

STURM RUGER & CO INC  
Form 10-Q  
May 05, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended March 29, 2014

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-10435

STURM, RUGER & COMPANY, INC.  
(Exact name of registrant as specified in its charter)

|                                                                   |                                         |
|-------------------------------------------------------------------|-----------------------------------------|
| Delaware                                                          | 06-0633559                              |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. employer<br>identification no.) |

|                                          |            |
|------------------------------------------|------------|
| Lacey Place, Southport, Connecticut      | 06890      |
| (Address of principal executive offices) | (Zip code) |

(203) 259-7843

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the issuer's common stock as of April 25, 2014: Common Stock, \$1 par value -19,398,752.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

STURM, RUGER & COMPANY, INC.

CONDENSED BALANCE SHEETS

*(Dollars in thousands)*

|                                           | March 29,<br>2014 | December 31,<br>2013<br>(Note) |
|-------------------------------------------|-------------------|--------------------------------|
| Assets                                    |                   |                                |
| Current Assets                            |                   |                                |
| Cash                                      | \$49,770          | \$ 55,064                      |
| Trade receivables, net                    | 69,900            | 67,384                         |
| Gross inventories                         | 70,620            | 64,199                         |
| Less LIFO reserve                         | (38,904 )         | (38,516 )                      |
| Less excess and obsolescence reserve      | (2,579 )          | (2,422 )                       |
| Net inventories                           | 29,137            | 23,261                         |
| Deferred income taxes                     | 9,537             | 7,637                          |
| Prepaid expenses and other current assets | 2,663             | 4,280                          |
| Total Current Assets                      | 161,007           | 157,626                        |
| Property, plant and equipment             | 259,701           | 250,127                        |
| Less allowances for depreciation          | (157,854)         | (149,099 )                     |
| Net property, plant and equipment         | 101,847           | 101,028                        |
| Other assets                              | 26,519            | 18,464                         |
| Total Assets                              | \$289,373         | \$ 277,118                     |

Note:

The balance sheet at December 31, 2013 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

*See notes to condensed financial statements.*

## STURM, RUGER &amp; COMPANY, INC.

## CONDENSED BALANCE SHEETS (Continued)

*(Dollars in thousands, except share data)*

|                                             | March<br>29,<br>2014 | December<br>31,<br>2013<br>(Note) |
|---------------------------------------------|----------------------|-----------------------------------|
| Liabilities and Stockholders' Equity        |                      |                                   |
| Current Liabilities                         |                      |                                   |
| Trade accounts payable and accrued expenses | \$45,416             | \$46,991                          |
| Product liability                           | 968                  | 971                               |
| Employee compensation and benefits          | 20,926               | 34,626                            |
| Workers' compensation                       | 5,658                | 5,339                             |
| Income taxes payable                        | 13,453               | 239                               |
| Total Current Liabilities                   | 86,421               | 88,166                            |
| Product liability                           | 283                  | 265                               |
| Deferred income taxes                       | 9,821                | 9,601                             |
| Contingent liabilities – Note 10            | —                    | —                                 |
| Stockholders' Equity                        |                      |                                   |
| Common Stock, non-voting, par value \$1:    |                      |                                   |
| Authorized shares 50,000; none issued       | —                    | —                                 |
| Common Stock, par value \$1:                |                      |                                   |
| Authorized shares – 40,000,000              |                      |                                   |
| 2014 – 23,698,186 issued,                   |                      |                                   |
| 19,398,752 outstanding                      |                      |                                   |
| 2013 – 23,647,350 issued,                   |                      |                                   |
| 19,347,916 outstanding                      | 23,698               | 23,647                            |
| Additional paid-in capital                  | 20,827               | 20,614                            |
| Retained earnings                           | 205,586              | 192,088                           |
| Less: Treasury stock – at cost              |                      |                                   |
| 2014 and 2013 – 4,299,434 shares            | (37,884 )            | (37,884 )                         |
| Accumulated other comprehensive loss        | (19,379 )            | (19,379 )                         |
| Total Stockholders' Equity                  | 192,848              | 179,086                           |
| Total Liabilities and Stockholders' Equity  | \$289,373            | \$277,118                         |

Note:

The balance sheet at December 31, 2013 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

*See notes to condensed financial statements.*

## STURM, RUGER &amp; COMPANY, INC.

## CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

*(Dollars in thousands, except per share data)*

|                                     | Three Months Ended   |                   |
|-------------------------------------|----------------------|-------------------|
|                                     | March<br>29,<br>2014 | March 30,<br>2013 |
| Net firearms sales                  | \$ 169,162           | \$ 153,440        |
| Net castings sales                  | 722                  | 2,465             |
| Total net sales                     | 169,884              | 155,905           |
| Cost of products sold               | 108,761              | 94,596            |
| Gross profit                        | 61,123               | 61,309            |
| Operating expenses:                 |                      |                   |
| Selling                             | 14,421               | 15,764            |
| General and administrative          | 8,733                | 8,443             |
| Total operating expenses            | 23,154               | 24,207            |
| Operating income                    | 37,969               | 37,102            |
| Other income:                       |                      |                   |
| Interest expense, net               | (36 )                | (16 )             |
| Other income, net                   | 365                  | 265               |
| Total other income, net             | 329                  | 249               |
| Income before income taxes          | 38,298               | 37,351            |
| Income taxes                        | 13,979               | 13,633            |
| Net income and comprehensive income | \$ 24,319            | \$ 23,718         |
| Basic earnings per share            | \$ 1.26              | \$ 1.23           |
| Fully diluted earnings per share    | \$ 1.22              | \$ 1.20           |
| Cash dividends per share            | \$ 0.540             | \$ 0.404          |

