0.4)
Net derivatives: ³			
Net unrealized gains (losses) recognized in OCI	(1.6)	-	(1.6)
Net (gains) losses reclassified into earnings	7.9	-	7.9
Net derivative gains (losses) ²	\$ 6.3	\$ -	\$ 6.3
Other Comprehensive Income (Loss) ²	\$ 5.9	\$ -	\$ 5.9

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 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.

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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>Six Months Ended</u>	
	<u>July 2, 2017</u>	<u>June 26, 2016</u>	<u>July 2, 2017</u>	<u>June 26, 2016</u>
Numerator:				
Net income (loss) applicable to common shareholders	\$ (9.5)	\$ (4.8)	\$ (44.5)	\$ 9.6
Denominator:				
Weighted average common shares outstanding (basic)	349,270	347,131	349,017	346,858
Weighted average common shares outstanding (diluted)	349,270	347,131	349,017	346,858
Loss per Common Share:				
Basic	\$ (27.00)	\$ (13.23)	\$ (127.42)	\$ 27.68
Diluted	\$ (27.00)	\$ (13.23)	\$ (127.42)	\$ 27.68

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>Six Months Ended</u>	
	<u>July 2, 2017</u>	<u>June 26, 2016</u>	<u>July 2, 2017</u>	<u>June 26, 2016</u>
Restricted Stock	1,039	3,806	1,039	3,806
Stock Options	30,552	35,118	30,552	35,118
Total	31,591	38,924	31,591	38,924

11. Income Taxes

The effective tax rate on continuing operations for the six months ended July 2, 2017 and June 26, 2016 was 22.2% and 38.8%, respectively.

The difference between the actual effective tax rate and the federal statutory rate of 35% for the six months ended July 2, 2017 was principally due to the impairment of goodwill and trademarks as well as an income tax benefit recorded in continuing operations as a result of income tax expense recorded in OCI due to the ASC 740 intraperiod allocation rules.

The difference between the actual effective tax rate and the federal statutory rate of 35% for the six months ended June 26, 2016 was principally due to an increase in deferred tax liabilities associated with indefinite lived intangible assets.

As of July 2, 2017, a valuation allowance of \$104.2 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.

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

	Three Months Ended		Six Months Ended	
	July 2, 2017	June 26, 2016	July 2, 2017	June 26, 2016
Service cost	\$ -	\$ -	\$ 0.1	\$ 0.1
Interest Cost	2.5	2.6	5.0	5.2
Expected Return on Assets	(3.5)	(3.5)	(7.0)	(7.1)
Recognized Net Actuarial Losses	1.1	1.0	2.2	1.9
Net Periodic Pension Cost	\$ 0.1	\$ 0.1	\$ 0.3	\$ 0.1

The Company made approximately \$1.4 of contributions to its Plans in the six months ended July 2, 2017. The Company expects to make aggregate cash contributions totaling approximately \$8.1 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		Six Months Ended	
	July 2, 2017	June 26, 2016	July 2, 2017	June 26, 2016
Interest Cost	\$ 0.1	\$ -	\$ 0.1	\$ 0.2
Net Periodic Post-Retirement Cost	\$ 0.1	\$ -	\$ 0.1	\$ 0.2

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") executed 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

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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 July 2, 2017, December 31, 2016, and June 26, 2016, the Company's accrual for product liability cases and claims was \$30.7, \$27.8, and \$26.4, respectively.

As of July 2, 2017, 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. A final approval hearing was held on February 14, 2017. On March 14, 2017, the Court entered a final order granting the parties' joint motion for final settlement approval, certifying classes for settlement purposes, approving the plaintiffs' supplemental fee application, and dismissing the matter with prejudice. The objectors filed a notice of appeal on April 13, 2017. The objectors filed an opening brief on June 21, 2017. The remaining parties' response brief is currently due on August 17, 2017. The objectors' reply brief is due within two weeks of the response brief.

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.

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 \$3.0 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 July 2, 2017, the fair values of the Company's outstanding swap contracts were \$7.1 and hedged firm commitments of an aggregate notional amount of 42.8 million pounds of copper and lead. The commodity swap contracts outstanding at July 2, 2017 will settle at various times over the next 18 months. At December 31, 2016, the fair values of the Company's outstanding swap contracts were \$5.5 and hedged firm commitments of an aggregate notional amount of 49.9 million pounds of copper and lead and were expected to settle over 18 months. At June 26, 2016, the fair values of the Company's outstanding swap contracts were \$(6.5) and hedged firm commitments of an aggregate notional amount of 54.1 million pounds of copper and lead. The commodity swap contracts outstanding at June 26, 2016 were expected to settle over 17 months.

