STURM RUGER & CO INC
Form 10-Q
October 31, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

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 1-10435

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

Delaware (State or other jurisdiction of incorporation or organization)	06-0633559 (I.R.S. employer identification no.)
Lacey Place, Southport, Connecticut (Address of principal executive offices)	06890 (Zip code)

(203) 259-7843

(Registrant's telephone number, including area code)

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

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

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

o If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the issuer's common stock as of October 31, 2017: Common Stock, $1 par value –17,428,436.

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STURM, RUGER & COMPANY, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

STURM, RUGER & COMPANY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	September 30, 2017	December 31, 2016 (Note)
Assets		
Current Assets		
Cash	$ 45,359	$ 87,126
Trade receivables, net	53,154	69,442
Gross inventories	99,919	99,417
Less LIFO reserve	(44,716)	(42,542)
Less excess and obsolescence reserve	(3,034)	(2,340)
Net inventories	52,169	54,535
Prepaid expenses and other current assets	2,602	3,660
Total Current Assets	153,284	214,763
Property, plant and equipment	344,626	331,639
Less allowances for depreciation	(252,984)	(227,398)
Net property, plant and equipment	91,642	104,241
Deferred income taxes	—	334
Other assets	32,602	27,541
Total Assets	$ 277,528	$ 346,879

Note:

The consolidated balance sheet at December 31, 2016 has been derived from the audited consolidated financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

See notes to condensed consolidated financial statements.

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STURM, RUGER & COMPANY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

(Dollars in thousands, except per share data)

	September 30, 2017	December 31, 2016 (Note)
Liabilities and Stockholders' Equity		
Current Liabilities		
Trade accounts payable and accrued expenses	$30,841	$48,493
Product liability	1,170	1,733
Employee compensation and benefits	14,693	25,467
Workers' compensation	5,047	5,200
Income taxes payable	2,578	—
Total Current Liabilities	54,329	80,893
Product liability	100	86
Deferred income taxes	591	—
Contingent liabilities – Note 11	—	—
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		
2017 – 24,091,834 issued,		
17,426,436 outstanding	24,092	24,034
2016 – 24,034,201 issued,		
18,688,511 outstanding		
Additional paid-in capital	27,318	27,211
Retained earnings	314,693	293,400
Less: Treasury stock – at cost		
2017 – 6,665,398 shares	(143,595)	(78,745)
2016 – 5,345,690 shares		
Total Stockholders' Equity	222,508	265,900
Total Liabilities and Stockholders' Equity	$277,528	$346,879

Note:

The consolidated balance sheet at December 31, 2016 has been derived from the audited consolidated financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

See notes to condensed consolidated financial statements.

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STURM, RUGER & COMPANY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net firearms sales	$103,658	$160,058	$400,533	$497,889
Net castings sales	1,159	1,369	3,493	4,591
Total net sales	104,817	161,427	404,026	502,480
Cost of products sold	74,603	111,176	283,113	336,422
Gross profit	30,214	50,251	120,913	166,058
Operating expenses:				
Selling	10,606	13,378	36,650	41,261
General and administrative	6,291	6,805	21,779	22,045
Total operating expenses	16,897	20,183	58,429	63,306
Operating income	13,317	30,068	62,484	102,752
Other income:				
Interest expense, net	(30)	(32)	(96)	(102)
Other income, net	154	418	935	917
Total other income, net	124	386	839	815
Income before income taxes	13,441	30,454	63,323	103,567
Income taxes	4,071	10,604	21,530	36,925
Net income and comprehensive income	$9,370	$19,850	$41,793	$66,642
Basic earnings per share	$0.53	$1.05	$2.34	$3.51
Diluted earnings per share	$0.53	$1.03	$2.32	$3.48
Cash dividends per share	$0.23	$0.49	$1.15	$1.32

See notes to condensed consolidated financial statements.

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STURM, RUGER & COMPANY, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

(Dollars in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2016	$ 24,034	$ 27,211	$ 293,400	$ (78,745)	$ 265,900
Net income and comprehensive income			41,793		41,793
Dividends paid			(20,246)		(20,246)
Unpaid dividends accrued			(254)		(254)
Recognition of stock-based compensation expense		2,647			2,647
Vesting of RSU's		(2,482)			(2,482)
Common stock issued-compensation plans	58	(58)			—
Repurchase of 1,319,708 shares of common stock				(64,850)	(64,850)
Balance at September 30, 2017	$ 24,092	$ 27,318	$ 314,693	$ (143,595)	$ 222,508

See notes to condensed consolidated financial statements.