*See notes to condensed financial statements.*

## STURM, RUGER &amp; COMPANY, INC.

## CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

*(Dollars in thousands)*

|                                                                          | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Loss | Total      |
|--------------------------------------------------------------------------|-----------------|----------------------------------|----------------------|-------------------|-----------------------------------------------|------------|
| Balance at December 31, 2013                                             | \$ 23,647       | \$ 20,614                        | \$ 192,088           | \$(37,884)        | \$ (19,379 )                                  | \$ 179,086 |
| Net income and comprehensive income                                      |                 |                                  | 24,319               |                   |                                               | 24,319     |
| Dividends paid                                                           |                 |                                  | (10,475 )            |                   |                                               | (10,475 )  |
| Unpaid dividends accrued                                                 |                 |                                  | (346 )               |                   |                                               | (346 )     |
| Recognition of stock-based compensation expense                          |                 | 1,214                            |                      |                   |                                               | 1,214      |
| Exercise of stock options and vesting of RSU's                           |                 | (2,294 )                         |                      |                   |                                               | (2,294 )   |
| Tax benefit realized from exercise of stock options and vesting of RSU's |                 | 1,344                            |                      |                   |                                               | 1,344      |
| Common stock issued – compensation plans                                 | 51              | (51 )                            |                      |                   |                                               | —          |
| Balance at March 29, 2014                                                | \$ 23,698       | \$ 20,827                        | \$ 205,586           | \$(37,884)        | \$ (19,379 )                                  | \$ 192,848 |

*See notes to condensed financial statements.*

## STURM, RUGER &amp; COMPANY, INC.

## CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

*(Dollars in thousands)*

|                                                                                        | Three Months Ended<br>March 29,<br>2014 | March 30,<br>2013 |
|----------------------------------------------------------------------------------------|-----------------------------------------|-------------------|
| Operating Activities                                                                   |                                         |                   |
| Net income                                                                             | \$ 24,319                               | \$ 23,718         |
| Adjustments to<br>reconcile net income<br>to cash provided by<br>operating activities: |                                         |                   |
| Depreciation and<br>amortization                                                       | 8,940                                   | 4,501             |
| Slow moving<br>inventory valuation<br>adjustment                                       | 157                                     | 235               |
| Stock-based<br>compensation                                                            | 1,214                                   | 1,330             |
| Gain on sale of assets                                                                 | —                                       | (70 )             |
| Deferred income<br>taxes                                                               | (1,680 )                                | (2,684 )          |
| Changes in operating<br>assets and liabilities:                                        |                                         |                   |
| Trade receivables                                                                      | (2,516 )                                | (16,464 )         |
| Inventories                                                                            | (6,033 )                                | 1,684             |
| Trade accounts<br>payable and accrued<br>expenses                                      | (1,256 )                                | 2,836             |
| Employee<br>compensation and<br>benefits                                               | (14,046 )                               | 3,678             |
| Product liability                                                                      | 15                                      | 186               |
| Prepaid expenses,<br>other assets and other<br>liabilities                             | (6,618 )                                | (2,676 )          |
| Income taxes payable                                                                   | 13,214                                  | 14,133            |
| Cash provided by<br>operating activities                                               | 15,710                                  | 30,407            |

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|                                                                                 |           |   |           |
|---------------------------------------------------------------------------------|-----------|---|-----------|
| Investing Activities                                                            |           |   |           |
| Property, plant and equipment additions                                         | (9,579    | ) | (7,705 )  |
| Proceeds from sale of assets                                                    | —         |   | 70        |
| Cash used for investing activities                                              | (9,579    | ) | (7,635 )  |
| Financing Activities                                                            |           |   |           |
| Tax benefit from exercise of stock options and vesting of RSU's                 | 1,344     |   | 1,747     |
| Remittance of taxes withheld from employees related to share-based compensation | (2,317    | ) | (2,082 )  |
| Proceeds from exercise of stock options                                         | 23        |   | —         |
| Dividends paid                                                                  | (10,475   | ) | (7,804 )  |
| Cash used for financing activities                                              | (11,425   | ) | (8,139 )  |
| Increase (decrease) in cash and cash equivalents                                | (5,294    | ) | 14,633    |
| Cash and cash equivalents at beginning of period                                | 55,064    |   | 30,978    |
| Cash and cash equivalents at end of period                                      | \$ 49,770 |   | \$ 45,611 |

*See notes to condensed financial statements.*

STURM, RUGER & COMPANY, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

*(Dollars in thousands, except per share)*

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements.

In the opinion of management, the accompanying unaudited condensed financial statements include all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the results of the interim periods. Operating results for the three months ended March 29, 2014 may not be indicative of the results to be expected for the full year ending December 31, 2014. These financial statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the year ended December 31, 2013.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Organization:

Sturm, Ruger & Company, Inc. (the "Company") is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Approximately 99.6% of the Company's total sales for the three months ended March 29, 2014 were firearms sales, and approximately 0.4% were investment castings sales. Export sales represent approximately 4% of total sales. The Company's design and manufacturing operations are located in the United States and almost all product content is domestic.

The Company's firearms are sold through a select number of independent wholesale distributors principally to the commercial sporting market.

The Company manufactures investment castings made from steel alloys for internal use in its firearms and utilizes available investment casting capacity to manufacture and sell castings to unaffiliated, third-party customers.

Fair Value of Financial Instruments:

The carrying amounts of financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities, approximate fair value due to the short-term maturity of these items.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## NOTE 3 - INVENTORIES

Inventories are valued using the last-in, first-out (LIFO) method. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs existing at that time. Accordingly, interim LIFO calculations must necessarily be based on management's estimates of expected year-end inventory levels and costs. Because these are subject to many factors beyond management's control, interim results are subject to the final year-end LIFO inventory valuation.