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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	July 2, 2017	December 31, 2016	June 26, 2016
Assets				
Commodity Contracts	Prepaid Expenses and Misc. Receivables	\$ 6.6	\$ 5.5	\$ -
Commodity Contracts	Other Assets	0.5	-	-
Total Assets ¹		\$ 7.1	\$ 5.5	\$ -
Liabilities				
Commodity Contracts	Accounts Payable	\$ -	\$ -	\$ 6.4
Commodity Contracts	Other Long-Term Liabilities	-	-	0.1
Total Liabilities ¹		\$ -	\$ -	\$ 6.5

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 following dates:

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 July 2, 2017				
Commodity Contracts	\$ (0.3)	Cost of Sales	\$ 0.7	\$ -
Total ¹			\$ 0.7	\$ -
Three Months Ended June 26, 2016				
Commodity Contracts	\$ (1.7)	Cost of Sales	\$ (5.6)	\$ -
Total ¹			\$ (5.6)	\$ -

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)
Six Months Ended July 2, 2017				
Commodity Contracts	\$ 3.9	Cost of Sales	\$ 0.2	\$ -
Total ¹			\$ 0.2	\$ -
Six Months Ended June 26, 2016				
Commodity Contracts	\$ (1.6)	Cost of Sales	\$ (7.9)	\$ -
Total ¹			\$ (7.9)	\$ -

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.

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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 July 2, 2017 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	July 2, 2017	December 31, 2016	June 26, 2016
Assets				
Interest Rate Swaps	Other Assets	\$ 1.5	\$ 1.5	\$ 0.3
Total Assets ¹		\$ 1.5	\$ 1.5	\$ 0.3
Liabilities				
Interest Rate Swaps	Accrued Expenses	\$ 1.1	\$ 1.4	\$ 1.5
Total Liabilities ¹		\$ 1.1	\$ 1.4	\$ 1.5

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 six months ended July 2, 2017 and June 26, 2016:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Earnings	Gain (Loss) Gain Recognized in Earnings
Three Months Ended July 2, 2017		
Interest Rate Swaps	Interest Income (Expense)	\$ -

Three Months Ended June 26, 2016		
Interest Rate Swaps	Interest Income (Expense)	\$ (0.8)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Earnings	Gain (Loss) Recognized in Earnings
Six Months Ended July 2, 2017		
Interest Rate Swaps	Interest Income (Expense)	\$ 0.2

Six Months Ended June 26, 2016		
Interest Rate Swaps	Interest Income (Expense)	\$ (1.8)

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, are aggregated into the Consumer category.

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Results for the Company’s reporting segments for the three months ended July 2, 2017 and June 26, 2016 are as follows:

Three Months Ended	July 2, 2017	June 26, 2016
Net Sales from External Customers:		
Firearms	\$ 65.2	\$ 94.8
Ammunition	80.4	93.0
Consumer	9.4	16.5
Total Net Sales from External Customers	\$ 155.0	\$ 204.3
Adjusted Gross profit:		
Firearms	\$ 11.2	\$ 20.3
Ammunition	23.7	30.6
Consumer	3.0	6.4
Segment Adjusted Gross Profit	\$ 37.9	\$ 57.3
Less Adjusted EBITDA Adjustments ¹	4.4	4.8
Consolidated Gross Profit	\$ 33.5	\$ 52.5
Adjusted Operating expenses	\$ 23.7	\$ 27.2
Add Adjusted EBITDA Adjustments ¹	3.0	3.1
Consolidated Operating Expenses	\$ 26.7	\$ 30.3
Interest Expense ¹	\$ 15.5	\$ 15.7
Income (Loss) Before Income Taxes and Noncontrolling Interest ¹	\$ (8.7)	\$ 6.5

¹ Adjusted EBITDA was \$14.2 and \$30.1 for the three months ended July 2, 2017 and June 26, 2016, respectively.

Results for the Company’s reporting segments for the six months ended July 2, 2017 and June 26, 2016 are as follows:

Six Months Ended	July 2, 2017	June 26, 2016
Net Sales from External Customers:		
Firearms	\$ 149.2	\$ 210.1
Ammunition	143.0	179.1
Consumer	20.4	33.1
Total Net Sales from External Customers	\$ 312.6	\$ 422.3
Adjusted Gross profit:		
Firearms	\$ 25.7	\$ 53.7
Ammunition	40.9	57.6
Consumer	7.4	11.5
Segment Adjusted Gross Profit	\$ 74.0	\$ 122.8
Less EBITDA Adjustments ¹	9.3	9.4
Consolidated Gross Profit	\$ 64.7	\$ 113.4
Adjusted Operating expenses	\$ 49.8	\$ 59.2
Add EBITDA Adjustments ¹	42.0	7.2
Consolidated Operating Expenses	\$ 91.8	\$ 66.4
Interest Expense ¹	\$ 30.1	\$ 31.0
Income (Loss) Before Income Taxes and Noncontrolling Interest ¹	\$ (57.2)	\$ 16.0

¹ Adjusted EBITDA was \$24.2 and \$63.6 for the six months ended July 2, 2017 and June 26, 2016, respectively.