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STURM, RUGER & COMPANY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)

	Nine Months Ended	
	September 30, 2017	October 1, 2016
Operating Activities		
Net income	$41,793	$66,642
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	26,026	25,263
Slow moving inventory valuation adjustment	694	630
Stock-based compensation	2,647	2,213
Loss on sale of assets	31	50
Deferred income taxes	925	2,520
Changes in operating assets and liabilities:		
Trade receivables	16,288	1,398
Inventories	1,672	(7,105)
Trade accounts payable and accrued expenses	(17,805)	9,762
Employee compensation and benefits	(11,028)	(2,667)
Product liability	(549)	806
Prepaid expenses, other assets and other liabilities	(4,259)	(5,340)
Income taxes payable and prepaid income taxes	2,578	(8,781)
Cash provided by operating activities	59,013	85,391
Investing Activities		
Property, plant and equipment additions	(13,205)	(23,049)
Proceeds from sale of assets	3	7
Cash used for investing activities	(13,202)	(23,042)
Financing Activities		
Tax benefit from exercise of stock options and vesting of RSU's	—	8,826
Remittance of taxes withheld from employees related to share-based compensation	(2,482)	(14,001)
Repurchase of common stock	(64,850)	—
Dividends paid	(20,246)	(25,036)
Cash used for financing activities	(87,578)	(30,211)
(Decrease) Increase in cash and cash equivalents	(41,767)	32,138
Cash and cash equivalents at beginning of period	87,126	69,225

Cash and cash equivalents at end of period	$45,359	$101,363

See notes to condensed consolidated financial statements.

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STURM, RUGER & COMPANY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands, except per share)

NOTE 1 - BASIS OF PRESENTATION

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the results of the interim periods. Operating results for the nine months ended September 30, 2017 may not be indicative of the results to be expected for the full year ending December 31, 2017. These financial statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the year ended December 31, 2016.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Organization:

Sturm, Ruger & Company, Inc. (the “Company”) is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Approximately 99% of sales are from firearms. Export sales represent approximately 5% 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 and metal injection molding ("MIM") parts for internal use in its firearms and for sale to unaffiliated, third-party customers. Less than 1% of sales are from the castings segment.

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated.

Fair Value of Financial Instruments:

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

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Use of Estimates:

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

Reclassifications:

Certain prior period balances have been reclassified to conform to current year presentation.

Recent Accounting Pronouncements:

On November 20, 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740). The new guidance requires that all deferred tax assets and liabilities be presented as a net noncurrent asset or liability on the balance sheet. Previously such items were presented as a net current asset or liability and a net noncurrent asset or liability. The new guidance was effective for fiscal years beginning after December 15, 2016 and interim periods thereafter. The Company adopted ASU 2015-17 in the first quarter of 2017 and applied it retroactively to all prior periods presented in the financial statements. The impact of adopting this change in accounting principle on the December 31, 2016 balance sheet was to reduce current deferred tax assets and working capital by $8,859 and noncurrent deferred tax liabilities by $8,526 from the amounts previously reported for these items.

On March 30, 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). The most significant change in the new compensation guidance is that all excess tax benefits and tax deficiencies (including tax benefits of dividends) on share-based compensation awards should be recognized in the Statement of Income as income tax expense. Previously such benefits or deficiencies were recognized in the Balance Sheet as adjustments to additional paid-in capital. The new guidance was effective in fiscal years beginning after December 15, 2016 and interim periods thereafter. The Company adopted ASU 2016-09 in the first quarter of 2017. The impact of adopting this change in accounting principle reduced the Company's effective tax rate by 2% for the period ending September 30, 2017. This did not have a material impact on the Company's results of operations or financial position.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2017. We plan to adopt the provisions of ASU 2014-09 on a modified retrospective basis. We do not expect the adoption of ASU 2014-09 to have a material impact on our consolidated revenue. We continue to assess the overall impact the adoption of ASU 2014-09 will have on our consolidated financial statements.

On February 25, 2016, the FASB issued ASU 2016-02, Leases (Topic 842), its long-awaited final standard on the accounting for leases. The most significant change in the new lease guidance requires lessees to recognize right-of-use assets and lease liabilities for all leases other than those that meet the definition of short-term leases. For short-term leases, lessees may elect an accounting policy by class of underlying asset under which these assets and liabilities are not recognized and lease

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payments are generally recognized over the lease term on a straight-line basis. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under legacy U.S. GAAP. The new lease guidance is effective in fiscal years beginning after December 15, 2018 and interim periods thereafter. Early application is permitted for all entities. The Company is currently evaluating the effect that the standard will have on the consolidated financial statements.

NOTE 3 - INVENTORIES

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

During the nine month period ended September 30, 2017, inventory quantities were reduced. If this reduction remains through year-end, it will result in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the current cost of purchases. Although the effect of such a liquidation cannot be precisely quantified at the present time, management believes that if a LIFO liquidation occurs in 2017, the impact may be material to the Company’s results of operations for the period but will not have a material impact on the financial position of the Company.