Inventories consist of the following:

|                                       | March 29,<br>2014 | December 31,<br>2013 |
|---------------------------------------|-------------------|----------------------|
| Inventory at FIFO                     |                   |                      |
| Finished products                     | \$ 11,722         | \$ 6,552             |
| Materials and work in process         | 58,898            | 57,647               |
| Gross inventories                     | 70,620            | 64,199               |
| Less: LIFO reserve                    | (38,904 )         | (38,516 )            |
| Less: excess and obsolescence reserve | (2,579 )          | (2,422 )             |
| Net inventories                       | \$ 29,137         | \$ 23,261            |

## NOTE 4 - LINE OF CREDIT

The Company has a \$40 million revolving line of credit with a bank. This facility is renewable annually and terminates on June 15, 2014. Borrowings under this facility bear interest at LIBOR (0.555% at March 29, 2014) plus 200 basis points. The Company is charged three-eighths of a percent (0.375%) per year on the unused portion. At March 29, 2014 and December 31, 2013, the Company was in compliance with the terms and covenants of the credit facility, which remains unused.

NOTE 5 - EMPLOYEE BENEFIT PLANS

Defined Benefit Plans

In 2007, the Company amended its hourly and salaried defined benefit pension plans to freeze the benefits for current participants and to discontinue the plans for all future employees. All active participants became fully vested in the amount of benefit services accrued through December 31, 2007 and no benefits have accrued since that date.

Currently, the Company provides supplemental discretionary contributions to substantially all employees' individual 401(k) accounts.

The Company expects to satisfy all of its obligations under the frozen pension plans and to terminate the plans when market conditions are favorable. Late in the fourth quarter of 2013, 94% of the pension plans' assets were allocated to money market funds to capture the investment returns in 2013. This was an initial step to prepare to fully fund and terminate the plans in accordance with Internal Revenue Service and Pension Benefit Guaranty Corporation requirements, which, if successful, will occur in late 2014 or early 2015. Plan participants will not be adversely affected by the plan terminations, but rather will have their benefits either converted into a lump sum cash payment or an annuity contract placed with an insurance carrier.

It is expected that the settlement and termination of the frozen pension plans would have a material impact on the financial results of the period in which it occurs, and may have a material financial impact on the financial position of the Company.

If the settlement and termination of the frozen pension plans does not occur in 2014, the estimated cost of the frozen defined benefit plans for 2014 is not expected to be significant.

#### Defined Contribution Plan

Effective January 1, 2007, the Company modified the terms of its 401(k) plan and now matches a certain portion of employee contributions. Expenses related to these matching contributions totaled \$1.2 million for the three months ended March 29, 2014, and \$0.7 million for the three months ended March 30, 2013. The Company plans to contribute approximately \$2.8 million to the plan in matching employee contributions during the remainder of 2014.

In addition, the Company provided supplemental discretionary contributions to the 401(k) plan totaling \$2.3 million for the three months ended March 29, 2014, and \$1.0 million for the three months ended March 30, 2013. The Company plans to contribute approximately \$6.1 million in supplemental contributions to the plan during the remainder of 2014.

#### NOTE 6 - INCOME TAXES

The Company's 2014 and 2013 effective tax rates differ from the statutory federal tax rate due principally to state income taxes partially offset by tax benefits related to the American Jobs Creation Act of 2004. The effective income tax rates for each of the three months ended March 29, 2014 and March 30, 2013 was 36.5%.

Income tax payments in the three months ended March 29, 2014 and March 30, 2013 totaled \$0.1 million and \$0.4 million, respectively.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for

years before 2010.

The Company does not believe it has included any “uncertain tax positions” in its federal income tax return or any of the state income tax returns it is currently filing. The Company has made an evaluation of the potential impact of additional state taxes being assessed by jurisdictions in which the Company does not currently consider itself liable. The Company does not anticipate that such additional taxes, if any, would result in a material change to its financial position.

## NOTE 7 - EARNINGS PER SHARE

Set forth below is a reconciliation of the numerator and denominator for basic and diluted earnings per share calculations for the periods indicated:

|                                                                                                                   | Three Months Ended |                   |
|-------------------------------------------------------------------------------------------------------------------|--------------------|-------------------|
|                                                                                                                   | March 29,<br>2014  | March 30,<br>2013 |
| Numerator:                                                                                                        |                    |                   |
| Net income                                                                                                        | \$24,319           | \$23,718          |
| Denominator:                                                                                                      |                    |                   |
| Weighted average number of common shares outstanding – Basic                                                      | 19,365,951         | 19,281,969        |
| Dilutive effect of options and restricted stock units outstanding under the Company's employee compensation plans | 533,533            | 517,904           |
| Weighted average number of common shares outstanding – Diluted                                                    | 19,899,484         | 19,799,873        |

The dilutive effect of outstanding options and restricted stock units is calculated using the treasury stock method. There were no stock options that were anti-dilutive and therefore not included in the diluted earnings per share calculation.

## NOTE 8 - COMPENSATION PLANS

In April 2007, the Company adopted and the shareholders approved the 2007 Stock Incentive Plan (the “2007 SIP”) under which employees, independent contractors, and non-employee directors may be granted stock options, restricted stock, deferred stock awards, and stock appreciation rights, any of which may or may not require the satisfaction of performance objectives. Vesting requirements are determined by the Compensation Committee of the Board of Directors. The Company has reserved 2,550,000 shares for issuance under the 2007 SIP, of which 698,000 shares remain available for future grants as of March 29, 2014.

Compensation costs related to all share-based payments recognized in the statements of operations aggregated \$1.2 million and \$1.3 million for the three months ended March 29, 2014 and March 30, 2013, respectively.

Stock Options

A summary of changes in options outstanding under the plans is summarized below:

|                                  | Shares   | Weighted<br>Average<br>Exercise<br>Price | Grant<br>Date<br>Fair<br>Value |
|----------------------------------|----------|------------------------------------------|--------------------------------|
| Outstanding at December 31, 2013 | 57,221   | \$ 8.66                                  | \$ 6.65                        |
| Granted                          | —        | —                                        | —                              |
| Exercised                        | (16,244) | \$ 8.25                                  | \$ 7.54                        |
| Expired                          | —        | —                                        | —                              |
| Outstanding at March 29, 2014    | 40,977   | \$ 8.82                                  | \$ 6.29                        |

The aggregate intrinsic value (mean market price at March 29, 2014 less the weighted average exercise price) of options outstanding under the plans was approximately \$2.1 million.

