STURM RUGER & CO INC
Form 10-K
February 25, 2015

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

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

(Mark One)

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

For the fiscal year ended December 31, 2014

OR

o 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 0-4776

STURM, RUGER & COMPANY, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware **06-0633559**

(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

Lacey Place, Southport, Connecticut 06890

(Address of Principal Executive Offices) (Zip Code)

(203) 259-7843

(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $1 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **YES x NO o**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. **YES o NO x**

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 filing requirements for the past 90 days. **YES x NO o**

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K **x.**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. Large accelerated filer **x** Accelerated filer **o** Non-accelerated filer **o** Smaller reporting company **o**.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).**YES o NO x**

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 x NO o

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2014:

Common Stock, $1 par value - $1,145,793,000

The number of shares outstanding of the registrant's common stock as of February 16, 2015:

Common Stock, $1 par value –18,737,000 shares

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of the registrant’s Proxy Statement relating to the 2015 Annual Meeting of Stockholders to be held May 5, 2015 are incorporated by reference into Part III (Items 10 through 14) of this Report.

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PART IV

EXPLANATORY NOTE:

In this Annual Report on Form 10-K, Sturm, Ruger & Company, Inc., and Subsidiary (the “Company”) makes 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. Words such as “expect,” “believe,” “anticipate,” “intend,” “estimate,” “will,” “should,” “could” and other word terms of similar meaning, typically identify such forward-looking statements. 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.

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PART I

ITEM 1—BUSINESS

Company Overview

Sturm, Ruger & Company, Inc., and Subsidiary (the “Company”) is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Virtually all of the Company’s sales for the year ended December 31, 2014 were from the firearms segment, with less than 1% from the castings segment. Export sales represent approximately 4% of firearms sales. The Company’s design and manufacturing operations are located in the United States and almost all product content is domestic.

The Company has been in business since 1949 and was incorporated in its present form under the laws of Delaware in 1969. The Company primarily offers products in three industry product categories – rifles, pistols, and revolvers. The Company’s firearms are sold through independent wholesale distributors, principally to the commercial sporting market.

The Company manufactures and sells investment castings made from steel alloys for internal use in the firearms segment and has minimal sales to outside customers. In November 2014, the Company established a metal injection molding (“MIM”) subsidiary, whose production is intended to supply the firearms segment, with only minimal outside sales. The castings and MIM parts sold to outside customers, either directly to or through manufacturers’ representatives, represented less than 1% of the Company’s total sales for the year ended December 31, 2014.

For the years ended December 31, 2014, 2013, and 2012, net sales attributable to the Company's firearms operations were approximately $542.3 million, $678.6 million and $484.9 million, or virtually all of the total net sales in each year. The balance of the Company's net sales for the aforementioned periods was attributable to its castings operations.

Firearms Products

The Company presently manufactures firearm products, under the “Ruger” name and trademark, in the following industry categories:

Rifles Revolvers

·Single-shot	·Single-action
·Autoloading	·Double-action
·Bolt-action	
·Modern sporting	

Pistols	Shotguns
·Rimfire autoloading	·Over-and-under
·Centerfire autoloading	

Most firearms are available in several models based upon caliber, finish, barrel length, and other features.

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Rifles

A rifle is a long gun with spiral grooves cut into the interior of the barrel to give the bullet a stabilizing spin after it leaves the barrel. Sales of rifles by the Company accounted for approximately $203.9 million, $217.6 million, and $143.9 million of total net sales for the years 2014, 2013, and 2012, respectively.

Pistols

A pistol is a handgun in which the ammunition chamber is an integral part of the barrel and which typically is fed ammunition from a magazine contained in the grip. Net sales of pistols by the Company accounted for approximately $198.2 million, $293.5 million, and $216.5 million of revenues for the years 2014, 2013, and 2012, respectively.

Revolvers

A revolver is a handgun that has a cylinder that holds the ammunition in a series of chambers which are successively aligned with the barrel of the gun during each firing cycle. There are two general types of revolvers, single-action and double-action. To fire a single-action revolver, the hammer is pulled back to cock the gun and align the cylinder before the trigger is pulled. To fire a double-action revolver, a single trigger pull advances the cylinder and cocks and releases the hammer. Net sales of revolvers by the Company accounted for approximately $112.8 million, $108.2 million, and $92.7 million of revenues for the years 2014, 2013, and 2012, respectively.

Shotguns

A shotgun is a long gun with a smooth barrel interior which fires lead or steel pellets. Sales of shotguns by the Company were insignificant in the past three years.

Accessories

The Company also manufactures and sells accessories and replacement parts for its firearms. These sales accounted for approximately $23.9 million, $59.3 million, and $31.8 million of total net sales for the years 2014, 2013, and 2012, respectively.

Castings Products

Net sales attributable to the Company’s casting operations (excluding intercompany transactions) accounted for approximately $2.2 million, $9.7 million, and $6.9 million, for 2014, 2013, and 2012, respectively. These sales represented no more than 1% of total net sales in each of these years.

Manufacturing

Firearms

The Company produces one model of pistol, all of its revolvers and most of its rifles at the Newport, New Hampshire facility. Most of the pistols are produced at the Prescott, Arizona facility. A limited number of rifle models and one pistol model are produced at the Mayodan, North Carolina facility, which began operations in the latter months of 2013.

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Many of the basic metal component parts of the firearms manufactured by the Company are produced by the Company's castings segment through processes known as precision investment casting. The Company also uses many metal injection molding (“MIM”) parts in its firearms. See "Manufacturing-Castings" for a description of these processes. In November 2014, the Company established a metal injection molding (“MIM”) subsidiary, whose production is intended to supply the firearms segment, with only minimal outside sales. The Company believes that investment castings and MIM parts provide greater design flexibility and result in component parts which are generally close to their ultimate shape and, therefore, require less machining than processes requiring machining a solid billet of metal to obtain a part. Through the use of investment castings and MIM parts, the Company endeavors to produce durable and less costly component parts for its firearms.

All assembly, inspection, and testing of firearms manufactured by the Company are performed at the Company's manufacturing facilities. Every firearm, including every chamber of every revolver manufactured by the Company, is test-fired prior to shipment.

Investment Castings and Metal Injected Moldings

To produce a product by the investment casting method, a wax model of the part is created and coated (“invested”) with several layers of ceramic material. The shell is then heated to melt the interior wax, which is poured off, leaving a hollow mold. To cast the desired part, molten metal is poured into the mold and allowed to cool and solidify. The mold is then broken off to reveal a near net shape cast metal part.

Metal injection molding is a metalworking process by which finely-powdered metal is mixed with a measured amount of binder material to comprise a feedstock capable of being handled by plastic processing equipment through a process known as injection mold forming. The molding process allows complex parts to be shaped in a single operation and in high volume.

Marketing and Distribution

Firearms

The Company's firearms are primarily marketed through a network of federally licensed, independent wholesale distributors who purchase the products directly from the Company. They resell to federally licensed, independent retail firearms dealers who in turn resell to legally authorized end users. All retail purchasers are subject to a point-of-sale background check by law enforcement. These end users include sportsmen, hunters, people interested in self-defense, law enforcement and other governmental organizations, and gun collectors. Each distributor carries the entire line of firearms manufactured by the Company for the commercial market. Currently, 16 distributors service the domestic commercial market, with an additional 25 distributors servicing the domestic law enforcement market and one distributor servicing the Canadian market.

In 2014, the Company's largest customers and the percent of total sales they represented were as follows: Davidson's-19%; Lipsey's-13%; Sports South-13%, and Jerry's/Ellett Brothers-12%.

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In 2013, the Company’s largest customers and the percent of total sales they represented were as follows: Davidson’s-16%; Jerry’s/Ellett Brothers-14%; Lipsey’s-14%; and Sports South-11%.

In 2012, the Company’s largest customers and the percent of total sales they represented were as follows: Davidson’s-17%; Jerry’s/Ellett Brothers-14%; Lipsey’s-13%; and Sports South-12%.

The Company employs 13 employees who service these distributors and call on retailers and law enforcement agencies. Because the ultimate demand for the Company's firearms comes from end users rather than from the independent wholesale distributors, the Company believes that the loss of any distributor would not have a material, long-term adverse effect on the Company, but may have a material adverse effect on the Company’s financial results for a particular period. The Company considers its relationships with its distributors to be satisfactory.

The Company also exports its firearms through a network of selected commercial distributors and directly to certain foreign customers, consisting primarily of law enforcement agencies and foreign governments. Foreign sales were less than 5% of the Company's consolidated net sales for each of the past three fiscal years.

The Company does not consider its overall firearms business to be predictably seasonal; however, orders of many models of firearms from the 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.