Inventories consist of the following:

	September 30, 2017	December 31, 2016
Inventory at FIFO		
Finished products	$ 33,931	$ 24,100
Materials and work in process	65,988	75,317
Gross inventories	99,919	99,417
Less: LIFO reserve	(44,716)	(42,542)
Less: excess and obsolescence reserve	(3,034)	(2,340)
Net inventories	$ 52,169	$ 54,535

NOTE 4 - LINE OF CREDIT

The Company has a $40 million revolving line of credit with a bank. This facility is renewable annually and terminates on June 15, 2018. Borrowings under this facility bear interest at LIBOR (1.787% at September 30, 2017) plus 200 basis points. The Company is charged three-eighths of a percent (0.375%) per year on the unused portion. At September 30, 2017 and December 31, 2016, the Company was in compliance with the terms and covenants of the credit facility, which remains unused.

NOTE 5 - EMPLOYEE BENEFIT PLANS

The Company sponsors a 401(k) plan that covers substantially all employees. The Company matches a certain portion of employee contributions using the safe harbor guidelines contained in the Internal Revenue Code. Expenses related to these matching contributions totaled $0.7 million and $2.5 million for the three and nine months ended September 30, 2017, respectively, and $0.8 million and $2.5

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million for the three and nine months ended October 1, 2016, respectively. The Company plans to contribute approximately $0.7 million to the plan in matching employee contributions during the remainder of 2017.

In addition, the Company provided supplemental discretionary contributions to the 401(k) plan totaling $1.2 million and $4.4 million for the three and nine months ended September 30, 2017, respectively, and $1.4 million and $4.5 million for the three and nine months ended October 1, 2016, respectively. The Company plans to contribute approximately $1.2 million in supplemental contributions to the plan during the remainder of 2017.

NOTE 6 - INCOME TAXES

The Company's 2017 and 2016 effective tax rates differ from the statutory federal tax rate due principally to state income taxes partially offset by tax benefits related to the American Jobs Creation Act of 2004. The Company’s effective income tax rate was 30.3% and 34.0% for the three and nine months ended September 30, 2017. The Company’s effective income tax rate in the three and nine months ended October 1, 2016 was 34.8% and 35.7%, respectively. This reduction is primarily the result of the Company’s adoption of ASU 2016-09 on January 1, 2017, as previously discussed in the Recent Accounting Pronouncements section of Note 2.

Income tax payments for the three and nine months ended September 30, 2017 totaled $1.3 million and $18.6 million, respectively. Income tax payments for the three and nine months ended October 1, 2016 totaled $13.5 million and $34.4 million, respectively.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2015.

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

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NOTE 7 - EARNINGS PER SHARE

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Numerator:				
Net income	$9,370	$19,850	$41,793	$66,642
Denominator:				
Weighted average number of common shares outstanding – Basic	17,590,341	18,971,854	17,826,137	18,961,146
Dilutive effect of options and restricted stock units outstanding under the Company's employee compensation plans	222,232	232,321	192,038	204,731
Weighted average number of common shares outstanding – Diluted	17,812,573	19,204,175	18,018,175	19,165,877

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

NOTE 8 - COMPENSATION PLANS

In May 2017, the Company's shareholders approved the 2017 Stock Incentive Plan (the "2017 SIP") under which employees, independent contractors, and non-employee directors may be granted stock options, restricted stock, deferred stock awards, and stock appreciation rights, any of which may or may not require the satisfaction of performance objectives. Vesting requirements are determined by the Compensation Committee of the Board of Directors. The Company has reserved 750,000 shares for issuance under the 2017 SIP, of which 727,000 shares remain available for future grants as of September 30, 2017.

In April 2007, the Company adopted and the shareholders approved the 2007 Stock Incentive Plan (the “2007 SIP”), which had similar provisions as the 2017 SIP. The 2007 SIP plan expired April 24, 2017. The Company had reserved 2,550,000 shares for issuance under the 2007 SIP, of which 2,181,000 shares were issued.

Compensation costs related to all share-based payments recognized in the statements of operations aggregated $1.0 million and $2.6 million for the three and nine months ended September 30, 2017, respectively, and $0.8 million and $2.2 million for the three and nine months ended October 1, 2016, respectively.

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Stock Options

A summary of changes in options outstanding under the 2007 SIP is summarized below:

	Shares	Weighted Average Exercise Price	Grant Date Fair Value
Outstanding at December 31, 2016	11,838	$ 8.95	$ 6.69
Granted	—	—	—
Exercised	—	—	—
Expired	—	—	—
Outstanding at September 30, 2017	11,838	$ 8.95	$ 6.69

The aggregate intrinsic value (mean market price at September 30, 2017 less the weighted average exercise price) of options outstanding under the 2007 SIP was approximately $0.5 million.

Restricted Stock Units

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

There were 125,400 restricted stock units issued during the nine months ended September 30, 2017. Total compensation costs related to these restricted stock units are $5.1 million. These costs are being recognized ratably over the vesting period of three years. Total compensation cost related to restricted stock units was $1.0 million and $2.6 million for the three and nine months ended September 30, 2017, respectively, and $0.8 million and $2.2 million for the three and nine months ended October 1, 2016, respectively.