#### Restricted Stock Units

Beginning in the second quarter of 2009, the Company began granting restricted stock units to senior employees in lieu of incentive stock options. The vesting of these awards is dependent on the achievement of corporate objectives established by the Compensation Committee of the Board of Directors. Beginning in 2011, a three year vesting period was added to the performance criteria, which had the effect of requiring both the achievement of the corporate performance objectives and the satisfaction of the vesting period.

There were 59,330 restricted stock units issued during the three months ended March 29, 2014. Total compensation costs related to these restricted stock units are \$3.8 million. These costs are being recognized ratably over the vesting period of three years. Total compensation cost related to restricted stock units was \$1.2 million for the three months ended March 29, 2014, and \$1.2 million for the three months ended March 30, 2013.

## NOTE 9 - OPERATING SEGMENT INFORMATION

The Company has two reportable segments: firearms and investment castings. The firearms segment manufactures and sells rifles, pistols, and revolvers principally to a select number of independent wholesale distributors primarily located in the United States. The investment castings segment manufactures and sells steel investment castings.

Selected operating segment financial information follows:

| (in thousands)                    | Three Months Ended |                      |
|-----------------------------------|--------------------|----------------------|
|                                   | March 29,<br>2014  | March 30,<br>2013    |
| Net Sales                         |                    |                      |
| Firearms                          | \$ 169,162         | \$ 153,440           |
| Castings                          |                    |                      |
| Unaffiliated                      | 722                | 2,465                |
| Intersegment                      | 9,454              | 7,726                |
|                                   | 10,176             | 10,191               |
| Eliminations                      | (9,454 )           | (7,726 )             |
|                                   | \$ 169,884         | \$ 155,905           |
| Income (Loss) Before Income Taxes |                    |                      |
| Firearms                          | \$38,703           | \$37,305             |
| Castings                          | (541 )             | 95                   |
| Corporate                         | 136                | (49 )                |
|                                   | \$38,298           | \$37,351             |
|                                   | March 29,<br>2014  | December 31,<br>2013 |
| Identifiable Assets               |                    |                      |
| Firearms                          | \$218,372          | \$201,660            |
| Castings                          | 12,357             | 11,402               |
| Corporate                         | 58,644             | 64,056               |
|                                   | \$289,373          | \$277,118            |

## NOTE 10 - CONTINGENT LIABILITIES

As of March 29, 2014, the Company was a defendant in approximately five (5) lawsuits and is aware of certain other such claims. The lawsuits fall into three general categories, traditional products liability, municipal litigation, and commercial litigation, discussed in turn below.

Traditional Product Liability Litigation

Three of the five lawsuits mentioned above involve claims for damages related to allegedly defective product design and/or manufacture. These lawsuits stem from a specific incident of personal injury and are based on traditional product liability theories such as strict liability, negligence and/or breach of warranty.

The Company management believes that the allegations in these cases are unfounded, and that the incidents were caused by the negligence and/or misuse of the firearms by third-parties or the claimant, and that there should be no recovery against the Company.

#### Municipal Litigation

Municipal litigation generally includes those cases brought by cities or other governmental entities against firearms manufacturers, distributors and retailers seeking to recover damages allegedly arising out of the misuse of firearms by third-parties.

There is only one remaining lawsuit of this type, filed by the City of Gary in Indiana State Court, over ten years ago. The complaint in that case seeks damages, among other things, for the costs of medical care, police and emergency services, public health services, and other services as well as punitive damages. In addition, nuisance abatement and/or injunctive relief is sought to change the design, manufacture, marketing and distribution practices of the various defendants. The suit alleges, among other claims, negligence in the design of products, public nuisance, negligent distribution and marketing, negligence per se and deceptive advertising. The case does not allege a specific injury to a specific individual as a result of the misuse or use of any of the Company's products.

After a long procedural history, the case was scheduled for trial on June 15, 2009. The case was not tried on that date and no subsequent scheduling order has been entered. There has been no activity since that time.

#### Commercial Litigation

From time to time, the Company may be involved in commercial disputes that result in litigation. These disputes run the gamut and may involve intellectual property, real property, supply or distribution agreements, contract disputes, or other, general commercial matters. As of March 29, 2014, the Company was involved in one such lawsuit and is aware of certain other such claims.

#### Summary of Claimed Damages and Explanation of Product Liability Accruals

Punitive damages, as well as compensatory damages, are demanded in certain of the lawsuits and claims. Aggregate claimed amounts presently exceed product liability accruals and applicable insurance coverage. For claims made after

July 10, 2000, coverage is provided on an annual basis for losses exceeding \$5 million per claim, or an aggregate maximum loss of \$10 million annually, except for certain new claims which might be brought by governments or municipalities after July 10, 2000, which are excluded from coverage.

The Company management monitors the status of known claims and the product liability accrual, which includes amounts for asserted and unasserted claims. While it is not possible to forecast the outcome of litigation or the timing of costs, in the opinion of management, after consultation with special and corporate counsel, it is not probable and is unlikely that litigation, including punitive damage claims, will have a material adverse effect on the financial position of the Company, but may have a material impact on the Company's financial results for a particular period.

Product liability claim payments are made when appropriate if, as, and when claimants and the Company reach agreement upon an amount to finally resolve all claims. Legal costs are paid as the lawsuits and claims develop, the timing of which may vary greatly from case to case. A time schedule cannot be determined in advance with any reliability concerning when payments will be made in any given case.

Provision is made for product liability claims based upon many factors related to the severity of the alleged injury and potential liability exposure, based upon prior claim experience. Because the Company's experience in defending these lawsuits and claims is that unfavorable outcomes are typically not probable or estimable, only in rare cases is an accrual established for such costs. In most cases, an accrual is established only for estimated legal defense costs. Product liability accruals are periodically reviewed to reflect then-current estimates of possible liabilities and expenses incurred to date and reasonably anticipated in the future. Threatened product liability claims are reflected in the Company's product liability accrual on the same basis as actual claims; i.e., an accrual is made for reasonably anticipated possible liability and claims-handling expenses on an ongoing basis.