Castings

The castings segment provides castings and MIM parts for the Company’s firearms segment. In addition, the castings segment produces some products for a number of customers in a variety of industries.

Competition

Firearms

Competition in the firearms industry is intense and comes from both foreign and domestic manufacturers. While some of these competitors concentrate on a single industry product category such as rifles or pistols, several competitors manufacture products in all four industry categories (rifles, shotguns, pistols, and revolvers). Some of these competitors are subsidiaries of larger corporations than the Company with substantially greater financial resources than the Company, which could affect the Company's ability to compete. The principal methods of competition in the industry are product innovation, quality, availability, and price. The Company believes that it can compete effectively with all of its present competitors.

Castings

There are a large number of investment castings and MIM manufacturers, both domestic and foreign, with which the Company competes. Competition varies based on the type of investment castings products and the end use of the product (commercial, sporting goods, or military). Companies offering alternative methods of manufacturing such as wire electric discharge machining (EDM) and advancements in computer numeric controlled (CNC) machining also

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compete with the Company's castings segment. Many of these competitors are larger corporations than the Company with substantially greater financial resources than the Company, which could affect the Company's ability to compete with these competitors. The principal methods of competition in the industry are quality, price, and production lead time.

Employees

As of February 1, 2015, the Company employed approximately 1,843 full-time employees of which approximately 28% had at least ten years of service with the Company. The Company uses temporary employees to supplement its workforce. As of February 1, 2015, there were approximately 230 temporary employees.

None of the Company's employees are subject to a collective bargaining agreement.

Research and Development

In 2014, 2013, and 2012, the Company spent approximately $10.0 million, $6.2 million, and $5.9 million, respectively, on research and development activities relating to new products and the improvement of existing products. As of February 1, 2015, the Company had approximately 103 employees whose primary responsibilities were research and development activities.

Patents and Trademarks

The Company owns various United States and foreign patents and trademarks which have been secured over a period of years and which expire at various times. It is the policy of the Company to apply for patents and trademarks whenever new products or processes deemed commercially valuable are developed or marketed by the Company. However, none of these patents and trademarks are considered to be fundamental to any important product or manufacturing process of the Company and, although the Company deems its patents and trademarks to be of value, it does not consider its business materially dependent on patent or trademark protection.

Environmental Matters

The Company is committed to achieving high standards of environmental quality and product safety, and strives to provide a safe and healthy workplace for its employees and others in the communities in which it operates. The Company has programs in place that monitor compliance with various environmental regulations. However, in the normal course of its manufacturing operations the Company is subject to governmental proceedings and orders pertaining to waste disposal, air emissions, and water discharges into the environment. These regulations are integrated into the Company’s manufacturing, assembly, and testing processes. The Company believes that it is generally in compliance with applicable environmental regulations and that the outcome of any environmental proceedings and orders will not have a material adverse effect on the financial position of the Company, but could have a material adverse effect on the financial results for a particular period.

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Executive Officers of the Company

Set forth below are the names, ages, and positions of the executive officers of the Company. Officers serve at the discretion of the Board of Directors of the Company.

Name	Age	Position With Company
Michael O. Fifer	57	Chief Executive Officer
Christopher J. Killoy	56	President and Chief Operating Officer
Thomas A. Dineen	46	Vice President, Treasurer and Chief Financial Officer
Mark T. Lang	58	Group Vice President
Thomas P. Sullivan	54	Vice President of Newport Operations
Kevin B. Reid, Sr.	54	Vice President, General Counsel and Corporate Secretary
Steven M. Maynard	60	Vice President of Lean Business Development

Michael O. Fifer joined the Company as Chief Executive Officer on September 25, 2006, and was named to the Board of Directors on October 19, 2006. Mr. Fifer also served as President from April 23, 2008 to December 31, 2013.

Christopher J. Killoy became President and Chief Operating Officer on January 1, 2014. Previously he served as Vice President of Sales and Marketing since November 27, 2006. Mr. Killoy originally joined the Company in 2003 as Executive Director of Sales and Marketing, and subsequently served as Vice President of Sales and Marketing from November 1, 2004 to January 25, 2005.

Thomas A. Dineen became Vice President on May 24, 2006. Previously he served as Treasurer and Chief Financial Officer since May 6, 2003 and had been Assistant Controller since 2001. Prior to that, Mr. Dineen had served as Manager, Corporate Accounting since 1997.

Mark T. Lang joined the Company as Group Vice President on February 18, 2008. Mr. Lang is responsible for management of the Prescott Firearms Division and the Company’s acquisition efforts. Prior to joining the Company, Mr. Lang was President of the Custom Products Business at Mueller Industries, Inc. Prior to joining Mueller, Mr. Lang was the Vice President of Operations for the Automotive Division of Thomas and Betts, Inc.

Thomas P. Sullivan joined the Company as Vice President of Newport Operations for the Newport, New Hampshire Firearms and Pine Tree Castings divisions on August 14, 2006. Mr. Sullivan is also responsible for the Mayodan, North Carolina Firearms Division.

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Kevin B. Reid, Sr. became Vice President and General Counsel on April 23, 2008. Previously he served as the Company’s Director of Marketing from June 4, 2007. Mr. Reid joined the Company in July 2001 as an Assistant General Counsel.

Steven M. Maynard joined the Company as Vice President of Lean Business Development on April 24, 2007. Prior to joining the Company, Mr. Maynard served as Vice President of Engineering and CIO at the Wiremold Company.

Where You Can Find More Information

The Company is subject to the informational requirements of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and accordingly files its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Definitive Proxy Statements, Current Reports on Form 8-K, and other information with the Securities and Exchange Commission (the "SEC"). The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549. Please call the SEC at (800) SEC-0330 for further information on the Public Reference Room. As an electronic filer, the Company's public filings are maintained on the SEC's Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that website is http://www.sec.gov.

The Company makes its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Definitive Proxy Statements, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act accessible free of charge through the Company's Internet site after the Company has electronically filed such material with, or furnished it to, the SEC. The address of that website is http://www.ruger.com. However, such reports may not be accessible through the Company's website as promptly as they are accessible on the SEC’s website.

Additionally, the Company’s corporate governance materials, including its Corporate Governance Guidelines, the charters of the Audit, Compensation, and Nominating and Corporate Governance committees, and the Code of Business Conduct and Ethics may also be found under the “Stockholder Relations” subsection of the “Corporate” section of the Company’s Internet site at http://www.ruger.com/corporate. A copy of the foregoing corporate governance materials is available upon written request to the Corporate Secretary at Sturm, Ruger & Company, Inc., Lacey Place, Southport, Connecticut 06890.

ITEM 1A—RISK FACTORS

The Company’s operations could be affected by various risks, many of which are beyond its control. Based on current information, the Company believes that the following identifies the most significant risk factors that could adversely affect its business. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

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In evaluating the Company’s business, the following risk factors, as well as other information in this report, should be carefully considered.

Changes in government policies and firearms legislation could adversely affect the Company’s financial results.

The sale, purchase, ownership, and use of firearms are subject to thousands of federal, state and local governmental regulations. The basic federal laws are the National Firearms Act, the Federal Firearms Act, and the Gun Control Act of 1968. These laws generally prohibit the private ownership of fully automatic weapons and place certain restrictions on the interstate sale of firearms unless certain licenses are obtained. The Company does not manufacture fully automatic weapons and holds all necessary licenses under these federal laws. Several states currently have laws in effect similar to the aforementioned legislation.

Until November 30, 1998, the “Brady Law” mandated a nationwide five-day waiting period and background check prior to the purchase of a handgun. As of November 30, 1998, the National Instant Check System, which applies to both handguns and long guns, replaced the five-day waiting period. The Company believes that the “Brady Law” and the National Instant Check System have not had a significant effect on the Company’s sales of firearms, nor does it anticipate any significant impact on sales in the future. On September 13, 1994, the “Violent Crime Control and Law Enforcement Act” banned so-called “assault weapons.” All the Company’s then-manufactured commercially-sold long guns were exempted by name as “legitimate sporting firearms.” This ban expired by operation of law on September 13, 2004. The Company remains strongly opposed to laws which would restrict the rights of law-abiding citizens to lawfully acquire firearms.

Currently, federal and several states’ legislatures are considering additional legislation relating to the regulation of firearms. These proposed bills are extremely varied, but many seek either to restrict or ban the sale and, in some cases, the ownership of various types of firearms. Other legislation seeks to require new technologies, such as microstamping and so-called “smart gun” technology, that are not proven, reliable or feasible. Such legislation became effective in California in 2013, which will reduce sales of certain of our products in California. If similar legislation is enacted in other states, it could effectively ban or severely limit the sale of affected firearms. There also are legislative proposals to limit magazine capacity.

