

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended October 1, 2022

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-10435

STURM, RUGER & COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

06-0633559

(I.R.S. employer  
identification no.)

One Lacey Place, Southport, Connecticut

(Address of principal executive offices)

06890

(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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$1 par value	RGR	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes  No

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

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  No

The number of shares outstanding of the issuer's common stock as of October 17, 2022: 17,666,534

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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

STURM, RUGER & COMPANY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
(Dollars in thousands)

	October 1, 2022	December 31, 2021 (Note)
<b>Assets</b>		
Current Assets		
Cash	\$ 49,853	\$ 21,044
Short-term investments	165,308	199,971
Trade receivables, net	61,362	57,036
Gross inventories (Note 4)	120,743	100,023
Less LIFO reserve	(54,390)	(51,826)
Less excess and obsolescence reserve	(4,848)	(4,347)
Net inventories	61,505	43,850
Prepaid expenses and other current assets	12,998	6,832
Total Current Assets	351,026	328,733
Property, plant and equipment	437,170	421,282
Less allowances for depreciation	(365,555)	(347,651)
Net property, plant and equipment	71,615	73,631
Deferred income taxes	2,444	536
Other assets	35,817	39,443
Total Assets	\$ 460,902	\$ 442,343

Note:

The Condensed Consolidated Balance Sheet at December 31, 2021 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.*

STURM, RUGER & COMPANY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED) (Continued)

(Dollars in thousands, except per share data)

	October 1, 2022	December 31, 2021 (Note)
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities		
Trade accounts payable and accrued expenses	\$ 31,374	\$ 36,400
Contract liabilities with customers (Note 3)	-	-
Product liability	434	795
Employee compensation and benefits	22,014	33,154
Workers' compensation	6,380	6,760
Total Current Liabilities	60,202	77,109
Product liability accrual	118	97
Lease liability (Note 5)	2,076	1,476
Contingent liabilities (Note 13)	-	-
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		
2022 – 24,378,568 issued, 17,666,534 outstanding		
2021 – 24,306,486 issued, 17,596,588 outstanding	24,378	24,306
Additional paid-in capital	48,457	46,847
Retained earnings	471,368	438,098
Less: Treasury stock – at cost		
2022 – 6,712,034 shares		
2021 – 6,709,898 shares	(145,697)	(145,590)
Total Stockholders' Equity	398,506	363,661
Total Liabilities and Stockholders' Equity	\$ 460,902	\$ 442,343

Note:

The Condensed Consolidated Balance Sheet at December 31, 2021 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.*

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	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Net firearms sales	\$138,771	\$177,529	\$444,615	\$560,578
Net castings sales	619	717	2,003	2,116
Total net sales	139,390	178,246	446,618	562,694
Cost of products sold	100,521	113,444	306,087	346,569
Gross profit	38,869	64,802	140,531	216,125
Operating expenses:				
Selling	8,763	7,753	25,828	24,290
General and administrative	10,247	10,323	30,927	33,484
Total operating expenses	19,010	18,076	56,755	57,774
Operating income	19,859	46,726	83,776	158,351
Other income:				
Interest income	730	11	951	31
Interest expense	(88)	(114)	(205)	(164)
Other income, net	490	1,401	2,092	2,462
Total other income, net	1,132	1,298	2,838	2,329
Income before income taxes	20,991	48,024	86,614	160,680
Income taxes	2,602	12,822	17,236	42,902
Net income and comprehensive income	\$ 18,389	\$ 35,202	\$ 69,378	\$117,778
Basic earnings per share	\$1.04	\$2.00	\$3.93	\$6.70
Diluted earnings per share	\$1.03	\$1.98	\$3.90	\$6.64
Weighted average number of common shares outstanding - Basic	17,668,435	17,596,588	17,643,473	17,582,009
Weighted average number of common shares outstanding - Diluted	17,825,797	17,778,177	17,770,120	17,749,897
Cash dividends per share	\$0.47	\$1.00	\$2.01	\$2.57

See notes to condensed consolidated financial statements.