16. New Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-01, “—Business Combinations (Topic 805): Clarifying the Definition of a Business”. This ASU

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contains amendments to clarify the definition of a business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The guidance is effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those periods. For all other companies and organizations, the amendments are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted under certain circumstances. The amendments should be applied prospectively as of the beginning of the period of adoption. The Company is currently evaluating the impact of this guidance on its financial statements and the timing of adoption.

In January 2017, the FASB issued ASU 2017-03, “—Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings”. This ASU adds and amends SEC paragraphs pursuant to the SEC Staff Announcements at the September 22, 2016 and November 17, 2016 Emerging Issues Task Force (EITF) meetings. The September announcement is about the Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of a Registrant When Such Standards are Adopted in a Future Period. The November announcement made amendments to conform the SEC Observer Comment on Accounting for Tax Benefits Resulting from Investments in Qualified Affordable Housing Projects to the guidance issued in ASU 2014-01, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*. The Company is currently evaluating the impact of this guidance on its financial statements and the timing of adoption.

In January 2017, the FASB issued ASU 2017-04, “—Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”. This ASU eliminates Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The guidance is effective for public business entities that are SEC filers for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The guidance is effective for public business entities that are not SEC filers for its annual or interim impairment tests beginning after December 15, 2020. All other entities should adopt the guidance for their annual or interim goodwill impairments tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company early adopted the provisions of ASU 2017-04 as of January 1, 2017 in order to simplify the measurement of goodwill.

In February 2017, the FASB issued ASU 2017-05, “—Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets”. This amendment clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments also define the term in substance nonfinancial asset. The amendments clarify that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The effective date and transition is the same as the effective date and transition requirements under ASU 2015-14. The Company is currently evaluating the impact of this guidance on its financial statements and the timing of adoption.

In February 2017, the FASB issued ASU 2017-06, “Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Pension Plans (Topic 962); Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting”. The amendments require a plan’s interest in that master trust and any change in that interest to be presented in separate line items in the statement of net assets available for benefits and in the statement of changes in net assets available for benefits, respectively. The amendments also remove the requirement to disclose the percentage interest in the master trust for plans with divided interests and require that all plans disclose the dollar amount of their interest in each of those general types of investments. The amendments require all plans to

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disclose: (a) their master trust's other asset and liability balances; and (b) the dollar amount of the plan's interest in each of those balances. Lastly, the amendments eliminate redundant investment disclosures. This ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its financial statements and the timing of adoption.

In March 2017, the FASB issued ASU 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendments apply to all entities that offer employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715, Compensation — Retirement Benefits. The amendments require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. This ASU is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. For other entities, the amendments are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is currently evaluating the impact of this guidance on its financial statements and the timing of adoption.

In May 2017, the FASB issued ASU 2017-09 "—Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting". This amendment provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The effective date for all entities is for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. The new guidelines will be applied prospectively to awards modified on or after the adoption date. Early adoption is permitted for public business entities for reporting periods for which financial statements have not yet been issued and for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The Company is currently evaluating the impact of this guidance on its financial statements and the timing of adoption.

17. Subsequent Events

Subsequent events have been evaluated through August 14, 2017, 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, owned Remington Outdoor (UK) Ltd. (“Remington UK”) (through date sold of October 14, 2016).

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
- 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. *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 one of the largest major U.S. manufacturers of both firearms and ammunition, which provides a significant competitive advantage and supports our market leadership position. Our over 3,000 employees represent 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 over 40 countries.

Current Market Conditions

Our firearms, ammunition and related accessory products are experiencing a continued reduction in demand which started in the middle of our first quarter. Total National Instant Criminal Background Checks System (“NICS”) checks were down 2.04% in the second quarter of 2017 and 7.49% year-to-date.

We believe the slow-down is being driven by increased competitive pressures from:

- Reduced consumer demand and excess inventories,
- Increased manufacturing capacity in the industry,
- Low barriers to entry in the modern sporting rifle (“MSR”) segment, particularly for existing firearms manufacturers,
- Lack of differentiation and true value in the segment, and
- An increase in import products.