The Company believes that the lawful private ownership of firearms is guaranteed by the Second Amendment to the United States Constitution and that the widespread private ownership of firearms in the United States will continue. However, there can be no assurance that the regulation of firearms will not become more restrictive in the future and that any such restriction would not have a material adverse effect on the business of the Company.

The Company’s results of operations could be further adversely affected if legislation with diverse requirements is enacted.

With literally thousands of laws being proposed at the federal, state and local levels, if even a small percentage of these laws are enacted and they are incongruent, the Company could find it difficult, expensive or even practically impossible to comply with them, impeding new product development and distribution of existing products.

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The Company's results of operations could be adversely affected by litigation.

The Company faces risks arising from various asserted and unasserted litigation matters. These matters include, but are not limited to, assertions of allegedly defective product design or manufacture, alleged failure to warn, purported class actions against firearms manufacturers, generally seeking relief such as medical expense reimbursement, property damages, and punitive damages arising from accidents involving firearms or the criminal misuse of firearms, and those lawsuits filed on behalf of municipalities alleging harm to the general public. Various factors or developments can lead to changes in current estimates of liabilities such as final adverse judgment, significant settlement or changes in applicable law. A future adverse outcome in any one or more of these matters could have a material adverse effect on the Company's financial results. See Note 16 to the financial statements which are included in this Annual Report on Form 10-K.

The Company's results of operations could be adversely affected by a decrease in demand for our products.

If demand for our products decreases significantly, we would be unable to efficiently utilize our capacity, and our profitability would suffer. Decreased demand could result from a macroeconomic downturn, or could be specific to the firearms industry. If the decrease in demand occurs abruptly, the adverse impact would be even greater.

The Company must comply with various laws and regulations pertaining to workplace safety and environment, environmental matters, and firearms manufacture.

In the normal course of its manufacturing operations, the Company is subject to numerous federal, state and local laws and governmental regulations and related state laws, and governmental proceedings and orders. These laws and regulations pertain to workplace safety and environment, firearms serial number tracking and control, waste disposal, air emissions and water discharges into the environment. Noncompliance with any one or more of these laws and regulations could have a material adverse impact on the Company.

Business disruptions at one of the Company's manufacturing facilities could adversely affect the Company's financial results.

The Newport, New Hampshire, Prescott, Arizona and Mayodan, North Carolina facilities are critical to the Company's success. These facilities house the Company's principal production, research, development, engineering, design, and shipping operations. Any event that causes a disruption of the operation of any of these facilities for even a relatively short period of time could have a material adverse effect on the Company's ability to produce and ship products and to provide service to its customers.

Price increases for raw materials could adversely affect the Company's financial results.

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 ample

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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 can not 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.

Retention of key management is critical to the success of the Company.

We rely on the management and leadership skills of our senior management team. Our senior executives are not bound by employment agreements. The loss of the services of one or more of our senior executives or other key personnel could have a significant adverse impact on our business.

The Affordable Care Act could have a material adverse impact on the Company.

Certain provisions of the federal healthcare legislation, in particular the “unlimited lifetime benefit” which eliminated the practice of capping the amount of medical benefits available to an individual, could have a material adverse effect on the Company’s financial position. The Company self-insures the cost of the medical benefits for its employees up to an annual and lifetime maximum per individual. It supplements this self-insurance with “stop loss” insurance for costs incurred above these maximum thresholds. In the past, the medical benefit costs for several Company employees each year have exceeded this maximum, in some cases significantly. It is the Company’s expectation that if it is forced to provide an “unlimited lifetime benefit” its medical costs would likely increase significantly, which would have a material adverse effect on its financial condition.

ITEM 1B—UNRESOLVED STAFF COMMENTS

None.

ITEM 2—PROPERTIES

The Company’s manufacturing operations are carried out at four facilities. The following table sets forth certain information regarding each of these facilities:

	Approximate Aggregate Usable Square Feet

		Status	Segment
Newport, New Hampshire	350,000	Owned	Firearms/Castings
Prescott, Arizona	230,000	Leased	Firearms
Mayodan, North Carolina	220,000	Owned	Firearms
Earth City, Missouri	35,000	Leased	Castings

Each firearms facility contains enclosed ranges for testing firearms. The lease of the Prescott facility provides for rental payments, which are approximately equivalent to estimated rates for real property taxes.

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The Company has three other facilities that were not used in its manufacturing operations in 2014:

	Approximate Aggregate Usable Square Feet	Status	Segment
Southport, Connecticut	25,000	Owned	Corporate
Newport, New Hampshire (Dorr Woolen Building)	45,000	Owned	Firearms
Enfield, Connecticut	10,000	Leased	Firearms

There are no mortgages or any other major encumbrance on any of the real estate owned by the Company.

The Company's principal executive offices are located in Southport, Connecticut.

ITEM 3—LEGAL PROCEEDINGS

The nature of the legal proceedings against the Company is discussed at Note 16 to the financial statements, which are included in this Annual Report on Form 10-K.

The Company has reported all cases instituted against it through September 27, 2014, and the results of those cases, where terminated, to the SEC on its previous Quarterly Reports on Form 10-Q and Annual Reports on 10-K, to which reference is hereby made.

During the three months ending December 31, 2014, one case was formally instituted against the Company, captioned *Riveting Systems, LLC, D/B/A Grant Riveters v. Sturm, Ruger & Company, Inc.,* pending in Superior Court, Fairfield, Connecticut.

During the three months ending December 31, 2014, no cases previously reported were settled or dismissed.

ITEM 4—MINE SAFETY DISCLOSURES – NOT APPLICABLE

PART II

ITEM 5— MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on the New York Stock Exchange under the symbol "RGR." At February 16, 2015, the Company had 1,737 stockholders of record.

The following table sets forth, for the periods indicated, the high and low sales prices for the Company's common stock as reported on the New York Stock Exchange and dividends paid on the Company's common stock.

	High	Low	Dividends Per Share
2013:			
First Quarter	$58.50	$44.84	$ 0.404
Second Quarter	52.73	44.76	0.490
Third Quarter	65.85	46.69	0.650
Fourth Quarter	80.28	62.02	0.580
2014:			
First Quarter	$85.93	$59.26	$ 0.540
Second Quarter	69.19	57.71	0.490
Third Quarter	60.59	45.76	0.450
Fourth Quarter	52.41	33.60	0.140

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Issuer Repurchase of Equity Securities

In 2014 the Company repurchased shares of its common stock. Details of these purchases are as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program
November	76.684	$37.35	76,684	
December	604,129	$34.94	604,129	
Total	680,813	$35.22	680,813	$75,998,000

In 2013 and 2012, the Company did not repurchase any shares of its common stock.

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Comparison of Five-Year Cumulative Total Return*

Sturm, Ruger & Co., Inc., Standard & Poor's 500, Value Line Recreation Index and Smith & Wesson Holding

(Performance Results Through 12/31/14)

Assumes $100 invested at the close of trading 12/09 in Sturm, Ruger & Company, Inc. common stock, Standard & Poor's 500, Value Line Recreation Index and Smith & Wesson Holding

* Cumulative total return assumes reinvestment of dividends.

Source: Value Line Publishing LLC

Factual material is obtained from sources believed to be reliable, but the publisher is not responsible for any errors or omissions contained herein.

	2009	2010	2011	2012	2013	2014
Sturm, Ruger & Co., Inc.	$100.00	$161.14	$358.60	$500.28	$835.20	$407.23
Standard & Poor's 500	$100.00	$115.06	$117.49	$136.29	$180.43	$205.13
Value Line Recreation Index	$100.00	$150.04	$138.27	$185.59	$255.46	$277.83
Smith & Wesson Holding	$100.00	$91.44	$106.60	$206.36	$329.83	$231.54

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information regarding compensation plans under which equity securities of the Company are authorized for issuance as of December 31, 2014:

Equity Compensation Plan Information

Plan category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights** **(a)**	**Weighted-average exercise price of outstanding options, warrants and rights** **(b)** *	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))** **(c)**
Equity compensation plans approved by security holders			
2001 Stock Option Plan for Non-Employee Directors	**7,000**	**$6.15 per share**	**-**
2007 Stock Incentive Plan	**33,977**	**$9.44 per share**	**628,000**
Equity compensation plans not approved by security holders			
None.			
Total	**40,977**	**$8.82 per share**	**628,000**

* Restricted stock units are settled in shares of common stock on a one-for-one basis. Accordingly, such units have been excluded for purposes of computing the weighted-average exercise price.