NOTE 9 - OPERATING SEGMENT INFORMATION

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

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Selected operating segment financial information follows:

(in thousands)	Three Months Ended September 30, 2017	Three Months Ended October 1, 2016	Nine Months Ended September 30, 2017	Nine Months Ended October 1, 2016
Net Sales				
Firearms	$103,658	$160,058	$400,533	$497,889
Castings				
Unaffiliated	1,159	1,369	3,493	4,591
Intersegment	4,745	9,114	19,866	27,564
	5,904	10,483	23,359	32,155
Eliminations	(4,745)	(9,114)	(19,866)	(27,564)
	$104,817	$161,427	$404,026	$502,480
Income (Loss) Before Income Taxes				
Firearms	$13,459	$29,785	$62,957	$103,834
Castings	112	144	267	(949)
Corporate	(130)	525	99	682
	$13,441	$30,454	$63,323	$103,567

	September 30, 2017	December 31, 2016
Identifiable Assets		
Firearms	$ 219,373	$ 242,758
Castings	13,121	16,096
Corporate	45,034	88,025
	$ 277,528	$ 346,879

NOTE 10 – RELATED PARTY TRANSACTIONS

The Company contracts with the National Rifle Association ("NRA") for some of its promotional and advertising activities, including the 2016 "Ruger $5 Million Match Campaign" and the 2015-16 "2.5 Million Gun Challenge". Payments made to the NRA in the three and nine months ended September 30, 2017 were insignificant. The Company paid the NRA $1.0 million and $3.0 million in the three and nine months ended October 1, 2016. One of the Company's Directors also serves as a Director on the Board of the NRA.

The Company has contracted with Symbolic, Inc. ("Symbolic") to assist in its marketing efforts. During the three and nine months ended September 30, 2017, the Company paid Symbolic $0.3 million and $1.3 million, respectively, which amounts included $0.3 million and $0.8 million, respectively, for the reimbursement of expenses paid by Symbolic on the Company's behalf. During the three and nine months ended October 1, 2016, the Company paid Symbolic $0.4 million and $1.5 million, respectively, which amounts included $0.2 million and $0.7 million, respectively, for the reimbursement of expenses paid by Symbolic on the Company's behalf. Symbolic's principal and founder was named the Company's Vice President of Marketing in June 2017, and remains a partner of Symbolic.

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NOTE 11 - CONTINGENT LIABILITIES

As of September 30, 2017, the Company was a defendant in four (4) lawsuits and is aware of certain other such claims. The lawsuits fall into three categories: traditional product liability litigation, patent litigation, and municipal litigation, discussed in turn below.

Traditional Product Liability Litigation

Two of the four lawsuits mentioned above involve claims for damages related to allegedly defective products due to their design and/or manufacture. These lawsuits stem from specific incidents of personal injury and are based on traditional product liability theories such as strict liability, negligence and/or breach of warranty.

The Company management believes that the allegations in these cases are unfounded, that the incidents were unrelated to the design or manufacture of the firearm, and that there should be no recovery against the Company.

Patent Litigation

Davies Innovations, Inc. v. Sturm, Ruger & Company, Inc. is a patent litigation suit originally filed in the United States District Court for the Southern District of Texas, Galveston Division. Upon motion by the Company, the case was transferred to the United States District Court for the District of New Hampshire. The suit is based upon alleged patent infringement as the plaintiff claims that certain features of the Ruger SR-556 and SR-762 modern sporting rifles infringe its patent. The complaint seeks a judgment of infringement and unspecified monetary damages including costs, fees and treble damages.

Pursuant to the Company's Motion for Summary Judgment, filed on February 15, 2017, the Court dismissed the plaintiff’s claim of literal infringement, but allowed the case to proceed to discovery on alternate theories.

The Company management believes that the allegations in this case are unfounded, that there is no infringement of plaintiff’s patent, that plaintiff’s patent is invalid, and there should be no recovery against the Company.

Municipal Litigation

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

There is only one remaining lawsuit of this type, filed by the City of Gary in Indiana State Court in 1999. The complaint in that case seeks damages, among other things, for the costs of medical care, police and emergency services, public health services, and other services as well as punitive damages. In addition, nuisance abatement and/or injunctive relief is sought to change the design, manufacture, marketing and distribution practices of the various defendants. The suit alleges, among other claims, negligence in the design of products, public nuisance, negligent distribution and marketing, negligence per se and deceptive advertising. The case does not allege a specific

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injury to a specific individual as a result of the misuse or use of any of the Company's products.

After a long procedural history, the case was scheduled for trial on June 15, 2009. The case was not tried on that date and was largely dormant until a status conference was held on July 27, 2015. At that time, the court entered a scheduling order setting deadlines for plaintiff to file a Second Amended Complaint, for defendants to answer, and for defendants to file dispositive motions. The plaintiff did not file a Second Amended Complaint by the deadline.