We believe our customers are adjusting their inventories to current market tendencies with lower purchasing volumes, and utilizing advertising and promotional activities to improve sell through rates. Competitive promotions

are driving price to levels towards the bottom of the profitability spectrum. Increased promotion and discounting continues to be employed to garner sell through in most channels of distribution. Hunting categories are softer than recreational shooting and self-defense categories due to an installed base of gun owners from the previous eight years supporting the increase in recreational shooting.

Recent Company Developments

Impairments

In the first quarter of 2017, we recognized impairment charges of \$28.6 million related to goodwill and \$4.5 million related to trademarks in our firearms segment. The charges were the result of our determination that a triggering event occurred in the first quarter of 2017 which indicated that it was more likely than not that the fair value of our MSR reporting unit was less than its carrying amount, including goodwill. We believe the triggering event was caused primarily by a significant reduction in our MSR financial performance combined with a reduced financial outlook because of the softness being experienced in the MSR market.

Incremental ABL Amendment

In April 2017, we entered into an Incremental Amendment No. 2 to our ABL Revolver. The amendment utilizes existing provisions within the ABL Revolver to temporarily increase borrowing availability under the existing ABL Revolver from \$225.0 million to \$264.7 million until December 4, 2017. We entered into the Incremental Amendment in order to provide additional flexibility during our seasonal period while adjusting factory production rates and inventory levels to a softening market.

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 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 Six Month Periods Ended July 2, 2017 as Compared to the Three and Six Month Periods Ended June 26, 2016

Net Sales

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

Three Months Ended	July 2, 2017	Percentage of Total	June 26, 2016	Percentage of Total	Increase (Decrease)	Percentage Change
(in millions except percentages)						
Firearms	\$ 65.2	42.0%	\$ 94.8	46.4%	\$ (29.6)	(31.2)%
Ammunition	80.4	51.9	93.0	45.5	(12.6)	(13.5)
Consumer	9.4	6.1	16.5	8.1	(7.1)	(43.0)
Total	\$ 155.0	100.0%	\$ 204.3	100.0%	\$ (49.3)	(24.1)%

Six Months Ended	July 2, 2017	Percentage of Total	June 26, 2016	Percentage of Total	Increase (Decrease)	Percentage Change
(in millions except percentages)						
Firearms	\$ 149.2	47.8%	\$ 210.1	49.8%	\$ (60.9)	(29.0)%
Ammunition	143.0	45.7	179.1	42.4	(36.1)	(20.2)
Consumer	20.4	6.5	33.1	7.8	(12.7)	(38.4)
Total	\$ 312.6	100.0%	\$ 422.3	100.0%	\$ (109.7)	(26.0)%

Firearms

Net sales for the three months ended July 2, 2017 were \$65.2 million, a decrease of \$29.6 million, or 31.2%, as compared to the three months ended June 26, 2016. Sales of rifles, including MSRs, centerfire and rimfire rifles, decreased \$26.7 million, while other product sales decreased \$2.9 million.

Net sales for the six months ended July 2, 2017 were \$149.2 million, a decrease of \$60.9 million, or 29.0%, as compared to the six months ended June 26, 2016. Sales of rifles, including MSRs, centerfire and rimfire rifles, decreased \$57.2 million, while other product sales decreased \$3.7 million.

Ammunition

Net sales for the three months ended July 2, 2017 were \$80.4 million, a decrease of \$12.6 million, or 13.5%, as compared to the three months ended June 26, 2016. Sales decreases were caused primarily by market softness.

Net sales for the six months ended July 2, 2017 were \$143.0 million, a decrease of \$36.1 million, or 20.2%, as compared to the six months ended June 26, 2016. Sales decreases were caused primarily by market softness.

Consumer

Net sales for the three months ended July 2, 2017 were \$9.4 million, a decrease of \$7.1 million, or 43.0%, as compared to the three months ended June 26, 2016. The decrease was primarily due to lower sales of parts and accessories.

Net sales for the six months ended July 2, 2017 were \$20.4 million, a decrease of \$12.7 million, or 38.4%, as compared to the six months ended June 26, 2016. The decrease was primarily due to lower sales of parts and accessories.