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ITEM 6—SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)

December 31,	2014	2013	2012	2011	2010
Net firearms sales	542,267	$678,552	$484,933	$324,200	$251,680
Net castings sales	2,207	9,724	6,891	4,616	3,526
Total net sales	544,474	688,276	491,824	328,816	255,206
Cost of products sold	375,300	429,671	312,871	217,058	171,224
Gross profit	169,174	258,605	178,953	111,758	83,982
Income before income taxes	57,240	175,232	112,109	63,516	44,149
Income taxes	18,612	63,960	41,480	23,501	15,894
Net income	38,628	111,272	70,629	40,015	28,255
Basic earnings per share	1.99	5.76	3.69	2.12	1.48
Diluted earnings per share	1.95	5.58	3.60	2.09	1.46
Cash dividends per share	$1.62	$2.12	$5.80	$0.43	$0.33

December 31,	2014	2013	2012	2011	2010
Working capital	$57,792	$69,460	$37,430	$96,646	$71,885
Total assets	254,382	277,118	174,486	206,510	157,761
Total stockholders' equity	185,462	179,086	95,032	137,391	114,480
Book value per share	$9.90	$9.26	$4.93	$7.20	$6.08
Return on stockholders' equity	21.2%	81.2%	60.8%	32.0%	26.9%
Current ratio	2.0 to 1	1.8 to 1	1.6 to 1	3.0 to 1	3.2 to 1
Common shares outstanding	18,737,000	19,348,000	19,263,000	19,083,100	18,837,300
Number of stockholders of record	1,726	1,718	1,771	1,860	1,841
Number of employees	1,847	1,862	1,441	1,224	1,164

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ITEM 7— 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. Virtually all of the Company’s sales for 2014 were firearms sales, with less than 1% from the castings segment. 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. In November 2014, the Company established a metal injection molding (“MIM”) subsidiary, whose production is intended to supply the firearms segment, with only minimal outside sales.

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 - 2014

Product Demand

The strong demand experienced in 2013 remained through the first quarter of 2014 and much of the second quarter. This continued strong demand was 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.

During the latter half of 2014, demand for the Company’s products declined significantly due to:

§ the reduction in overall consumer demand,
§ high inventory levels at retail, which encouraged retailers to buy fewer firearms than they were selling, in an effort to reduce their inventories and generate cash,
§ aggressive price discounting by many of our competitors, and

§ the lack of significant new product introductions from the Company,

Demand for higher-margin firearms accessories, especially magazines, which was very strong in 2013, softened in the first half of 2014 and then decreased significantly in the latter half of 2014.

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New product introductions in 2014 included the AR-556 modern sporting rifle and the LC9s pistol. New products represented $89.4 million or 16% of firearm sales in 2014, compared to $195.8 million or 29% of firearms sales in 2013. New product sales include only major new products that were introduced in the past two years.

The estimated sell-through of the Company's products from the independent distributors to retailers decreased 20% in 2014. For the same period, the National Instant Criminal Background Check System ("NICS") background checks (as adjusted by the National Shooting Sports Foundation) decreased 12%.

Estimated sell-through from distributors to retailers and total adjusted NICS background checks follow:

	2014	2013	2012
Estimated Units Sold from Distributors to Retailers (1)	1,669,700	2,091,500	1,772,800
Total Adjusted NICS Background Checks (2)	13,090,400	14,796,900	13,780,000

(1) The estimates for each period were calculated by taking the beginning inventory at the distributors, plus shipments 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.

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Orders Received and Ending Backlog

The Company places little weight on incoming orders and backlog as useful planning metrics. Instead, the Company uses the estimated unit sell-through of our products from the independent distributors to retailers, along with inventory levels at the independent distributors and at the Company, as the key metrics for planning production levels.

Net orders received in 2014 decreased 55% from 2013 and our ending order backlog of 651,400 units at December 31, 2014 decreased 0.9 million units from backlog of 1.5 million units at December 31, 2013. These year-over-year decreases are due to the reduction in demand in 2014 and the unprecedented level of orders received in the first quarter of 2013.

The units ordered, value of orders received and ending backlog, net of Federal Excise Tax, for the trailing three years are as follows (dollars in millions, except average sales price):

	2014	2013	2012
Orders Received	$286.8	$636.0	$796.7
Average Sales Price of Orders Received	$311	$283	$277
Ending Backlog	$204.2	$440.6	$427.1
Average Sales Price of Ending Backlog	$313	$290	$283

Production

The Company reviews the estimated sell-through from the independent distributors to retailers, as well as inventory levels at the independent distributors and at the Company, semi-monthly in an effort to plan production levels and mitigate increases in inventory. These reviews resulted in decreased total unit production of 17% in 2014 compared to 2013.

As estimated sell-through decreased, the Company managed its labor force by limiting the hiring of new employees, reducing overtime hours, and allowing attrition to reduce its total employee base. The Company's compensation structure includes a significant performance-based incentive compensation component which allows for a more rapid reduction in labor cost. For reference, in 2014 performance-based incentive compensation comprised at least 15% of individual employee compensation, down from 25% in 2013.

Capital expenditures have been curtailed by the cancellation or delay of purchase orders. In addition, due to the decline in demand in certain mature product lines, some manufacturing equipment from the production cells for those products was redeployed to production cells being developed for new products or to replace older equipment in other production cells.

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In 2013, the Company revised its estimate of the useful life of machinery and equipment from 10 years to 7 years. This change, which became effective December 31, 2013, resulted in increased depreciation expense of $7 million in 2014. The Company estimates that this change will increase depreciation expense for the machinery and equipment on hand at December 31, 2013 by approximately $3 million and $1 million in 2015 and 2016, respectively.

Annual Summary Unit Data

Firearms unit data for orders, production, shipments and backorders follows:

	2014	2013	2012
Units Ordered	921,900	2,251,000	2,879,200
Units Produced	1,867,800	2,249,500	1,695,900
Units Shipped	1,791,300	2,237,400	1,696,400
Average Sales Price	$303	$303	$286
Units on Backorder	651,400	1,520,800	1,507,200

Inventories

The Company’s finished goods inventory increased by 76,500 units during 2014. This is the first significant replenishment of finished goods inventory in several years.

Distributor inventories of the Company’s products increased by 121,600 units during 2014 and approximate a reasonable level to support rapid fulfillment of retailer demand.

The Company reviews the estimated sell-through from the independent distributors to retailers, as well as inventory levels at the distributors and at the Company semi-monthly in an effort to plan production levels and mitigate undesired increases in inventory. These reviews resulted in decreased total unit production of 17% in 2014.

Inventory data follows:

	December 31, 2014	2013	2012
Units – Company Inventory	104,200	27,700	15,600
Units – Distributor Inventory (3)	326,700	205,100	59,200
Total inventory (4)	430,900	232,800	74,800

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

(4) This total does not include inventory at retailers. The Company does not have access to data on retailer inventories.

Year ended December 31, 2014, as compared to year ended December 31, 2013:

Net Sales

Consolidated net sales were $544.5 million in 2014. This represents a decrease of $143.8 million or 20.9% from 2013 consolidated net sales of $688.3 million.

Firearms segment net sales were $542.3 million in 2014. This represents a decrease of $136.3 million or 20.1% from 2013 firearm net sales of $678.6 million. Firearms unit shipments decreased 19.9% in 2014.

Casting segment net sales were $2.2 million in 2014. This represents a decrease of $7.5 million or 77.3% from 2013 casting sales of $9.7 million.

Cost of Products Sold and Gross Profit

Consolidated cost of products sold was $375.3 million in 2014. This represents a decrease of $54.4 million or 12.7% from 2013 consolidated cost of products sold of $429.7 million.

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The gross margin was 31.1% in 2014. This represents a decrease from the 2013 gross margin of 37.6% as illustrated below:

(in thousands) Year Ended December 31,	2014		2013	
Net sales	$544,474	100.0%	$688,276	100.0%
Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, and product liability	378,207	69.5%	427,737	62.1%
LIFO expense	2,062	0.4%	427	0.1%
Overhead rate adjustments to inventory	(5,320)	(1.0)%	183	0%
Labor rate adjustments to inventory	(424)	(0.1)%	71	0%
Product liability	775	0.1%	1,253	0.2%
Total cost of products sold	375,300	68.9%	429,671	62.4%
Gross profit	$169,174	31.1%	$258,605	37.6%

Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, and product liability- In 2014, cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, and product liability increased as a percentage of sales by 7.4% compared to 2013. The main contributors to this increase are:

- reduced sales volume which deleveraged fixed costs, including depreciation, indirect labor, and engineering and product development costs,
- a product mix shift away from higher-margin firearms accessories,
- increased depreciation expense due to the reduction in the estimated useful lives of the Company’s capital assets, and
- increased depreciation expense due to the $151 million of capital equipment purchases as the Company increased firearm sales from $144 million in 2007 to $679 million in 2013.