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, 2021	\$24,306	\$46,847	\$438,098	\$(145,590)	\$363,661
Net income and comprehensive income			69,378		69,378
Common stock issued – compensation plans	72	(72)			-
Vesting of RSUs		(3,371)			(3,371)
Dividends paid			(35,474)		(35,474)
Unpaid dividends accrued			(634)		(634)
Recognition of stock-based compensation expense		5,053			5,053
Repurchase of 2,136 shares of common stock				(107)	(107)
Balance at October 1, 2022	\$24,378	\$48,457	\$471,368	\$(145,697)	\$398,506

*See notes to condensed consolidated financial statements.*

STURM, RUGER & COMPANY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)

	Nine Months Ended	
	October 1, 2022	October 2, 2021
<b>Operating Activities</b>		
Net income	\$ 69,378	\$ 117,778
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	20,120	22,001
Stock-based compensation	5,053	6,672
Gain on sale of assets	15	(111)
Deferred income taxes	(1,908)	1,519
Changes in operating assets and liabilities:		
Trade receivables	(4,326)	(13,985)
Inventories	(17,655)	(10,038)
Trade accounts payable and accrued expenses	(5,315)	1,720
Contract liability with customers	-	(84)
Employee compensation and benefits	(11,774)	(6,569)
Product liability	(340)	(161)
Prepaid expenses, other assets and other liabilities	(2,985)	(4,282)
Income taxes payable	-	2,544
Cash provided by operating activities	50,263	117,004
<b>Investing Activities</b>		
Property, plant and equipment additions	(17,206)	(15,617)
Proceeds from sale of assets	41	135
Purchases of short-term investments	(200,378)	(376,979)
Proceeds from maturities of short-term investments	235,041	332,990
Cash provided by (used for) investing activities	17,498	(59,471)
<b>Financing Activities</b>		
Remittance of taxes withheld from employees related to share-based compensation	(3,371)	(4,801)
Repurchase of common stock	(107)	-
Dividends paid	(35,474)	(45,202)
Cash used for financing activities	(38,952)	(50,003)
Increase in cash and cash equivalents	28,809	7,530
Cash and cash equivalents at beginning of period	21,044	20,147
Cash and cash equivalents at end of period	\$ 49,853	\$ 27,677

See notes to condensed consolidated financial statements.

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 October 1, 2022 may not be indicative of the results to be expected for the full year ending December 31, 2022. These financial statements have been prepared on a basis that is substantially consistent with the accounting principles applied in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

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 typically represent no more than 5% of total sales, although they accounted for 7% of total sales for the nine month period ended October 1, 2022. Export sales accounted for 5% of total sales for the three month period ended October 1, 2022. 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. Approximately 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.

Revenue Recognition:

The Company recognizes revenue in accordance with the provisions of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). Substantially all product sales are sold FOB (free on board) shipping point. Customary payment terms are 2% 30 days, net 40 days. Generally, all performance obligations are satisfied when product is shipped and the customer takes



ownership and assumes the risk of loss. In some instances, sales include multiple performance obligations. The most common of these instances relates to sales promotion programs under which downstream customers are entitled to receive no charge products based on their purchases of certain of the Company's products from the independent distributors. The fulfillment of these no charge products is the Company's responsibility. In such instances, the Company allocates the revenue of the promotional sales based on the estimated level of participation in the sales promotional program and the timing of the shipment of all of the firearms included in the promotional program, including the no charge firearms. Revenue is recognized proportionally as each performance obligation is satisfied, based on the relative customary price of each product. Customary prices are generally determined based on the prices charged to the independent distributors. The net change in contract liabilities for a given period is reported as an increase or decrease to sales.

#### Fair Value of Financial Instruments:

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

The Company's short-term investments consist of investments in a bank-managed money market fund that invests exclusively in United States Treasury obligations and is valued at the net asset value ("NAV") daily closing price, as reported by the fund, based on the amortized cost of the fund's securities. The NAV is used as a practical expedient to estimate fair value. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.