A range of reasonably possible loss relating to unfavorable outcomes cannot be made. However, in product liability cases in which a dollar amount of damages is claimed, the amount of damages claimed, which totaled \$1.3 million and \$0.2 million at December 31, 2013 and 2012, respectively, are set forth as an indication of possible maximum liability that the Company might be required to incur in these cases (regardless of the likelihood or reasonable probability of any or all of this amount being awarded to claimants) as a result of adverse judgments that are sustained on appeal.

#### NOTE 11 - SUBSEQUENT EVENTS

On May 2, 2014, Board of Directors authorized a dividend of 49¢ per share, for shareholders of record as of May 16, 2014, payable on May 30, 2014.

The Company has evaluated events and transactions occurring subsequent to March 29, 2014 and determined that there were no other unreported events or transactions that would have a material impact on the Company's results of operations or financial position.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Company Overview

Sturm, Ruger & Company, Inc. (the "Company") is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Approximately 99.6% of the Company's total sales for the three months ended March 29, 2014 were firearms sales, and 0.4% were investment castings sales. Export sales represent approximately 4% of total sales. The Company's design and manufacturing operations are located in the United States and almost all product content is domestic. The Company's firearms are sold through a select number of independent wholesale distributors, principally to the commercial sporting market.

The Company also manufactures investment castings made from steel alloys for internal use in its firearms and for sale to unaffiliated, third-party customers.

Orders of many models of firearms from the independent distributors tend to be stronger in the first quarter of the year and weaker in the third quarter of the year. This is due in part to the timing of the distributor show season, which occurs during the first quarter.

**Results of Operations**

Demand

Demand for the Company's products was strong in the first quarter of 2014. We believe this strong demand for our products was primarily due to:

- new shooters joining the ranks of gun owners,
- the Company's introduction of many innovative new products in the past few years, and
- increased manufacturing capacity and greater product availability for certain products in strong demand.

New products represented \$41.3 million or 24% of firearm sales in the first three months of 2014.

During the first quarter of 2014, the estimated unit sell-through of our products from the independent distributors to retailers increased 10% from the first quarter of 2013.

National Instant Criminal Background Check System (“NICS”) background checks (as adjusted by the National Shooting Sports Foundation) during the first quarter of 2014 decreased 22% from the first quarter of 2013.

Estimated sell-through from the independent distributors to retailers and total NICS background checks for the trailing five quarters follows:

|                                                         | 2014<br>Q1 | 2013<br>Q4 | Q3      | Q2      | Q1      |
|---------------------------------------------------------|------------|------------|---------|---------|---------|
| Estimated Units Sold from Distributors to Retailers (1) | 565,400    | 495,300    | 521,700 | 560,200 | 514,200 |
| Total adjusted NICS Background Checks (thousands) (2)   | 3,830      | 3,932      | 2,907   | 3,032   | 4,926   |

The estimates for each period were calculated by taking the beginning inventory at the distributors, plus shipments (1) from the Company to distributors during the period, less the ending inventory at distributors. These estimates are only a proxy for actual market demand as they:

- Rely on data provided by independent distributors that are not verified by the Company,
- Do not consider potential timing issues within the distribution channel, including goods-in-transit, and
- Do not consider fluctuations in inventory at retail.

(2) While NICS background checks are not a precise measure of retail activity, they are commonly used as a proxy for retail demand. NICS background checks are performed when the ownership of most firearms, either new or used, is transferred by a Federal Firearms Licensee. NICS background checks are also performed for permit applications, permit renewals, and other administrative reasons.

The adjusted NICS data presented above was derived by the National Shooting Sports Foundation (“NSSF”) by subtracting out NICS checks that are not directly related to the sale of a firearm, including checks used for concealed carry (CCW) permit application checks as well as checks on active CCW permit databases. While not a direct correlation to firearms sales, the NSSF-adjusted NICS data provides a more accurate picture of current market conditions than raw NICS data.

#### Orders Received and Ending Backlog

Net orders received in the first quarter of 2014 decreased 61.4% from the comparable prior year period and our ending order backlog of 1.4 million units at March 29, 2014 decreased 0.7 million units from backlog of 2.1 million units at March 30, 2013. These decreases are due to the unprecedented level of orders received in the first quarter of 2013.

The units ordered, value of orders received and ending backlog, net of excise tax, for the trailing five quarters are as follows (dollars in millions, except average sales price):

(All amounts shown are net of Federal Excise Tax of 10% for handguns and 11% for long guns.)

|                                        | 2014<br>Q1 | 2013<br>Q4 | Q3      | Q2      | Q1        |
|----------------------------------------|------------|------------|---------|---------|-----------|
| Units Ordered                          | 395,000    | 249,700    | 390,400 | 525,600 | 1,085,300 |
| Orders Received                        | \$119.8    | \$79.5     | \$94.9  | \$150.9 | \$310.7   |
| Average Sales Price of Orders Received | \$303      | \$318      | \$243   | \$286   | \$291     |
| Ending Backlog                         | \$396.5    | \$440.6    | \$534.1 | \$590.3 | \$602.3   |
| Average Sales Price of Ending Backlog  | \$293      | \$290      | \$285   | \$290   | \$288     |

### Production

Total unit production in the first quarter of 2014 increased 18.8% from the first quarter of 2013. This increase in unit production resulted from investment in incremental capacity for new product introductions and from the utilization of lean methodologies for continuous improvement in our operations. Our increase in production was facilitated by \$56.5 million of capital expenditures during the twelve months ended March 29, 2014. These capital expenditures exceeded depreciation by approximately \$31.7 million during this period, which represented an approximate 12% increase to our capital equipment base.

In 2013, the Company revised its estimate of the useful life of machinery and equipment from 10 to 7 years. This change, which became effective December 31, 2013, resulted in increased depreciation expense of \$2.1 million for the three months ended March 29, 2014. The Company estimates that this change will increase depreciation expense for the machinery and equipment on hand at December 31, 2013 by approximately \$8 million in 2014.