Cost of Goods Sold and Gross Profit

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	July 2, 2017	Percentage of Net Sales	June 26, 2016	Percentage of Net Sales	Increase (Decrease)	Percentage Change
(in millions except percentages)						
Cost of Goods Sold						
Firearms	\$ 54.0	82.8%	\$ 74.5	78.6%	\$ (20.5)	(27.5)%
Ammunition	56.7	70.5	62.4	67.1	(5.7)	(9.1)
Consumer	6.4	68.1	10.1	61.2	(3.7)	(36.7)
EBITDA Adjustments	4.4	*	4.8	*	(0.4)	*
Total	\$ 121.5	78.5%	\$ 151.8	74.3%	\$ (30.3)	(20.0)%
Gross Profit						
Firearms	\$ 11.2	17.2%	\$ 20.3	21.4%	\$ (9.1)	(44.8)%
Ammunition	23.7	29.5	30.6	32.9	(6.9)	(22.5)
Consumer	3.0	31.9	6.4	38.8	(3.4)	(53.1)
EBITDA Adjustments	(4.4)	*	(4.8)	*	0.4	*
Total	\$ 33.5	21.5%	\$ 52.5	25.7%	\$ (19.0)	(36.2)%

Six Months Ended	July 2, 2017	Percentage of Net Sales	June 26, 2016	Percentage of Net Sales	Increase (Decrease)	Percentage Change
(in millions except percentages)						
Cost of Goods Sold						
Firearms	\$ 123.5	82.8%	\$ 156.4	74.4%	\$ (32.9)	(21.0)%
Ammunition	102.1	71.4	121.5	67.8	(19.4)	(16.0)
Consumer	13.0	63.7	21.6	65.3	(8.6)	(39.8)
EBITDA Adjustments	9.3	*	9.4	*	(0.1)	*
Total	\$ 247.9	79.3%	\$ 308.9	73.1%	\$ (61.0)	(19.7)%
Gross Profit						
Firearms	\$ 25.7	17.2%	\$ 53.7	25.6%	\$ (28.0)	(52.1)%
Ammunition	40.9	28.6	57.6	32.2	(16.7)	(29.0)
Consumer	7.4	36.3	11.5	34.7	(4.1)	(35.7)
EBITDA Adjustments	(9.3)	*	(9.4)	*	0.1	*
Total	\$ 64.7	20.7%	\$ 113.4	26.9%	\$ (48.7)	(42.9)%

*Not applicable

Firearms

Gross profit for the three months ended July 2, 2017 was \$11.2 million, a decrease of \$9.1 million, or 44.8%, as compared to the three months ended June 26, 2016. Gross margin was 17.1% for the three months ended July 2, 2017 and 21.4% for the three months ended June 26, 2016. The decrease in gross profit was primarily due to lower sales volumes of \$8.3 million, unfavorable pricing of \$2.2 million and an unfavorable sales mix of \$2.4 million, partially offset by lower manufacturing costs of \$6.2 million.

Gross profit for the six months ended July 2, 2017 was \$25.7 million, a decrease of \$28.0 million, or 52.1%, as compared to the six months ended June 26, 2016. Gross margin was 17.2% for the six months ended July 2, 2017 and 25.5% for the six months ended June 26, 2016. The decrease in gross profit was primarily due to lower sales

volumes of \$19.2 million, unfavorable pricing of \$3.9 million and an unfavorable sales mix of \$6.0 million, partially offset by lower manufacturing costs of \$1.1 million.

Ammunition

Gross profit for the three months ended July 2, 2017 was \$23.7 million, a decrease of \$6.9 million, or 22.5%, as compared to the three months ended June 26, 2016. Gross margin was 29.5% for the three months ended July 2, 2017 and 32.9% for the three months ended June 26, 2016. The decrease in gross profit was primarily due to lower sales volumes of \$3.4 million, unfavorable pricing of \$2.5 million and an unfavorable sales mix of \$1.7 million, partially offset by lower manufacturing costs of \$0.7 million.

Gross profit for the six months ended July 2, 2017 was \$40.9 million, a decrease of \$16.7 million, or 29.0%, as compared to the six months ended June 26, 2016. Gross margin was 28.6% for the six months ended July 2, 2017 and 32.2% for the six months ended June 26, 2016. The decrease in gross profit was primarily due to lower sales volumes of \$11.2 million, unfavorable pricing of \$2.9 million and an unfavorable sales mix of \$4.5 million, partially offset by lower manufacturing costs of \$1.9 million.

Consumer

Gross profit for the three months ended July 2, 2017 was \$3.0 million, a decrease of \$3.4 million, or 53.1%, as compared to the three months ended June 26, 2016. Gross margin was 31.5% for the three months ended July 2, 2017 and 38.8% for the three months ended June 26, 2016. The decrease in gross profit was primarily due to lower sales volumes.

Gross profit for the six months ended July 2, 2017 was \$7.4 million, a decrease of \$4.1 million, or 35.7%, as compared to the six months ended June 26, 2016. Gross margin was 36.3% for the six months ended July 2, 2017 and 35.0% for the six months ended June 26, 2016. The decrease in gross profit was primarily due to lower sales volumes.