LIFO- Gross inventories increased by $24.8 million and $8.4 million in 2014 and 2013, respectively. In 2014 and 2013, the Company recognized LIFO expense of $2.1 million and $0.4 million, respectively, which increased cost of products sold.

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Overhead Rate Change- The net impact on inventory in 2014 from the change in the overhead rates used to absorb overhead expenses into inventory was an increase of $5.3 million, reflecting decreased overhead efficiency. This increase in inventory value resulted in a corresponding decrease to cost of products sold in 2014. In 2013, the change in inventory value resulting from the change in the overhead rate used to absorb overhead expenses into inventory was a decrease of $0.2 million, reflecting increased overhead efficiency. This decrease in inventory value resulted in a corresponding increase to cost of products sold.

Labor Rate Adjustments- In 2014, the change in inventory value resulting from the change in the labor rates used to absorb labor expenses into inventory was an increase of $0.4 million, reflecting decreased labor efficiency. This increase in inventory value resulted in a corresponding decrease to cost of products sold. The net impact in 2013 from the change in the labor rates used to absorb labor expenses into inventory was a decrease to inventory of $0.1 million, reflecting increased labor efficiency. This decrease in inventory value resulted in a corresponding increase to cost of products sold.

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. These costs totaled $0.8 million and $1.3 million in 2014 and 2013, respectively. See Note 16 in the notes to the financial statements “Contingent Liabilities” for further discussion of the Company’s product liability.

Gross Profit- Gross profit was $169.2 million or 31.1% of sales in 2014. This is a decrease of $89.4 million from 2013 gross profit of $258.6 million or 37.6% of sales in 2013.

- reduced sales volume which deleveraged fixed costs, including depreciation, indirect labor, and engineering and product development costs,
- a product mix shift away from higher-margin firearms accessories,
- increased depreciation expense due to the reduction in the estimated useful lives of the Company’s capital assets, and
- increased depreciation expense due to the $151 million of capital equipment purchases as the Company increased firearm sales from $144 million in 2007 to $679 million in 2013.

Selling, General and Administrative

Selling, general and administrative expenses were $73.4 million in 2014, a decrease of $10.7 million from $84.1 million in 2013, and an increase from 12.2% of sales in 2013 to 13.5% of sales in 2014. The decrease in selling, general and administrative expenses is attributable to decreased volume-driven promotional selling expenses and distribution costs, and a 60% reduction in performance-based incentive compensation and profit-sharing expenses in 2014 compared to 2013.

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Defined Benefit Pension Plans Settlement Charge

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The Company fully funded and terminated its hourly and salaried defined-benefit pension plans in accordance with Internal Revenue Service and Pension Benefit Guaranty Corporation requirements in 2014. The settlement and termination of the frozen pension plans resulted in an income statement expense of $40.9 million in 2014.

Other Operating Expenses (Income), net

Other operating expenses (income), net consist of the following (in thousands):

	2014	2013
Gain on sale of operating assets	$(1)	$(65)
Frozen defined-benefit pension plan (income) expense	(1,611)	(336)
Total other operating (income) expenses, net	$(1,612)	$(401)

Operating Income

Operating income was $56.3 million or 10.4% of sales in 2014. This is a decrease of $118.6 million from 2013 operating income of $174.9 million or 25.4% of sales.

Royalty Income

Royalty income was $0.5 million in 2014. This represents a decrease of $0.2 million from 2013 royalty income of $0.7 million. The decrease is primarily attributable to decreased income from licensing agreements.

Interest Income

Interest income was negligible in 2014 and 2013.

Interest Expense

Interest expense was negligible in 2014 and 2013.

Other Income (Expense), Net

Other income (expense), net was an income of $0.6 million in 2014, an increase of $0.8 million from an expense of $0.2 million in 2013. This improvement is attributable primarily to the write-down of an investment in 2013.

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Income Taxes and Net Income

The effective income tax rate was 32.5% in 2014 and 36.5% in 2013. The decrease in the effective tax rate is primarily attributable to an increase in the domestic production activities deduction in 2014.

As a result of the foregoing factors, consolidated net income was $38.6 million in 2014. This represents a decrease of $72.7 million from 2013 consolidated net income of $111.3 million.

Non-GAAP Financial Measure

In an effort to provide investors with additional information regarding its results, the Company refers to various United States generally accepted accounting principles (“GAAP”) financial measures and one non-GAAP financial measure, EBITDA, which management believes provides useful information to investors. This non-GAAP measure may not be comparable to similarly titled 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 EBITDA is useful to understanding its operating results and the ongoing performance of its underlying business, 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. The Company believes that this reporting provides better transparency and comparability to its operating results. 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)

Year ended December 31,	2014	2013
Net income	$38,628	$111,272
Income tax expense	18,612	63,960
Depreciation and amortization expense	36,706	20,362
Interest expense	152	135
Interest income	(2)	(4)
Pension plan termination expense, net of cash payment	32,218	—
EBITDA	$126,314	$195,725

EBITDA is defined as earnings before interest, taxes, and depreciation and amortization. The Company calculates this 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 to arrive at EBITDA. The Company's EBITDA calculation also excludes any one-time non-cash, non-operating expense, such as the pension plan termination expense.

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Quarterly Data

To supplement the summary annual unit data and discussion above, the same data for the last eight quarters follows:

	2014 Q4	Q3	Q2	Q1
Units Ordered	225,800	155,900	145,200	395,000
Units Produced	360,900	356,400	552,200	598,300
Units Shipped	399,100	317,100	513,700	561,400
Estimated Units Sold from Distributors to Retailers	422,500	292,900	388,900	565,400
Total Adjusted NICS Background Checks	4,129,000	2,830,000	2,672,000	3,459,000
Average Unit Sales Price	$306	$310	$298	$301
Units on Backorder	651,400	824,700	985,900	1,354,400
Units – Company Inventory	104,200	142,400	103,100	64,600
Units – Distributor Inventory (5)	326,700	350,100	325,900	201,100

	2013 Q4	Q3	Q2	Q1
Units Ordered	249,700	390,400	525,600	1,085,300
Units Produced	615,800	554,700	575,400	503,600
Units Shipped	604,900	553,000	577,200	502,300
Estimated Units Sold from Distributors to Retailers	495,300	521,700	560,200	514,200
Total Adjusted NICS Background Checks	3,932,000	2,907,000	3,032,000	4,926,000

Average Unit Sales Price	$299	$309	$306	$305
Units on Backorder	1,520,800	1,876,000	2,038,600	2,090,200
Units – Company Inventory	27,700	16,800	15,100	16,900
Units – Distributor Inventory (5)	205,100	95,500	64,200	47,300

(5) Distributor ending inventory as provided by the independent distributors of the Company's products.

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(in millions except average sales price, net of Federal Excise Tax)

	2014 Q4	Q3	Q2	Q1
Orders Received	$74.7	$50.1	$42.2	$119.8
Average Sales Price of Orders Received	$331	$321	$291	$303
Ending Backlog	$204.2	$242.9	$289.1	$396.5
Average Sales Price of Ending Backlog	$313	$295	$293	$293

	2013 Q4	Q3	Q2	Q1
Orders Received	$79.5	$94.9	$150.9	$310.7
Average Sales Price of Orders Received	$318	$243	$286	$291
Ending Backlog	$440.6	$534.1	$590.3	$602.3
Average Sales Price of Ending Backlog	$290	$285	$290	$288

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Fourth Quarter Gross Profit Analysis

The gross margin for the fourth quarter of 2014 and 2013 was 27.7% and 35.0%, respectively. Details of the gross margin are illustrated below:

(in thousands) Three Months Ended December 31,	2014		2013	
Net sales	$122,605	100.0%	$181,901	100.0%
Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, and product liability	90,180	73.5%	119,499	65.7%
LIFO (income) expense	900	0.7%	(628)	(0.3)%
Overhead rate adjustments to inventory	(2,510)	(2.0)%	(644)	(0.4)%
Labor rate adjustments to inventory	(183)	(0.1)%	24	0%
Product liability	258	0.2%	18	0%
Total cost of products sold	88,645	72.3%	118,269	65.0%
Gross profit	$33,960	27.7%	$63,632	35.0%

Note: For a discussion of the captions in the above table, please see the "Cost of Products Sold and Gross Profit" discussion above.