Summary Unit Data

Firearms unit data for the trailing five quarters are as follows:

|                         | 2014<br>Q1 | 2013<br>Q4 | Q3        | Q2        | Q1        |
|-------------------------|------------|------------|-----------|-----------|-----------|
| Units Ordered           | 395,000    | 249,700    | 390,400   | 525,600   | 1,085,300 |
| Units Produced          | 598,300    | 615,800    | 554,700   | 575,400   | 503,600   |
| Units Shipped           | 561,400    | 604,900    | 553,000   | 577,200   | 502,300   |
| Average Sales Price (3) | \$301      | \$299      | \$309     | \$306     | \$305     |
| Units on Backlog        | 1,354,400  | 1,520,800  | 1,876,000 | 2,038,600 | 2,090,200 |

(3) Net of Federal Excise Tax of 10% for handguns and 11% for long guns.

Inventories

The Company's finished goods inventory increased by 36,900 units during the first quarter of 2014. However, finished goods inventory remains below optimal levels to support rapid fulfillment of distributor demand. The Company has a goal of replenishing its finished goods inventory in future periods to levels that will better serve its customers. This replenishment could increase the FIFO value of finished goods inventory by as much as \$25 million from the current level upon the attainment of the desired levels of finished goods inventory.

Distributor inventories of the Company's products decreased by 4,000 units during the first quarter of 2014 and are still below the optimal level to support rapid fulfillment of retailer demand.

Inventory data for the trailing five quarters follows:

| 2014<br>Q1 | 2013<br>Q4 | Q3 | Q2 | Q1 |
|------------|------------|----|----|----|
|------------|------------|----|----|----|

|                                   |         |         |         |        |        |
|-----------------------------------|---------|---------|---------|--------|--------|
| Units – Company Inventory         | 64,600  | 27,700  | 16,800  | 15,100 | 16,900 |
| Units – Distributor Inventory (4) | 201,100 | 205,100 | 95,500  | 64,200 | 47,300 |
| Total inventory (5)               | 265,700 | 232,800 | 112,300 | 79,300 | 64,200 |

(4) Distributor ending inventory is provided by the Company's independent distributors. These numbers do not include goods-in-transit inventory that has been shipped from the Company but not yet received by the distributors.

(5) This total does not include inventory at retailers. The Company does not have access to data on retailer inventories of the Company's products.

## Net Sales

Consolidated net sales were \$169.9 million for the three months ended March 29, 2014, an increase of 9.0% from \$155.9 million in the comparable prior year period.

Firearms net sales were \$169.2 million for the three months ended March 29, 2014, an increase of 10.2% from \$153.4 million in the comparable prior year period.

Firearms unit shipments increased 11.8% for the three months ended March 29, 2014, from the comparable prior year period. The greater percentage increase in firearms unit shipments compared to firearms net sales is attributable to decreased accessory sales.

Casting net sales were \$0.7 million for the three months ended March 29, 2014, a decrease of 70.7% from \$2.5 million in the comparable prior year period.

During 2013, the Company prioritized its internal casting needs and terminated many of its outside casting customers. As a result net casting sales decreased.

## Cost of Products Sold and Gross Profit

Consolidated cost of products sold was \$108.8 million for the three months ended March 29, 2014, an increase of 15.0% from \$94.6 million in the comparable prior year period.

Gross margin was 36.0% for the three months ended March 29, 2014, compared to 39.3% in the comparable prior year period as illustrated below (in thousands):

|           | Three Months Ended |        |                |        |
|-----------|--------------------|--------|----------------|--------|
|           | March 29, 2014     |        | March 30, 2013 |        |
| Net sales | \$169,884          | 100.0% | \$155,905      | 100.0% |

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|                                                                                                            |          |      |       |          |      |     |   |
|------------------------------------------------------------------------------------------------------------|----------|------|-------|----------|------|-----|---|
| Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory and product liability | 108,120  | 63.7 | %     | 93,578   | 60.0 | %   |   |
| LIFO expense                                                                                               | 388      | 0.2  | %     | 132      | 0.1  | %   |   |
| Overhead rate adjustments to inventory                                                                     | (146)    | )    | (0.1) | )%       | 387  | 0.3 | % |
| Labor rate adjustments to inventory                                                                        | (7)      | )    | —     |          | 34   | —   |   |
| Product liability                                                                                          | 406      | 0.2  | %     | 465      | 0.3  | %   |   |
| Total cost of products sold                                                                                | 108,761  | 64.0 | %     | 94,596   | 60.7 | %   |   |
| Gross profit                                                                                               | \$61,123 | 36.0 | %     | \$61,309 | 39.3 | %   |   |

Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, and product liability — During the three months ended March 29, 2014, cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, and product liability increased as a percentage of sales by 3.7% compared with the comparable 2013 period due principally to decreased sales volume of higher-margin firearm accessories and increased depreciation expense due to the reduction in the estimated useful lives of the Company's capital assets.

LIFO — During the three months ended March 29, 2014, gross inventories increased by \$6.4 million and the Company recognized LIFO expense resulting in increased cost of products sold of \$0.4 million. In the comparable 2013 period, gross inventories decreased by \$1.6 million and the Company recognized LIFO expense resulting in increased cost of products sold of \$0.1 million.

Overhead Rate Adjustments — The Company uses actual overhead expenses incurred as a percentage of sales-value-of-production over a trailing six month period to absorb overhead expense into inventory.

During the three months ended March 29, 2014, the Company was less efficient in overhead spending and the overhead rates used to absorb overhead expenses into inventory increased, resulting in an increase in inventory value of \$0.1 million, and a corresponding decrease to cost of products sold.

During the three months ended March 30, 2013, the Company was more efficient in overhead spending and the overhead rates used to absorb overhead expenses into inventory decreased, resulting in a decrease in inventory value of \$0.4 million, and a corresponding increase to cost of products sold.