#### Business Combination:

On November 23, 2020, the Company acquired substantially all of the assets used to manufacture Marlin Firearms from the Remington Outdoor Company, Inc. and each of the subsidiaries of the Remington Outdoor Company, Inc. for a purchase price of \$28.3 million in cash. The transaction was funded by the Company with cash on hand and has been accounted for in accordance with ASC 805 - Business Combinations, which requires, among other things, an assignment of the acquisition consideration transferred to the sellers for the tangible and intangible assets acquired, using the bottom up approach, to estimate their value at acquisition date. Any excess of the fair value of the purchase consideration over these identified net assets was recorded as goodwill. The Company's estimates of fair value were based upon assumptions believed to be reasonable, yet were inherently uncertain. During the measurement period, which did not exceed one year from the date of acquisition, the Company recorded adjustments totaling \$2.2 million to the estimated fair values of the assets acquired and liabilities assumed with a corresponding adjustment to goodwill. These adjustments were recorded in the year ended December 31, 2021.

#### Use of Estimates:

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

### NOTE 3 - REVENUE RECOGNITION AND CONTRACTS WITH CUSTOMERS

The impact of ASC 606 on revenue recognized during the three and nine months ended October 1, 2022 and October 2, 2021 is as follows:

	Three Months Ended		Nine Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Contract liabilities with customers at beginning of period	\$ -	\$ -	\$ -	\$ 84
Revenue deferred	-	-	-	-
Revenue recognized	-	-	-	(84)
Contract liabilities with customers at end of period	\$ -	\$ -	\$ -	\$ -

As more fully described in the Revenue Recognition section of Note 2, the deferral of revenue and subsequent recognition thereof relates to certain of the Company's sales promotion programs that include the future shipment of free products. The Company has not been responsible for the shipment of any free products arising from such sales promotion programs since April 3, 2021.

#### Practical Expedients and Exemptions

The Company has elected to account for shipping and handling activities that occur after control of the related product transfers to the customer as fulfillment activities that are recognized upon shipment of the goods.

### NOTE 4 - INVENTORIES

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

Inventories consist of the following:

	October 1, 2022	December 31, 2021
Inventory at FIFO		
Finished products	\$ 23,116	\$ 7,322
Materials and work in process	97,627	92,701
Gross inventories	120,743	100,023
Less: LIFO reserve	(54,390)	(51,826)
Less: excess and obsolescence reserve	(4,848)	(4,347)
Net inventories	\$ 61,505	\$ 43,850

## NOTE 5 - LEASED ASSETS

The Company leases certain of its real estate and equipment. The Company has evaluated all its leases and determined that all are operating leases under the definitions of the guidance of ASU 2016-02, *Leases (Topic 842)*. The Company's lease agreements generally do not require material variable lease payments, residual value guarantees or restrictive covenants.

Under the provisions of ASU 2016-02, the Company records right-of-use assets equal to the present value of the contractual liability for future lease payments. The table below presents the right-of-use assets and related lease liabilities recognized on the Condensed Consolidated Balance Sheet as of October 1, 2022:

	Balance Sheet Line Item	October 1, 2022
Right-of-use assets	Other assets	\$2,416
Operating lease liabilities		
Current portion	Trade accounts payable and accrued expenses	\$ 340
Noncurrent portion	Lease liabilities	2,076
<u>Total operating lease liabilities</u>		<u>\$2,416</u>

The depreciable lives of right-of-use assets are limited by the lease term and are amortized on a straight line basis over the life of the lease.

The Company's leases generally do not provide an implicit interest rate, and therefore the Company calculates an incremental borrowing rate to determine the present value of its operating lease liabilities. The following table reconciles the undiscounted future minimum lease payments to the total operating lease liabilities recognized on the Condensed Consolidated Balance Sheet as of October 1, 2022:

Remainder of 2022	\$ 166
2023	449
2024	449
2025	340
2026	340
Thereafter	1,310
Total undiscounted future minimum lease payments	<u>3,054</u>
Less: Difference between undiscounted lease payments & the present value of future lease payments	<u>(638)</u>
Total operating lease liabilities	<u>\$2,416</u>

Certain of the Company's lease agreements contain renewal options at the Company's discretion. The Company does not recognize right-of-use assets or lease liabilities for leases of one year or less or for renewal periods unless it is reasonably certain that the Company will exercise the renewal option at the inception of the lease or when a triggering event occurs. The Company's weighted average remaining lease term for operating leases as of October 1, 2022 is 9.4 years.