In 2015, Indiana passed a new law such that Indiana Code §34-12-3-1 became applicable to the City's case. The defendants have filed a joint motion for judgment on the pleadings, asserting immunity under §34-12-3-1 and asking the court to revisit the Court of Appeals' decision holding the Protection of Lawful Commerce in Arms Act inapplicable to the City's claims. The motion was fully briefed by the parties.

On September 29, 2016, the court entered an order staying the case pending a decision by the Indiana Supreme Court in *KS&E Sports v. Runnels,* which presents related issues. The Indiana Supreme Court decided *KS&E Sports* on April 24, 2017, and the *Gary* court lifted the stay. The *Gary* court also entered an order setting a supplemental briefing schedule under which the parties addressed the impact of the *KS&E Sports* decision on defendants' motion for judgment on the pleadings. A hearing on the motion for judgment on the pleadings is set for December 12, 2017.

Summary of Claimed Damages and Explanation of Product Liability Accruals

Punitive damages, as well as compensatory damages, are demanded in certain of the lawsuits and claims. In many instances, the plaintiff does not seek a specified amount of money, though aggregate amounts ultimately sought may exceed product liability accruals and applicable insurance coverage. For product liability claims made after July 10, 2000, coverage is provided on an annual basis for losses exceeding $5 million per claim, or an aggregate maximum loss of $10 million annually, except for certain new claims which might be brought by governments or municipalities after July 10, 2000, which are excluded from coverage.

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

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

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Provision is made for product liability claims based upon many factors related to the severity of the alleged injury and potential liability exposure, based upon prior claim experience. Because the Company's experience in defending these lawsuits and claims is that unfavorable outcomes are typically not probable or estimable, only in rare cases is an accrual established for such costs.

In most cases, an accrual is established only for estimated legal defense costs. Product liability accruals are periodically reviewed to reflect then-current estimates of possible liabilities and expenses incurred to date and reasonably anticipated in the future. Threatened product liability claims are reflected in the Company's product liability accrual on the same basis as actual claims; *i.e.*, an accrual is made for reasonably anticipated possible liability and claims handling expenses on an ongoing basis.

A range of reasonably possible losses relating to unfavorable outcomes cannot be made. However, in product liability cases in which a dollar amount of damages is claimed, the amount of damages claimed, which totaled $0.1 million and $0.1 million at December 31, 2016 and 2015, respectively, are set forth as an indication of possible maximum liability the Company might be required to incur in these cases (regardless of the likelihood or reasonable probability of any or all of this amount being awarded to claimants) as a result of adverse judgments that are sustained on appeal.

NOTE 12 - SUBSEQUENT EVENTS

On October 27, 2017, the Company’s Board of Directors authorized a dividend of 21¢ per share, for shareholders of record as of November 15, 2017, payable on November 30, 2017.

The Company has evaluated events and transactions occurring subsequent to September 30, 2017 and determined that there were no other unreported events or transactions that would have a material impact on the Company’s results of operations or financial position.

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

Company Overview

Sturm, Ruger & Company, Inc. (the "Company") is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Approximately 99% of sales are from firearms. Export sales represent approximately 5% 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 and metal injection molding ("MIM") parts for internal use in its firearms and for sale to unaffiliated, third-party customers. Less than 1% of sales are from the castings segment.

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

Results of Operations

Demand

The estimated unit sell-through of the Company's products from the independent distributors to retailers decreased 25% and 16% in three and nine months ended September 30, 2017 from the comparable prior year periods. For the same periods, the National Instant Criminal Background Check System ("NICS") background checks (as adjusted by the National Shooting Sports Foundation ("NSSF")) decreased 16% and 10%. The decrease in estimated sell-through of the Company's products from the independent distributors to retailers is attributable to:

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Decreased overall consumer demand in 2017 due to stronger-than-normal demand during most of 2016, likely bolstered by the political campaigns for the November 2016 elections,

- Reduced purchasing by retailers in an effort to reduce their inventories and generate cash,
- Aggressive price discounting and lucrative consumer rebates offered by many of our competitors, and
- Increased industry manufacturing capacity, which exacerbated the above factors.

Sales of new products, including the Mark IV pistols, the LCP II pistol, and the Precision Rifle, represented $118.8 million or 30% of firearm sales in the first nine months of 2017. New product sales include only major new products that were introduced in the past two years.

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Estimated sell-through from the independent distributors to retailers and total adjusted NICS background checks for the trailing seven quarters follow:

	2017			2016			
	Q3	Q2	Q1	Q4	Q3	Q2	Q
Estimated Units Sold from Distributors to Retailers (1)	341,300	362,400	533,800	529,100	453,400	453,700	5
Total adjusted NICS Background Checks (thousands) (2)	2,948	3,116	3,694	4,861	3,519	3,199	4

(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) 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 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.

Orders Received and Ending Backlog

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. The Company generally does not use the orders received or ending backlog for planning production levels.