Labor Rate Adjustments — The Company uses actual direct labor expense incurred as a percentage of sales-value-of-production over a trailing six month period to absorb direct labor expense into inventory.

During the three months ended March 29, 2014 and March 30 2013, the impact of the labor rate adjustment was de minimis.

Product Liability — This expense includes the cost of outside legal fees, insurance, and other expenses incurred in the management and defense of product liability matters.

For the three months ended March 29, 2014 and March 30, 2013, product liability costs totaled \$0.4 million and \$0.5 million, respectively. See Note 10 to the notes to the condensed financial statements “Contingent Liabilities” for further discussion of the Company’s product liability.

Gross Profit — As a result of the foregoing factors, for the three months ended March 29, 2014 gross profit was \$61.1 million, a decrease of \$0.2 million from \$61.3 million in the comparable prior year period. Gross profit as a percentage of sales decreased to 36.0% in the three months ended March 29, 2014 from 39.3% in the comparable prior year period.

Selling, General and Administrative, and Other Operating Expenses

Selling, general and administrative, and other operating expenses were \$23.2 million for the three months ended March 29, 2014, a decrease of \$1.0 million from the comparable prior year period. This decrease is attributable to decreased promotional expenses.

Other income, net

Other income, net was \$0.3 million in the three months ended March 29, 2014, compared to \$0.2 million in the three months ended March 30, 2013.

## Income Taxes and Net Income

The Company's effective income tax rate in both the three months ended March 29, 2014 and March 30, 2013 was 36.5%.

As a result of the foregoing factors, consolidated net income was \$24.3 million for the three months ended March 29, 2014. This represents an increase of 2.5% from \$23.7 million in the comparable prior year period.

## **Non-GAAP Financial Measure**

In an effort to provide investors with additional information regarding its financial results, the Company refers to various United States generally accepted accounting principles ("GAAP") financial measures and one non-GAAP financial measure which management believes provides useful information to investors. This non-GAAP financial measure may not be comparable to similarly titled financial measures being disclosed by other companies. In addition, the Company believes that the non-GAAP financial measure should be considered in addition to, and not in lieu of, GAAP financial measures. The Company believes that this non-GAAP financial measure is useful to understanding its operating results and the ongoing performance of its underlying business. The Company uses both GAAP and non-GAAP financial measures to evaluate the Company's financial performance.

## Non-GAAP Reconciliation – EBITDA

### EBITDA

*(Unaudited, dollars in thousands)*

|                                       | Three Months Ended |                |
|---------------------------------------|--------------------|----------------|
|                                       | March              |                |
|                                       | 29,                | March 30, 2013 |
|                                       | 2014               |                |
| Net income                            | \$24,319           | \$ 23,718      |
| Income tax expense                    | 13,979             | 13,633         |
| Depreciation and amortization expense | 8,940              | 4,501          |

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|                       |          |           |
|-----------------------|----------|-----------|
| Interest expense, net | 38       | 16        |
| Interest income       | (2 )     | —         |
| EBITDA                | \$47,274 | \$ 41,868 |

EBITDA is defined as earnings before interest, taxes, and depreciation and amortization. The Company calculates its EBITDA by adding the amount of interest expense, income tax expense, and depreciation and amortization expenses that have been deducted from net income back into net income, and subtracting the amount of interest income that was included in net income from net income. The Company believes that disclosure of its EBITDA will be helpful to those reviewing its performance, as EBITDA provides information on the Company's ability to meet its capital expenditure and working capital requirements, and is also an indicator of profitability.

## **Financial Condition**

### **Liquidity**

At the end of the first quarter of 2014, the Company's cash totaled \$49.8 million. Pre-LIFO working capital of \$113.5 million, less the LIFO reserve of \$38.9 million, resulted in working capital of \$74.6 million and a current ratio of 1.9 to 1.

The Company would like to replenish its finished goods inventory to levels that will better serve its customers. This replenishment, which could take more than one year to accomplish, could increase the FIFO value of finished goods inventory by as much as \$25 million from the current levels upon the attainment of the desired levels of finished goods inventory.

### **Operations**

Cash provided by operating activities was \$15.7 million for the three months ended March 29, 2014 compared to \$30.4 million for the comparable prior year period. The decrease in cash provided by operations is primarily attributable to the payment of the 2013 annual bonus in the three months ended March 29, 2014, while most of the 2012 annual bonus payment was made in the fourth quarter of 2012.

Third parties supply the Company with various raw materials for its firearms and castings, such as fabricated steel components, walnut, birch, beech, maple and laminated lumber for rifle stocks, wax, ceramic material, metal alloys, various synthetic products and other component parts. There is a limited supply of these materials in the marketplace at any given time, which can cause the purchase prices to vary based upon numerous market factors. The Company believes that it has adequate quantities of raw materials in inventory or on order to provide sufficient time to locate and obtain additional items at then-current market cost without interruption of its manufacturing operations. However, if market conditions result in a significant prolonged inflation of certain prices or if adequate quantities of raw materials cannot be obtained, the Company's manufacturing processes could be interrupted and the Company's financial condition or results of operations could be materially adversely affected.

### **Investing and Financing**

Capital expenditures for the three months ended March 29, 2014 totaled \$9.6 million. In 2014, the Company expects to spend approximately \$35 million on capital expenditures to purchase tooling fixtures and equipment for new product introductions and to upgrade and modernize manufacturing equipment. The Company finances, and intends to continue to finance, all of these activities with funds provided by operations and current cash.

Dividends of \$10.5 million were paid during the three months ended March 29, 2014.

On May 2, 2014, the Board of Directors authorized a dividend of 49¢ per share, for shareholders of record as of May 16, 2013, payable on May 30, 2014. The payment of future dividends depends on many factors, including internal estimates of future performance, then-current cash and short-term investments, and the Company's need for funds. The Company has financed its dividends with cash provided by operations and current cash.

During the three months ended March 29, 2014, the Company did not repurchase any shares of its common stock. As of March 29, 2014, \$25 million remained available for future stock repurchases.