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 six months ended July 2, 2017 and June 26, 2016:

Three Months Ended	July 2, 2017	Percentage of Net Sales	June 26, 2016	Percentage of Net Sales	Increase (Decrease)	Percentage Change
<i>(unaudited, in millions except percentages)</i>						
Selling, General and Administrative Expenses	\$ 22.3	14.4%	\$ 25.7	12.6%	\$ (3.4)	(13.2)%
Research and Development Expenses	3.1	2.0	3.4	1.7	(0.3)	(7.5)
Other Expense	1.3	0.8	1.2	0.6	0.1	12.2
Total	\$ 26.7	17.2%	\$ 30.3	14.9%	\$ (3.6)	(11.9)%

Total operating expenses for the three months ended July 2, 2017 were \$26.7 million, a decrease of \$3.6 million, or 11.9%, as compared to the three months ended June 26, 2016.

Selling, general and administrative expenses decreased \$3.4 million, or 13.2%, as compared to the three months ended June 26, 2016, primarily due to lower sales, marketing and distribution expenses of \$3.4 million, lower salaries and benefits expenses of \$0.6 million and lower professional fees of \$0.5 million, partially offset by higher product liability expenses.

Six Months Ended	July 2, 2017	Percentage of Net Sales	June 26, 2016	Percentage of Net Sales	Increase (Decrease)	Percentage Change
(unaudited, in millions except percentages)						
Selling, General and Administrative Expenses	\$ 50.1	16.0%	\$ 57.1	13.5%	\$ (7.0)	(12.2)%
Research and Development Expenses	6.3	2.0	7.0	1.7	(0.7)	(9.5)
Impairment Charges	33.2	10.6	-	-	33.2	-
Other Expense	2.2	0.7	2.3	0.5	(0.1)	(4.5)
Total	\$ 91.8	29.3%	\$ 66.4	15.7%	\$ 25.4	38.2%

Excluding the impact of the \$33.2 million impairment expense, total operating expenses for the six months ended July 2, 2017 were \$58.6 million, a decrease of \$7.8 million, or 11.8%, as compared to the six months ended June 26, 2016.

Selling, general and administrative expenses decreased \$7.0 million, or 12.2%, as compared to the six months ended June 26, 2016, primarily due to lower salaries, benefits and incentive compensation of \$6.9 million, lower distribution expenses of \$1.2 million and lower professional fees of \$1.0 million, partially offset by higher bad debt expenses and higher product liability expenses.

Adjusted EBITDA

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

Three Months Ended	July 2, 2017	June 26, 2016	Increase (Decrease)	Percentage Change
(unaudited, in millions except percentages)				
Net Loss	\$ (9.5)	\$ (4.6)	\$ (4.9)	106.5%
Adjustments:				
Depreciation	5.1	5.8	(0.7)	(12.1)
Interest	15.5	15.7	(0.2)	(1.3)
Income tax expense	0.8	11.1	(10.3)	(92.8)
Amortization of intangibles	0.9	1.1	(0.2)	(18.2)
Other non-cash charges	0.5	1.3	(0.8)	(61.5)
Nonrecurring charges	0.9	(0.3)	1.2	400.0
Total	\$ 14.2	\$ 30.1	\$ (15.9)	(52.8) %

Other non-cash charges of \$0.5 million for the three months ended July 2, 2017 consisted of \$0.2 million of stock compensation expense, \$0.2 million of retiree benefit expense and \$0.1 million of other noncash charges.

Other non-cash charges of \$1.3 million for the three months ended June 26, 2016 consisted of \$0.5 million of stock compensation expense, a \$0.6 million loss on disposal of assets and \$0.2 million of retiree benefit expense.

Nonrecurring charges of \$0.9 million for the three months ended July 2, 2017 consisted of \$0.2 million in employee related expenses, \$0.4 million in bank fees and \$0.3 million of project fees.

Nonrecurring charges of \$(0.3) million for the three months ended June 26, 2016 consisted of \$0.5 million in restructuring costs, \$0.2 million in employee related expenses and \$0.2 million in bank fees, partially offset by a \$0.8 million gain on the sale of a subsidiary and \$0.4 million in other nonrecurring income.

Six Months Ended	July 2, 2017	June 26, 2016	Increase (Decrease)	Percentage Change
<i>(unaudited, in millions except percentages)</i>				
Net Income (loss)	\$ (44.5)	\$ 9.8	\$ (54.3)	(554.0)%
Adjustments:				
Depreciation	10.7	11.7	(1.0)	(8.5)
Interest	30.1	31.0	(0.9)	(2.9)
Income tax expense (benefit)	(12.7)	6.2	(18.9)	(304.8)
Amortization of intangibles	1.9	2.4	(0.5)	(20.8)
Impairment expense	33.2	-	33.2	100.0
Other non-cash charges	0.7	1.8	(1.1)	(61.1)
Nonrecurring charges	4.8	0.7	4.1	585.7
Total	\$ 24.2	\$ 63.6	\$ (39.4)	(61.9) %

Other non-cash charges of \$0.7 million for the six months ended July 2, 2017 consisted of \$0.5 million of stock compensation expense, \$0.3 million of retiree benefit expense, partially offset by a \$(0.2) million gain on disposal of assets.