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

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

	2017 Q3	Q2	Q1	2016 Q4	Q3	Q2	Q1
Units Ordered	221,900	214,400	395,000	432,100	445,700	399,400	969,4
Orders Received	$62.9	$62.4	$131.9	$130.2	$116.5	$145.7	$296.1
Average Sales Price of Units Ordered	$283	$291	$334	$301	$261	$365	$305
Ending Backlog	$56.6	$95.0	$163.8	$195.0	$219.1	$257.6	$276.1
Average Sales Price of Ending Unit Backlog (1)	$332	$342	$331	$314	$306	$331	$313

(1) The average sales price of units in the third quarter of 2016 was reduced due to strong orders for the relatively lower priced LCP II pistol, and the cancellation of orders for the original version of relatively higher priced Precision rifle, which was discontinued due to the popularity of the new Enhanced Precision rifle.

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 to plan production levels. These reviews resulted in decreased total unit production of 38% and 17% for the three and nine months ended September 30, 2017, respectively, from the comparable prior year periods.

Summary Unit Data

Firearms unit data for the trailing seven quarters are as follows (dollar amounts shown are net of Federal Excise Tax of 10% for handguns and 11% for long guns):

2017 2016

	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Units Ordered	221,900	214,400	395,000	432,100	445,700	399,400	969,400
Units Produced	327,300	432,900	529,900	566,200	527,600	529,600	502,100
Units Shipped	329,100	432,000	521,000	527,300	507,500	504,000	516,700
Average Sales Price of Units Shipped	$315	$302	$319	$304	$315	$330	$332
Ending Unit Backlog	170,600	277,800	495,400	621,400	716,600	778,400	883,000

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Inventories

During the third quarter of 2017, the Company's finished goods inventory decreased by 1,800 units and distributor inventories of the Company's products decreased by 12,200 units.

Inventory data for the trailing seven quarters follows:

	2017			2016			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Units – Company Inventory	165,400	167,200	166,200	157,400	118,500	98,500	72,800
Units – Distributor Inventory (1)	363,800	376,000	306,400	319,300	321,100	267,000	216,700
Total inventory (2)	529,200	543,200	472,600	476,700	439,600	365,500	289,500

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

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

Net Sales

Consolidated net sales were $104.8 million for the three months ended September 30, 2017, a decrease of 35.1% from $161.4 million in the comparable prior year period.

For the nine months ended September 30, 2017, consolidated net sales were $404.0 million, a decrease of 19.6% from $502.5 million in the comparable prior year period.

Firearms net sales were $103.7 million for the three months ended September 30, 2017, a decrease of 35.2% from $160.1 million in the comparable prior year period.

For the nine months ended September 30, 2017, firearms net sales were $400.5 million, a decrease of 19.6% from $497.9 million in the comparable prior year period.

Firearms unit shipments decreased 35.2% and 16.1% for the three and nine months ended September 30, 2017, respectively, from the comparable prior year periods.

Casting net sales were $1.2 million for the three months ended September 30, 2017, a decrease of 15.3% from $1.4 million in the comparable prior year period.

For the nine months ended September 30, 2017, castings net sales were $3.5 million, a decrease of 23.9% from $4.6 million in the comparable prior year period.

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Cost of Products Sold and Gross Profit

Consolidated cost of products sold was $74.6 million for the three months ended September 30, 2017, a decrease of 32.9% from $111.2 million in the comparable prior year period.

Consolidated cost of products sold was $283.1 million for the nine months ended September 30, 2017, a decrease of 15.8% from $336.4 million in the comparable prior year period.

Gross margin was 28.8% and 29.9% for the three and nine months ended September 30, 2017, respectively, compared to 31.1% and 33.0% in the comparable prior year periods as illustrated below (in thousands):

	Three Months Ended September 30, 2017		October 1, 2016	
Net sales	$104,817	100.0%	$161,427	100.0%
Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, and product liability	76,097	72.6 %	109,302	67.7 %
LIFO expense	695	0.7 %	576	0.4 %
Overhead rate adjustments to inventory	(2,070)	(2.0)%	748	0.5 %
Labor rate adjustments to inventory	(284)	(0.3)%	(107)	(0.1)%
Product liability	165	0.2 %	657	0.4 %
Total cost of products sold	74,603	71.2 %	111,176	68.9 %
Gross profit	$30,214	28.8 %	$50,251	31.1 %

	Nine Months Ended September 30, 2017		October 1, 2016	
Net sales	$404,026	100.0%	$502,480	100.0%
Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall	281,581	69.7 %	331,797	66.0 %
LIFO expense	2,175	0.6 %	1,775	0.4 %
Overhead rate adjustments to inventory	(3,291)	(0.8)%	1,239	0.3 %
Labor rate adjustments to inventory	(308)	(0.1)%	116	—
Product liability	456	0.1 %	1,495	0.3 %
Product recall	2,500	0.6 %	—	—
Total cost of products sold	283,113	70.1 %	336,422	67.0 %
Gross profit	$120,913	29.9 %	$166,058	33.0 %

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Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall — During the three months ended September 30, 2017, cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall increased as a percentage of sales by 4.9% compared with the corresponding 2016 period primarily due to the 35% decrease in sales which resulted in unfavorable de-leveraging of fixed manufacturing costs, including depreciation and indirect labor.