The Company has migrated its retirement benefits from defined-benefit pension plans to defined-contribution retirement plans, utilizing its current 401(k) plan.

The Company amended its hourly and salaried defined-benefit pension plans so that employees no longer accrued benefits under them effective December 31, 2007. This action “froze” the benefits for all employees and prevented future hires from joining the plans. Currently, the Company provides supplemental discretionary contributions to substantially all employees’ individual 401(k) accounts.

The Company contributed \$3 million in both 2013 and 2012. In future years, the Company may be required to make cash contributions to the two defined-benefit pension plans. The annual contributions will be based on the amount of the unfunded plan liabilities derived from the frozen benefits and will not include liabilities for any future accrued benefits for any new or existing participants. The total amount of these future cash contributions will depend on the investment returns generated by the plans’ assets and the then-applicable discount rates used to calculate the plans’ liabilities.

The Company expects to satisfy all of its obligations under the frozen pension plans when market conditions are favorable. Late in the fourth quarter of 2013, 94% of the pension plans’ assets were allocated to money market funds to capture the investment returns in 2013. This was an initial step to prepare to fully fund and terminate the plans in accordance with Internal Revenue Service and Pension Benefit Guaranty Corporation requirements, which, if successful, would not occur before late 2014 or early 2015. Plan participants will not be adversely affected by the plan terminations, but rather will have their benefits either converted into a lump sum cash payment or an annuity contract placed with an insurance carrier.

It is expected that the settlement of the frozen pension plans would have a material impact on the financial results of the period in which it occurs, and may have a material impact on the financial position of the Company.

Based on its unencumbered assets, the Company believes it has the ability to raise cash through issuance of short-term or long-term debt. The Company’s unsecured \$40 million credit facility, which expires on June 15, 2014, remained unused at March 29, 2014 and the Company has no debt.

#### Other Operational Matters

In the normal course of its manufacturing operations, the Company is subject to occasional governmental proceedings and orders pertaining to workplace safety, firearms serial number tracking and control, waste disposal, air emissions

and water discharges into the environment. The Company believes that it is generally in compliance with applicable Bureau of Alcohol, Tobacco, Firearms & Explosives, environmental, and safety regulations and the outcome of any related proceedings or orders will not have a material adverse effect on the financial position or results of operations of the Company.

The Company self-insures a significant amount of its product liability, workers' compensation, medical, and other insurance. It also carries significant deductible amounts on various insurance policies.

The Company has transitioned to a new enterprise resource planning system and has converted all of its manufacturing facilities and its support functions during the past two years.

The valuation of the future defined-benefit pension obligations at December 31, 2013 and 2012 indicated that these plans were overfunded by \$0.5 million and underfunded by \$19.6 million, respectively, which resulted in a cumulative other comprehensive loss of \$19.4 million and \$29.6 million on the Company's balance sheet at December 31, 2013 and 2012, respectively.

The Company expects to realize its deferred tax assets through tax deductions against future taxable income.

#### Adjustments to Critical Accounting Policies

The Company has not made any adjustments to its critical accounting estimates and assumptions described in the Company's 2013 Annual Report on Form 10-K filed on February 25, 2014, or the judgments affecting the application of those estimates and assumptions.

#### Forward-Looking Statements and Projections

The Company may, from time to time, make forward-looking statements and projections concerning future expectations. Such statements are based on current expectations and are subject to certain qualifying risks and uncertainties, such as market demand, sales levels of firearms, anticipated castings sales and earnings, the need for external financing for operations or capital expenditures, the results of pending litigation against the Company, the impact of future firearms control and environmental legislation, and accounting estimates, any one or more of which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publish revised forward-looking statements to reflect events or circumstances after the date such forward-looking statements are made or to reflect the occurrence of subsequent unanticipated events.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Historically, the Company has been exposed to changing interest rates on its investments, which consisted primarily of United States Treasury instruments with short-term (less than one year) maturities and cash. The interest rate market risk implicit in the Company's investments at any given time is typically low, as the investments mature within short periods and the Company does not have significant exposure to changing interest rates on invested cash.

### ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (the "Disclosure Controls and Procedures"), as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of March 29, 2014.

Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of March 29, 2014, such Disclosure Controls and Procedures are effective to

ensure that information required to be disclosed in the Company's periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer or persons performing similar functions, as appropriate, to allow timely decisions regarding disclosure.

Additionally, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, there have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 29, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The effectiveness of any system of internal controls and procedures is subject to certain limitations, and, as a result, there can be no assurance that the Disclosure Controls and Procedures will detect all errors or fraud. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system will be attained.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The nature of the legal proceedings against the Company is discussed at Note 10 to the financial statements, which are included in this Quarterly Report on Form 10-Q.

The Company has reported all product liability cases instituted against it through December 31, 2013, and the results of those cases, where terminated, to the SEC on its previous Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K reports, to which reference is hereby made.

During the three months ended March 29, 2014, no cases were formally instituted against the Company.

During the three months ending March 29, 2014, the previously reported case of Phillip Michael Waldrup v. Carroll's Guns Shop, Inc. and Sturm, Ruger & Co., Inc. was settled, though the case was not finally dismissed until April 7, 2014. Also during this time period, the previously reported case of Edgar Rodriguez et al. v. Sturm, Ruger & Co., Inc. et al. was settled, though the matter remains pending subject to finalization of settlement documentation.

### ITEM 1A. RISK FACTORS

There have been no material changes in the Company's risk factors from the information provided in Item 1A. Risk Factors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. MINING SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS

(a) Exhibits:

31.1 Certification Pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification Pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

STURM, RUGER & COMPANY, INC.

FORM 10-Q FOR THE THREE MONTHS ENDED MARCH 29, 2014

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STURM, RUGER & COMPANY, INC.

Date: May 5, 2014 S/THOMAS A. DINEEN  
Thomas A. Dineen  
Principal Financial Officer,  
Principal Accounting Officer,  
Vice President, Treasurer and Chief Financial Officer