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Results of Operations - 2013

Year ended December 31, 2013, as compared to year ended December 31, 2012:

Annual Summary Unit Data

Firearms unit data for orders, production, shipments and ending inventory, and castings setups (a measure of foundry production) are as follows:

	2013	2012	2011
Units Ordered	2,251,000	2,879,200	1,388,100
Units Produced	2,249,500	1,695,900	1,114,700
Units Shipped	2,237,400	1,696,400	1,123,100
Average Sales Price	$303	$286	$289
Units on Backorder	1,520,800	1,507,200	337,400
Units – Company Inventory	27,700	15,600	16,200
Units – Distributor Inventory (1)	205,100	59,200	135,600
Castings Setups	273,597	257,312	198,000

Orders Received and Ending Backlog

(in millions except average sales price, net of Federal Excise Tax):

	2013	2012	2011
Orders Received	$636.0	$796.7	$385.9

Average Sales Price of Orders Received (2)	$283	$277	$278
Ending Backlog (2)	$440.6	$427.1	$98.2
Average Sales Price of Ending Backlog (2)	$290	$283	$291

(1) Distributor ending inventory as provided by the independent distributors of the Company's products.

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(2) Average sales price for orders received and ending backlog is net of Federal Excise Tax of 10% for handguns and 11% for long guns.

Product Demand

Demand for the Company's products was strong in 2013. We believe this strong demand for our products was due to:

- the Company's continued practice of introducing innovative and exciting products,
- new shooters joining the ranks of gun owners,
- the current political environment that favorably impacted the entire firearms industry, and
- increased manufacturing capacity and greater product availability for certain products in strong demand.

New product introductions in 2013 included the LC380 pistol, the SR45 pistol, the Ruger American Rimfire rifle, the SR-762 rifle, and the Red Label II shotgun. New products represented $195.8 million or 29% of firearm sales in 2013, compared to $182.0 million or 38% of firearms sales in 2012.

The estimated sell-through of the Company's products from the independent distributors to retailers increased 18% in 2013 from the comparable prior year period. For the same period, the National Instant Criminal Background Check System ("NICS") background checks (as adjusted by the National Shooting Sports Foundation) increased 7%.

Estimated sell-through from distributors to retailers and total NICS background checks follow:

	2013	2012	2011
Estimated Units Sold from Distributors to Retailers (1)	2,091,500	1,772,800	1,085,200
Total Adjusted NICS Background Checks (2)	14,796,900	13,780,000	10,791,000

(1) The estimates for each period were calculated by taking the beginning inventory at the distributors, plus shipments 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.

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(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.

Production

Total unit production in 2013 increased 33% from 2012. 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 $54.6 million of capital expenditures during 2013. These capital expenditures exceeded depreciation by approximately $34.3 million during 2013, which represented an approximate 14% 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 $0.7 million for the year then ended. The Company estimates that this change will increase depreciation expense for the machinery and equipment on hand at December 31, 2013 by approximately $7 million and $3 million in 2014 and 2015, respectively.

Inventories

The Company’s finished goods inventory increased 12,100 units during 2013 and 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 $30 million from the current level upon the attainment of the desired levels of finished goods inventory.

Distributor inventories of the Company’s products increased 145,900 units during 2013, but remain below the optimal level to support rapid fulfillment of retailer demand.

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Quarterly Summary Unit Data

To supplement the summary annual unit data and discussion above, the same data for the last eight quarters follows:

	2013 Q4	Q3	Q2	Q1
Units Ordered	249,700	390,400	525,600	1,085,300
Units Produced	615,800	554,700	575,400	503,600
Units Shipped	604,900	553,000	577,200	502,300
Estimated Units Sold from Distributors to Retailers	495,300	521,700	560,200	514,200
Total Adjusted NICS Background Checks	3,932,000	2,907,000	3,032,000	4,926,000
Average Sales Price	$299	$309	$306	$305
Units on Backorder	1,520,800	1,876,000	2,038,600	2,090,200
Units – Company Inventory	27,700	16,800	15,100	16,900
Units – Distributor Inventory (3)	205,100	95,500	64,200	47,300

	2012 Q4	Q3	Q2	Q1
Units Ordered	1,069,200	318,300	291,500	1,200,100
Units Produced	461,500	436,500	418,800	379,100
Units Shipped	467,300	425,500	421,100	382,500
Estimated Units Sold from Distributors to Retailers	504,700	396,900	410,300	460,800
	4,882,000	2,904,000	2,619,000	3,376,000

Total Adjusted NICS Background Checks				
Average Sales Price	$295	$273	$280	$290
Units on Backorder	1,507,200	908,700	1,016,700	1,153,500
Units – Company Inventory	15,600	21,400	10,400	12,800
Units – Distributor Inventory (3)	59,200	96,600	68,000	57,200

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(3) Distributor ending inventory as provided by the independent distributors of the Company's products.

(in millions except average sales price, net of Federal Excise Tax)

	2013 Q4	Q3	Q2	Q1
Orders Received	$79.5	$94.9	$150.9	$310.7
Average Sales Price of Orders Received (4)	$318	$243	$286	$291
Ending Backlog	$440.6	$534.1	$590.3	$602.3
Average Sales Price of Ending Backlog (4)	$290	$243	$286	$291

	2012 Q4	Q3	Q2	Q1
Orders Received	$310.4	$92.9	$84.6	$308.7
Average Sales Price of Orders Received (4)	$290	$292	$290	$257
Ending Backlog	$427.1	$249.7	$273.2	$304.4
Average Sales Price of Ending Backlog (4)	$283	$275	$269	$264

(4) Average sales price for orders received and ending backlog is net of Federal Excise Tax of 10% for handguns and 11% for long guns.

Net Sales

Consolidated net sales were $688.3 million in 2013. This represents an increase of $196.5 million or 39.9% from 2012 consolidated net sales of $491.8 million.

Firearms segment net sales were $678.6 million in 2013. This represents an increase of $193.7 million or 39.9% from 2012 firearm net sales of $484.9 million. Firearms unit shipments increased 31.9% in 2013.

Casting segment net sales were $9.7 million in 2013. This represents an increase of $2.8 million or 41.1% from 2012 casting sales of $6.9 million.

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Cost of Products Sold and Gross Profit

Consolidated cost of products sold was $429.7 million in 2013. This represents an increase of $116.8 million or 37.3% from 2012 consolidated cost of products sold of $312.9 million.

The gross margin was 37.6% in 2013. This represents an increase from the 2012 gross margin of 36.4% as illustrated below:

(in thousands) Year Ended December 31,	2013		2012	
Net sales	$688,276	100.0%	$491,824	100.0%
Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, and product liability	427,737	62.1%	310,674	63.2%
LIFO expense	427	0.1%	1,159	0.3%
Overhead rate adjustments to inventory	183	0%	665	0.1%
Labor rate adjustments to inventory	71	0%	196	0%
Product liability	1,253	0.2%	177	0%
Total cost of products sold	429,671	62.4%	312,871	63.6%
Gross profit	$258,605	37.6%	$178,953	36.4%

Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, and product liability- In 2013, cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, and product liability decreased as a percentage of sales by 1.1% compared to 2012. The main contributors to this decrease include the introduction of several new products which increased overall volume thereby favorably leveraging manufacturing overhead and improved productivity from continued emphasis on lean manufacturing techniques, which was partially offset by increased direct material cost.

LIFO- Gross inventories increased by $8.4 million and $6.8 million in 2013 and 2012, respectively. In 2013 and 2012, the Company recognized LIFO expense of $0.4 million and $1.2 million, respectively, which increased cost of products sold.

Overhead Rate Change- The net impact on inventory in 2013 from the change in the overhead rates used to absorb overhead expenses into inventory was a decrease of $0.2 million, reflecting increased overhead efficiency. This decrease in inventory value resulted in a corresponding increase to cost of products sold in 2013. In 2012, the change in inventory value resulting from

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the change in the overhead rate used to absorb overhead expenses into inventory was a decrease of $0.7 million, reflecting increased overhead efficiency. This decrease in inventory value resulted in a corresponding increase to cost of products sold.

Labor Rate Adjustments- In 2013, the change in inventory value resulting from the change in the labor rates used to absorb labor expenses into inventory was a decrease of $0.1 million, reflecting increased labor efficiency. This decrease in inventory value resulted in a corresponding increase to cost of products sold. The net impact in 2012 from the change in the labor rates used to absorb labor expenses into inventory was a decrease to inventory of $0.2 million, reflecting increased labor efficiency. This decrease in inventory value resulted in a corresponding increase to cost of products sold.

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. These costs totaled $1.3 million and $0.2 million in 2013 and 2012, respectively. See Note 16 in the notes to the financial statements "Contingent Liabilities" for further discussion of the Company's product liability.

Gross Profit- Gross profit was $258.6 million or 37.6% of sales in 2013. This is an increase of $79.6 million from 2012 gross profit of $179.0 million or 36.4% of sales in 2012.

Selling, General and Administrative

Selling, general and administrative expenses were $84.1 million in 2013, an increase of $16.5 million from $67.6 million in 2012, and a decrease from 13.7% of sales in 2012 to 12.2% of sales in 2013. The increase in selling, general and administrative expenses is attributable to the following:

- increased promotional expenses,
- increased freight expense due to increased sales volume, and
- increased performance-based equity and performance-based cash compensation expense.