For the nine months ended September 30, 2017, cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall increased as a percentage of sales by 3.7% compared with the corresponding 2016 period due to the 20% decrease in sales which resulted in unfavorable de-leveraging of fixed manufacturing costs, including depreciation and indirect labor.

LIFO — For the three months ended September 30, 2017 the Company recognized LIFO expense resulting in increased cost of products sold of $0.7 million. In the comparable 2016 period, the Company recognized LIFO expense resulting in increased cost of products sold of $0.6 million.

For the nine months ended September 30, 2017, the Company recognized LIFO expense resulting in increased cost of products sold of $2.2 million. In the comparable 2016 period, the Company recognized LIFO expense resulting in increased cost of products sold of $1.8 million.

Overhead Rate Adjustments — The Company uses actual overhead expenses incurred as a percentage of sales-value-of-production over a trailing six month period to absorb overhead expense into inventory. During the three and nine months ended September 30, 2017, the Company became less efficient in overhead spending and the overhead rates used to absorb overhead expenses into inventory increased, resulting in an increase in inventory values of $2.1 million and $3.3 million, respectively, and a corresponding decrease to cost of products sold.

During the three and nine months ended October 1, 2016, the Company became more efficient in overhead spending and the overhead rates used to absorb overhead expenses into inventory decreased, resulting in decreases in inventory values of $0.7 million and $1.2 million, respectively, and corresponding increases to cost of products sold.

Labor Rate Adjustments — The Company uses actual direct labor expense incurred as a percentage of sales-value-of-production over a trailing six month period to absorb direct labor expense into inventory. During the three and nine months ended September 30, 2017 the Company became less efficient in direct labor utilization and the labor rates used to absorb labor expenses into inventory increased, resulting in increases in inventory value of $0.3 million and corresponding decreases to cost of products sold in both periods.

During the three and nine months ended October 1, 2016, impact of the change in labor rates used to absorb incurred labor expenses into inventory was insignificant.

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.

During the three and nine months ended September 30, 2017 product liability expense was $0.2 million and $0.5 million, respectively.

During the three and nine months ended October 1, 2016 product liability expense was $0.7 million and $1.5 million, respectively.

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Product Recall – In June 2017, the Company discovered that Mark IV pistols manufactured prior to June 1, 2017 had the potential to discharge unintentionally if the safety was not utilized correctly. The Company recalled all Mark IV pistols and recorded a $2.5 million expense in the second quarter, which is the expected total cost of the recall. No such expense was recorded in the prior year.

Gross Profit — As a result of the foregoing factors, for the three and nine months ended September 30, 2017, gross profit was $30.2 million and $120.9 million, respectively, a decrease of $20.1 million and $45.2 million from $50.3 million and $166.1 million in the comparable prior year periods.

Gross profit as a percentage of sales decreased to 28.8% and 29.9% in the three and nine months ended September 30, 2017, respectively, from 31.1% and 33.0% in the comparable prior year periods.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $17.0 million for the three months ended September 30, 2017, a decrease of $3.2 million or 16.3% from $20.2 million in the comparable prior year period. This decrease is primarily attributable to the absence of the “2.5 Million Gun Challenge” and the “$5 Million Matching Challenge”, both of which were in effect in 2016. The decrease was partially offset by increased firearms promotional activities in 2017.

Selling, general and administrative expenses were $58.4 million for the nine months ended September 30, 2017, a decrease of $4.9 million or 7.7% from $63.3 million in the comparable prior year period. This decrease is primarily attributable to the absence of the “2.5 Million Gun Challenge” and the “$5 Million Matching Challenge”, both of which were in effect in 2016. The decrease was partially offset by increased firearms promotional activities in 2017.

Other income, net

Other income, net was $0.1 million and $0.8 million in the three and nine months ended September 30, 2017, respectively, compared to $0.4 million and $0.8 in the three and nine months ended October 1, 2016, respectively.

Income Taxes and Net Income

The Company’s effective income tax rate in the three and nine months ended September 30, 2017 was 30.3% and 34.0%, respectively. The Company’s effective income tax rate in the three and nine months ended October 1, 2016 was 34.8% and 35.7%, respectively. The decrease in the effective tax rate in 2017 is attributable to the inclusion of the tax impact of 2017 equity-based compensation in income taxes, as required by newly issued Accounting Standards Update (ASU) 2016-09, “Improvements to Employee Share Based Payment Accounting.” In the prior year, the tax impact of equity-based compensation was recorded directly into equity.

As a result of the foregoing factors, consolidated net income was $9.4 million and $41.8 million for the three and nine months ended September 30, 2017, respectively. This represents a decrease of 52.8% and 37.3% from $19.9 million and $66.6 million in the comparable prior year periods.