Other non-cash charges of \$1.8 million for the six months ended June 26, 2016 consisted of \$0.9 million of stock compensation expense, a \$0.6 million loss on disposal of assets and \$0.3 million of retiree benefit expense.

Nonrecurring charges of \$4.8 million for the six months ended July 2, 2017 consisted of \$1.5 million of project fees, \$1.3 million of bad debt expense, \$1.0 million in employee related expenses, \$0.7 million in bank fees and \$0.3 million in relocation fees.

Nonrecurring charges of \$0.7 million for the six months ended June 26, 2016 consisted of \$0.5 million in restructuring costs, \$0.5 million in employee related expenses, \$0.4 million in bank fees and \$0.3 million in consulting fees, partially offset by a \$0.8 million gain on the sale of a subsidiary and \$0.2 million in other nonrecurring income.

Interest Expense

Interest expense was \$15.5 million for the three months ended July 2, 2017, compared to \$15.7 million for the three months ended June 26, 2016. The \$0.2 million decrease in interest expense over the three months ended June 26, 2016 was primarily due to \$0.8 million of lower interest expense on our interest rate swap and \$0.1 million of lower interest expense on our Term Loan B, partially offset by \$0.5 million of higher interest expense related to our ABL Revolver and \$0.2 million of higher other interest expense.

Interest expense was \$30.1 million for the six months ended July 2, 2017, compared to \$31.0 million for the six months ended June 26, 2016. The \$0.9 million decrease in interest expense over the six months ended June 26, 2016 was primarily due to \$2.0 million of lower interest expense on our interest rate swap, partially offset by \$0.7 million of higher interest expense related to our ABL Revolver, \$0.2 million of higher interest expense on our Term Loan B and \$0.2 million of higher other interest expense.

Income Tax Provision

The effective tax rate on continuing operations for the six months ended July 2, 2017 and June 26, 2016 was 22.2% and 38.8%, respectively.

The difference between the actual effective tax rate and the federal statutory rate of 35% for the six months ended July 2, 2017 was principally due to the impairment of goodwill and trademarks as well as an income tax benefit recorded in continuing operations as a result of income tax expense recorded in OCI due to the ASC 740 intraperiod allocation rules.

The difference between the actual effective tax rate and the federal statutory rate of 35% for the six months ended June 26, 2016 was principally due to an increase in deferred tax liabilities associated with indefinite lived intangible assets.

At July 2, 2017, a valuation allowance of \$104.2 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 \$118.8 million for the six months ended July 2, 2017 compared to net cash used in operating activities of \$87.1 million for the six months ended June 26, 2016. The significant changes comprising the \$31.7 million increase in net cash used in operating activities for the six months ended July 2, 2017 compared to the six months ended June 26, 2016 resulted primarily from:

- a net loss of \$44.5 million for the six months ended July 2, 2017 compared to net income of \$9.8 million for the six months ended June 26, 2016, due primarily to a non-cash goodwill and trademark impairment charge of \$33.1 million;
- inventories increasing by \$46.4 million over the six months ended July 2, 2017 compared to an increase of \$35.6 million over the six months ended June 26, 2016, a net increase in cash used of \$10.8 million. This increase was caused by unfavorable sales performance compared to prior years while higher production levels were being adjusted;
- deferred taxes decreasing by \$13.8 million over the six months ended July 2, 2017 compared to an increase of \$1.0 million over the six months ended June 26, 2016, a net increase in cash used of \$14.8 million, due to the goodwill and trademark impairment; partially offset by
- trade receivables increasing by \$42.0 million over the six months ended July 2, 2017, compared to an increase of \$100.4 million over the six months ended June 26, 2016, a net decrease in cash used of \$58.4 million, due primarily to lower sales.

Net cash used in investing activities was \$10.4 million for the six months ended July 2, 2017 compared to net cash used in investing activities of \$8.2 million for the six months ended June 26, 2016 and was related to the purchase of property, plant and equipment.

Net cash provided by financing activities was \$129.5 million for the six months ended July 2, 2017 and consisted primarily of \$135.7 million in net borrowings under the ABL Revolver and the receipt of \$1.8 million of various state and local incentives. These receipts were partially offset by \$4.6 million for principal payments on our debt and a \$3.2 million book overdraft.