Other Operating Expenses (Income), net

Other operating expenses (income), net consist of the following (in thousands):

	2013	2012
Gain on sale of operating assets	$(65)	$(27)
Frozen defined-benefit pension plan (income) expense	(336)	320
Total other operating (income) expenses, net	$(401)	$293

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Operating Income

Operating income was $174.9 million or 25.4% of sales in 2013. This is an increase of $63.8 million from 2012 operating income of $111.1 million or 22.6% of sales.

Royalty Income

Royalty income was $0.7 million in 2013. This represents a decrease of $0.1 million from 2012 royalty income of $0.8 million. The decrease is primarily attributable to decreased income from licensing agreements.

Interest Income

Interest income was negligible in 2013 and 2012.

Interest Expense

Interest expense was negligible in 2013 and 2012.

Other Income, Net

Other (expense) income, net was an expense of $0.2 million in 2013, a decrease of $0.5 million from income of $0.3 million in 2012. This expense is attributable primarily to the write-down of an investment partially offset by the sale of by-products of our manufacturing processes.

Income Taxes and Net Income

The effective income tax rate was 36.5% in 2013 and 37.0% in 2012.

As a result of the foregoing factors, consolidated net income was $111.3 million in 2013. This represents an increase of $40.7 million from 2012 consolidated net income of $70.6 million.

Non-GAAP Financial Measure

In an effort to provide investors with additional information regarding its results, the Company refers to various GAAP financial measures and one non-GAAP financial measure, EBITDA, which management believes provides useful information to investors. This non-GAAP measure may not be comparable to similarly titled 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 EBITDA is useful to understanding its operating results and the ongoing performance of its underlying business, 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. The Company believes that this reporting provides better transparency and comparability to the Company operating results. The Company uses both GAAP and non-GAAP financial measures to evaluate the Company's financial performance.

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Non-GAAP Reconciliation – EBITDA

EBITDA

(Unaudited, dollars in thousands)

Year ended December 31,	2013	2012
Net income	$111,272	$70,629
Income tax expense	63,960	41,480
Depreciation and amortization expense	20,362	14,888
Interest expense	135	95
Interest income	(4)	(34)
EBITDA	$195,725	$127,058

EBITDA is defined as earnings before interest, taxes, and depreciation and amortization. The Company calculates this 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 to arrive at EBITDA.

Financial Condition

Liquidity

At December 31, 2014, the Company had cash and cash equivalents of $8.9 million. Our pre-LIFO working capital of $98.1 million, less the LIFO reserve of $40.6 million, resulted in working capital of $57.5 million and a current ratio of 2.0 to 1.

Operations

Cash provided by operating activities was $55.6 million, $119.7 million, and $87.2 million in 2014, 2013, and 2012, respectively. The decrease in cash provided in 2014 compared to 2013 is attributable to decreased profitability, increases in inventory and other assets and decreases in accounts payable and employee compensation during 2014, partially offset by a decrease in accounts receivable and increased depreciation expense during the same period.

The increase in cash provided in 2013 compared to 2012 is attributable to increased profitability in 2013.

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

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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 were $45.6 million, $54.6 million, and $27.3 million in 2014, 2013, and 2012, respectively. In 2015, the Company expects to spend $30 million on capital expenditures to purchase tooling and fixtures 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.

During the past several years, the Board of Directors authorized the Company to repurchase shares of its common stock. In 2014, the Company repurchased approximately 680,800 shares of its common stock representing 3.5% of the then outstanding shares, in the open market at an average price of $35.22 per share. These purchases were made with cash held by the Company and no debt was incurred. In 2013 and 2012, no shares were repurchased.

At December 31, 2014, $76.0 million remained authorized for future share repurchases.

On December 21, 2012, the Company paid a special dividend of $4.50 per share to shareholders of record on December 7, 2012. This dividend totaled $86.7 million.

Including the $4.50 per share special dividend paid on December 21, 2012, the Company paid dividends totaling $31.4 million, $41.1 million and $111.5 million in 2014, 2013, and 2012, respectively.

On February 10, 2015, the Company's Board of Directors authorized a dividend of 17¢ per share to shareholders of record on March 13, 2015. The payment of future dividends depends on many factors, including internal estimates of future performance, then-current cash, and the Company's need for funds.

In 2007, the Company 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.

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The Company fully funded and terminated its hourly and salaried defined-benefit pension plans in accordance with Internal Revenue Service and Pension Benefit Guaranty Corporation requirements in the fourth quarter of 2014. Plan participants were not adversely affected by the plan terminations, but rather had their benefits either converted into a lump sum cash payment or an annuity contract placed with an insurance carrier.

The settlement and termination of the frozen pension plans resulted in a cash payment of $7.5 million and an income statement expense of $41.0 million in the fourth quarter of 2014.

The Company contributed $7.5 million, $3 million, and $3 million to the frozen pension plans in 2014, 2013, and 2012. Since the plans have been fully funded, settled, and terminated, no further cash contributions will be required in future years.

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, 2015, remained unused at December 31, 2014 and the Company has no debt.

Contractual Obligations

The table below summarizes the Company's significant contractual obligations at December 31, 2014, and the effect such obligations are expected to have on the Company's liquidity and cash flows in future periods. This table excludes amounts already recorded on the Company's balance sheet as current liabilities at December 31, 2014.

"Purchase Obligations" as used in the below table includes all agreements to purchase goods or services that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Certain of the Company's purchase orders or contracts for the purchase of raw materials and other goods and services that may not necessarily be enforceable or legally binding on the Company, are also included in "Purchase Obligations" in the table. Certain of the Company's purchase orders or contracts therefore included in the table may represent authorizations to purchase rather than legally binding agreements. The Company expects to fund all of these commitments with cash flows from operations and current cash.

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Payment due by period (in thousands)

Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations	—	—	—	—	—
Capital Lease Obligations	—	—	—	—	—
Operating Lease Obligations	$927	$241	$684	$ 2	—
Purchase Obligations	$116,594	$116,594	—	—	—
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	—	—	—	—	—
Total	$117,521	$116,835	$684	$ 2	—

The expected timing of payment of the obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations.

Firearms Legislation and Litigation

See Item 1A - Risk Factors and Note 16 to the financial statements which are included in thei Annual Report on Form 10-K for a discussion of firearms legislation and litigation.

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

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities as of the balance sheet date and net sales and expenses recognized and incurred during the reporting period then ended. The Company bases

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estimates on prior experience, facts and circumstances, and other assumptions, including those reviewed with actuarial consultants and independent counsel, when applicable, that are believed to be reasonable. However, actual results may differ from these estimates.

The Company believes the determination of its product liability accrual is a critical accounting policy. The Company’s management reviews every lawsuit and claim and is in contact with independent and corporate counsel on an ongoing basis. The provision for product liability claims is based upon many factors, which vary for each case. These factors include the type of claim, nature and extent of injuries, historical settlement ranges, jurisdiction where filed, and advice of counsel. An accrual is established for each lawsuit and claim, when appropriate, based on the nature of each such lawsuit or claim.

Amounts are charged to product liability expense in the period in which the Company becomes aware that a claim or, in some instances a threat of claim, has been made when potential losses or costs of defense are probable and can be reasonably estimated. Such amounts are determined based on the Company’s experience in defending similar claims. Occasionally, charges are made for claims made in prior periods because the cumulative actual costs incurred for that claim, or reasonably expected to be incurred in the future, exceed amounts already provided. Likewise, credits may be taken if cumulative actual costs incurred for that claim, or reasonably expected to be incurred in the future, are less than amounts previously provided.

While it is not possible to forecast the outcome of litigation or the timing of costs, in the opinion of management, after consultation with independent and corporate counsel, there is a remote likelihood that litigation, including punitive damage claims, will have a material adverse effect on the financial position of the Company, but such litigation may have a material impact on the Company’s financial results for a particular period.

The Company believes the valuation of its inventory and the related excess and obsolescence reserve is also a critical accounting policy. Inventories are carried at the lower of cost, principally determined by the last-in, first-out (LIFO) method, or market. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and prevailing inventory costs existing at that time.

The Company determines its excess and obsolescence reserve by projecting the year in which inventory will be consumed into a finished product. Given ever-changing market conditions, customer preferences and the anticipated introduction of new products, it does not seem prudent nor supportable to carry inventory at full cost beyond that needed during the next 36 months.

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

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which could cause actual results to differ materially from those projected. Words such as “expect,” “believe,” “anticipate,” “intend,” “estimate,” “will,” “should,” “could” and other words and terms of similar meaning, typically identify such forward-looking statements. 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 7A—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to changing interest rates on its investments, which consist 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 low, as the investments mature within short periods and the Company does not have significant exposure to changing interest rates on invested cash.