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Non-GAAP Financial Measure

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

EBITDA is defined as earnings before interest, taxes, and depreciation and amortization. The Company calculates its EBITDA by adding the amount of interest expense, income tax expense, and depreciation and amortization expenses that have been deducted from net income back into net income, and subtracting the amount of interest income that was included in net income from net income.

EBITDA was $20.8 million for the three months ended September 30, 2017, a decrease of 46.6% from $39.1 million in the comparable prior year period.

For the nine months ended September 30, 2017, EBITDA was $89.4 million, a decrease of 30.6% from $128.9 million in the comparable prior year period.

Non-GAAP Reconciliation – EBITDA

EBITDA

(Unaudited, dollars in thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net income	$9,370	$19,850	$41,793	$66,642

Income tax expense	4,071	10,604	21,530	36,925
Depreciation and amortization expense	7,373	8,567	26,026	25,263
Interest expense, net	30	32	96	102
EBITDA	$20,844	$39,053	$89,445	$128,932

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Financial Condition

Liquidity

At the end of the third quarter of 2017, the Company’s cash totaled $45.4 million. Pre-LIFO working capital of $143.7 million, less the LIFO reserve of $44.7 million, resulted in working capital of $98.9 million and a current ratio of 2.8 to 1.

Operations

Cash provided by operating activities was $59.0 million for the nine months ended September 30, 2017, compared to $85.4 million for the comparable prior year period. This decrease is primarily due to decreased earnings in 2017 and working capital fluctuations in both periods.

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

Investing and Financing

Capital expenditures for the nine months ended September 30, 2017 totaled $13.2 million, a decrease from $23.0 million in the comparable prior year period. In 2017, the Company expects to spend approximately $30 million on capital expenditures to purchase tooling fixtures and equipment for new product introductions and to upgrade and modernize manufacturing equipment. Due to market conditions and business circumstances, actual capital expenditures could vary significantly from the projected amount. The Company finances, and intends to continue to finance, all of these activities with funds provided by operations and current cash.

Dividends of $20.2 million were paid during the nine months ended September 30, 2017.

On October 27, 2017, the Board of Directors authorized a dividend of 21¢ per share, for shareholders of record as of November 15, 2017, payable on November 30, 2017. The payment of future dividends depends on many factors, including internal estimates of future performance, then-current cash and short-term investments, and the Company's need for funds. The Company has financed its dividends with cash provided by operations and current cash.

During the nine months ended September 30, 2017, the Company repurchased 1.3 million shares of its common stock for $64.8 million in the open market. The average price per share purchased was $49.10. These purchases were funded with cash on hand. As of September 30, 2017, $88.6 million remained authorized for future stock repurchases. No shares were repurchased in the nine months ended October 1, 2016.

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Based on its unencumbered assets, the Company believes it has the ability to raise cash through the issuance of short-term or long-term debt. The Company's unsecured $40 million credit facility, which expires on June 15, 2018, remained unused at September 30, 2017 and the Company has no debt.

Other Operational Matters

In the normal course of its manufacturing operations, the Company is subject to occasional governmental proceedings and orders pertaining to workplace safety, firearms serial number tracking and control, waste disposal, air emissions and water discharges into the environment. The Company believes that it is generally in compliance with applicable Bureau of Alcohol, Tobacco, Firearms & Explosives, environmental, and safety regulations and the outcome of any 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.

Adjustments to Critical Accounting Policies

The Company has not made any adjustments to its critical accounting estimates and assumptions described in the Company's 2016 Annual Report on Form 10-K filed on February 22, 2017, or the judgments affecting the application of those estimates and assumptions.

Forward-Looking Statements and Projections

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The interest rate market risk implicit to the Company at any given time is typically low, as the Company does not have significant exposure to changing interest rates on invested cash. There has been no material change in the Company’s exposure to interest rate risks during the nine months ended September 30, 2017.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (the "Disclosure Controls and Procedures"), as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of September 30, 2017.

Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2017, such Disclosure Controls and Procedures are effective to ensure that information required to be disclosed in the Company's periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer or persons performing similar functions, as appropriate, to allow timely decisions regarding disclosure.

Additionally, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, there have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The nature of the legal proceedings against the Company is discussed at Note 11 to the financial statements, which are included in this Form 10-Q.

The Company has reported all cases instituted against it through July 1, 2017, and the results of those cases, where terminated, to the SEC on its previous Form 10-Q and 10-K reports, to which reference is hereby made.

There were no lawsuits formally instituted against the Company during the three months ending September 30, 2017.

ITEM 1A. RISK FACTORS

There have been no material changes in the Company's risk factors from the information provided in Item 1A. Risk Factors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS

(a) Exhibits:

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

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

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

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

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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STURM, RUGER & COMPANY, INC.

FORM 10-Q FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017

SIGNATURES

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

STURM, RUGER & COMPANY, INC.

Date: October 31, 2017	S/THOMAS A. DINEEN Thomas A. Dineen
	Principal Financial Officer,
	Principal Accounting Officer,
	Senior Vice President, Treasurer and Chief Financial Officer