Net cash provided by financing activities was \$96.0 million for the six months ended June 26, 2016 and consisted primarily of \$99.0 million in net borrowings under the ABL Revolver and the receipt of \$2.3 million of various state and local incentives. These receipts were partially offset by a \$2.6 million book overdraft, \$2.5 million for principal payments on our debt and capital lease obligations and a \$0.2 million payment of stock dividends.

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.

In April 2017, we entered into an Incremental Amendment No. 2 to our ABL Revolver. The amendment utilizes existing provisions within the ABL Revolver to temporarily increase borrowing availability under the existing ABL Revolver from \$225.0 million to \$264.7 million until December 4, 2017. We entered into the Incremental Amendment in order to provide additional flexibility during our seasonal period while adjusting factory production rates.

On May 11, 2017, Remington Outdoor Company entered into a Note Purchase Agreement with FGI Opco (the "Note Purchase Agreement") whereby Remington Outdoor Company will make up to \$100.0 million of its cash available to FGI Opco as governed by the Note Purchase Agreement at an interest rate of LIBOR plus 4.25%. Interest on any notes issued will be capitalized and added to the principal balance of the outstanding notes.

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 July 2, 2017 and had access to \$32.1 million in borrowings under our ABL Revolver, which includes the minimum availability requirement of \$39.7 million, and \$8.2 million in outstanding letters of credit.

Debt

As of July 2, 2017, we had outstanding indebtedness of approximately \$971.4 million, which consisted of the following:

- \$250.0 million of outstanding 2020 Notes;
- \$551.9 million outstanding under our Term Loan B;
- \$155.4 million outstanding under the ABL Revolver;
- \$12.5 million outstanding under the Promissory Note; and
- \$1.6 million of 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 six months ended July 2, 2017 and June 26, 2016 were \$12.1 million and \$10.6 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 2017 to be in the range of \$20.0 million to \$30.0 million, of which approximately \$8.0 million to \$12.0 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, 2016. 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, 2016.

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 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 2017.

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. Regulations regarding silencers, which we manufacture, may be subject to reforms under the proposed Silencers Helping Us Save Hearing (“SHUSH”) Act which aims to exempt silencers from NFA requirements and also classify them as accessories that can be sold over the counter. 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 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, of which substantially all 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 some large manufacturers refusing to submit new firearms capable of microstamping, thereby resulting in the new weapons produced by those manufactures not being sold in California.

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 “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 option and swap contracts for our anticipated purchases of copper and lead. At July 2, 2017, our commodity derivative instruments had a notional amount of 42.8 million pounds and will settle over the next 18 months. The fair values of the open commodity contracts resulted in a \$7.1 million asset. Assuming a hypothetical 10% increase in copper and lead commodity prices which are currently hedged at July 2, 2017, our cost for those related purchases would result in a \$6.1 million loss. Due to the increase in the related hedging instruments' fair values, the hypothetical cost would be offset by \$4.9 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 \$707.3 million of our total outstanding debt at July 2, 2017 bears interest at variable rates. Assuming no changes in the monthly average variable-rate debt levels of \$639.3 million for the last 12 months ended July 2, 2017, we estimate that a hypothetical change of 100 basis points in the LIBOR and Alternate Base Rate interest rates would increase interest expense by \$0.8 million for the six months ended July 2, 2017.

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, 2017, 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 July 2, 2017, 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. 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. In August, 2016, the Court adopted the parties' plan and scheduled a final approval hearing on February 14, 2017. On March 14, 2017, the Court entered a final order granting the parties' joint motion for final settlement approval, certifying classes for settlement purposes, approving the plaintiffs' supplemental fee application, and dismissing the matter with prejudice. Objectors to the settlement filed a notice of appeal on April 13, 2017. The objectors filed an opening brief on June 21, 2017. The remaining parties' response brief is currently due on August 17, 2017. The objectors' reply brief is due within two weeks of the response brief.

At July 2, 2017, our accrual for product liability cases and claims was approximately \$30.7 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. Because our products are currently protected under the PLCAA, which prohibits "causes of action against manufacturers, distributors, dealers, and importers of firearms or ammunition products, and their trade associations, for the harm solely caused by the criminal or unlawful misuse of firearm products or ammunition products by others when the product functioned as designed and intended," we filed a motion to dismiss the suit, which motion was ultimately granted. The plaintiffs appealed the order striking their complaint, and the case is presently pending before the Connecticut Supreme Court. We do not expect that the ultimate costs to resolve this or any other matters will have a material adverse effect on our financial position, results of operations or cash flows.

Item 5. Risk Factors

There have been no other material changes to our Risk Factors from those disclosed in Item 1A of our 2016 Annual Report.