The Company has not undertaken any actions to cover interest rate market risk and is not a party to any interest rate market risk management activities.

A hypothetical 100 basis point change in market interest rates over the next year would not materially impact the Company’s earnings or cash flows. A hypothetical 100 basis point change in market interest rates would not have a material effect on the fair value of the Company’s investments.

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ITEM 8—FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONDOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Sturm, Ruger & Company, Inc. and Subsidiary

We have audited Sturm, Ruger & Company, Inc. and Subsidiary's ("the Company") internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sturm, Ruger & Company, Inc. and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sturm, Ruger & Company, Inc. and Subsidiary as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014, and our report dated February 25, 2015 expressed an unqualified opinion.

/s/McGladrey LLP

Stamford, Connecticut

February 25, 2015

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Sturm, Ruger & Company, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Sturm, Ruger & Company, Inc. and Subsidiary as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule of Sturm, Ruger & Company, Inc. and Subsidiary ("the Company") listed in Item 15(a). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sturm, Ruger & Company, Inc. and Subsidiary as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sturm, Ruger & Company, Inc. and Subsidiary's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated February 25, 2015 expressed an unqualified opinion on the effectiveness of Sturm, Ruger & Company, Inc. and Subsidiary's internal control over financial reporting.

/s/McGladrey LLP

Stamford, Connecticut

February 25, 2015

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Consolidated Balance Sheets

(Dollars in thousands, except per share data)

December 31,	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	$8,901	$55,064
Trade receivables, net	49,735	67,384
Gross inventories	89,017	64,199
Less LIFO reserve	(40,578)	(38,516)
Less excess and obsolescence reserve	(3,750)	(2,422)
Net inventories	44,689	23,261
Deferred income taxes	7,246	7,637
Prepaid expenses and other current assets	7,603	4,280
Total Current Assets	118,174	157,626
Property, Plant, and Equipment	288,236	250,127
Less allowances for depreciation	(177,575)	(149,099)
Net property, plant and equipment	110,661	101,028
Other assets	25,547	18,464
Total Assets	$254,382	$277,118

See accompanying notes to consolidated financial statements.

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December 31,	2014	2013
Liabilities and Stockholders' Equity		
Current Liabilities		
Trade accounts payable and accrued expenses	$36,150	$46,991
Product liability	641	971
Employee compensation and benefits	18,302	34,626
Workers' compensation	5,133	5,339
Income taxes payable	156	239
Total Current Liabilities	60,382	88,166
Product liability	204	265
Deferred income taxes	8,334	9,601
Contingent liabilities (Note 16)	—	—
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 – 23,717,321 issued, 18,737,074 outstanding	23,717	23,647
2013 – 23,647,350 issued, 19,347,916 outstanding		
Additional paid-in capital	25,472	20,614
Retained earnings	198,159	192,088
Less: Treasury stock – at cost		
2014 – 5,054,747 shares	(61,886)	(37,884)
2013 – 4,299,434 shares		
Accumulated other comprehensive loss	—	(19,379)
Total Stockholders' Equity	185,462	179,086
Total Liabilities and Stockholders' Equity	$254,382	$277,118

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Income and Comprehensive Income

(In thousands, except per share data)

Year ended December 31,	2014	2013	2012
Net firearms sales	$542,267	$678,552	$484,933
Net castings sales	2,207	9,724	6,891
Total net sales	544,474	688,276	491,824
Cost of products sold	375,300	429,671	312,871
Gross profit	169,174	258,605	178,953
Operating Expenses:			
Selling	44,550	48,706	38,363
General and administrative	28,899	35,394	29,231
Defined benefit pension plans settlement charge	40,999	—	—
Other operating (expenses), net	(1,612)	(401)	293
Total operating expenses	112,836	83,699	67,887
Operating income	56,338	174,906	111,066
Other income:			
Royalty income	468	658	824
Interest income	2	4	34
Interest expense	(152)	(135)	(95)
Other income (expense), net	584	(201)	280
Total other income, net	902	326	1,043
Income before income taxes	57,240	175,232	112,109
Income taxes	18,612	63,960	41,480
Net income	38,628	111,272	70,629
Other comprehensive income (loss), net of tax:			
Defined benefit pension plans	—	10,240	(2,077)
Comprehensive income	$38,628	$121,512	$68,552
Basic Earnings Per Share	$1.99	$5.76	$3.69
Fully Diluted Earnings Per Share	$1.95	$5.58	$3.60
Cash Dividends Per Share	$1.62	$2.12	$5.80

See accompanying notes to consolidated financial statements.

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Condolidated Statements of Stockholders' Equity

(Dollars in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2011	$ 23,383	$ 10,454	$ 168,981	$ (37,884)	$ (27,543)	$ 137,391
Net income			70,629			70,629
Pension liability, net of deferred taxes of $1,219					(2,077)	(2,077)
Dividends paid			(111,523)			(111,523)
Stock-based compensation		4,718				4,718
Exercise of stock options and vesting of RSU's		(2,935)				(2,935)
Tax benefit realized from exercise of stock options and vesting of RSU's		3,474				3,474
Common stock issued – compensation plans	180	(180)				—
Unpaid dividends accrued			(4,645)			(4,645)
Balance at December 31, 2012	23,563	15,531	123,442	(37,884)	(29,620)	95,032
Net income			111,272			111,272
Pension liability, net of deferred taxes of $6,256					10,241	10,241
Dividends paid			(41,079)			(41,079)
Stock-based compensation		5,288				5,288
Exercise of stock options and vesting of RSU's		(2,423)				(2,423)
Tax benefit realized from exercise of stock options and vesting of RSU's		2,302				2,302
Common stock issued – compensation plans	84	(84)				—
Unpaid dividends accrued			(1,547)			(1,547)
Balance at December 31, 2013	23,647	20,614	192,088	(37,884)	(19,379)	179.086
Net income			38,628			38,628
Settlement of Pension liability, net of deferred taxes of $11,157					19,379	19,379
Dividends paid			(31,446)			(31,446)
Stock-based compensation		5,647				5,647
Exercise of stock options and vesting of RSU's		(2,340)				(2,340)
Tax benefit realized from exercise of stock options and vesting of RSU's		1,621				1,621
Common stock issued – compensation plans	70	(70)				
Unpaid dividends accrued			(1,111)			(1,111)

Repurchase of 680,813 shares of common stock				(24,002)		(24,002)
Balance at December 31, 2014	$ 23,717	$ 25,472	$ 198,159	$ (61,886)	$ —	$ 185,462

See accompanying notes to financial statements.

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Consolidated Statements of Cash Flows

(In thousands)

Year ended December 31,	2014	2013	2012
Operating Activities			
Net income	$38,628	$111,272	$70,629
Adjustments to reconcile net income to cash provided by operating activities:			
Pension plan settlement charge	32,218	—	—
Depreciation and amortization	36,706	20,362	14,888
Stock-based compensation	5,647	5,288	4,718
Excess and obsolescence inventory reserve	1,347	693	761
Loss (gain) on sale of assets	(1)	1	(944)
Deferred income taxes	(12,015)	5,736	(1,480)
Impairment of assets	178	911	1,134
Changes in operating assets and liabilities:			
Trade receivables	17,649	(24,366)	(793)
Inventories	(22,775)	(7,945)	(6,553)
Trade accounts payable and accrued expenses	(11,047)	9,231	9,908
Employee compensation and benefits	(17,435)	17,897	(4,345)
Product liability	(391)	179	(689)
Prepaid expenses, other assets and other liabilities	(13,075)	(19,340)	(321)
Income taxes payable	(83)	(250)	272
Cash provided by operating activities	55,551	119,669	87,185
Investing Activities			
Property, plant, and equipment additions	(45,571)	(54,616)	(27,282)
Purchases of short-term investments	—	—	(59,966)
Proceeds from sales or maturities of short-term investments	—	—	59,966
Net proceeds from sale of assets	24	233	1,003
Cash used for investing activities	(45,547)	(54,383)	(26,279)
Financing Activities			
Dividends paid	(31,446)	(41,079)	(111,523)
Tax benefit from exercise of stock options	1,621	2,302	3,474
Repurchase of common stock	(24,002)	—	—
Payment of employee withholding tax related to share-based compensation	(2,363)	(2,423)	(3,083)
Proceeds from exercise of stock options	23	—	148
Cash used for financing activities	(56,167)	(41,200)	(110,984)
Increase (decrease) in cash and cash equivalents	(46,163)	24,086	(50,078)
Cash and cash equivalents at beginning of year	55,064	30,978	81,056
Cash and cash equivalents at end of year	$8,901	$55,064	$30,978