## NOTE 6 - LINE OF CREDIT

On January 7, 2022, the Company entered into a \$40 million unsecured revolving line of credit agreement with a bank that expires January 7, 2024. Borrowings under this new facility bear interest at either 1) the Bloomberg short-Term Bank Yield Index – 1 month plus 150 basis points, or 2) a fluctuating rate per annum equal to the greater of (i) the Bank’s prime rate or (ii) the federal funds rate plus 50 basis points. The Company is also charged one-quarter of a percent (0.25%) per year on the unused portion. At October 1, 2022, the Company was in compliance with the terms and covenants of the credit facility and the line of credit was unused.

## NOTE 7 - 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 \$0.9 million and \$3.1 million for the three and nine months ended October 1, 2022, respectively, and \$0.9 million and \$3.1 million for the three and nine months ended October 2, 2021, respectively. The Company plans to contribute approximately \$0.9 million to the plan in matching employee contributions during the remainder of 2022.

In addition, the Company provided supplemental discretionary contributions to the 401(k) plan totaling \$1.5 million and \$5.4 million for the three and nine months ended October 1, 2022, respectively, and \$1.6 million and \$5.6 million for the three and nine months ended October 2, 2021, respectively. The Company plans to contribute approximately \$1.5 million in supplemental contributions to the plan during the remainder of 2022.

## NOTE 8 - INCOME TAXES

The Company's 2022 and 2021 effective tax rates differ from the statutory federal tax rate due principally to the availability of research and development tax credits, state income taxes, and the nondeductibility of certain executive compensation. The Company’s effective income tax rate was 12.3% and 19.9% for the three and nine months ended October 1, 2022, respectively. The Company’s effective income tax rate was 26.7% for both the three and nine months ended October 2, 2021. The decrease in the 2022 effective tax rates was primarily attributable to research and development tax credits, some of which related to amended returns from prior years. The impact related to research and development tax credits on the effective tax rate is expected to decline in future years.

Income tax payments for the three and nine months ended October 1, 2022 totaled \$6.0 million and \$26.6 million, respectively. Income tax payments for the three and nine months ended October 2, 2021 totaled \$13.8 and \$36.3 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 2017.

The Company does not believe it has included any “uncertain tax positions” in its federal income tax return or any of the state income tax returns it is currently filing. The Company has made an evaluation of the potential impact of additional state taxes being assessed by jurisdictions in which the Company

does not currently consider itself liable. The Company does not anticipate that such additional taxes, if any, would result in a material change to its financial position.

#### NOTE 9 - 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	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Numerator:				
Net income	\$18,389	\$35,202	\$69,378	\$117,778
Denominator:				
Weighted average number of common shares outstanding – Basic	17,668,435	17,596,588	17,643,473	17,582,009
Dilutive effect of options and restricted stock units outstanding under the Company’s employee compensation plans	157,362	181,589	126,647	167,888
Weighted average number of common shares outstanding – Diluted	17,825,797	17,778,177	17,770,120	17,749,897

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 10 - 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 reserved 750,000 shares for issuance under the 2017 SIP, of which 121,000 shares remain available for future grants as of October 1, 2022.

##### Restricted Stock Units

The Company grants performance-based and retention-based restricted stock units to senior employees. The vesting of the performance-based awards is dependent on the achievement of corporate objectives established by the Compensation Committee of the Board of Directors and a three-year vesting period. The retention-based awards are subject only to the three-year vesting period. There were 96,893 restricted stock units issued during the nine months ended October 1, 2022. Total compensation costs related to these restricted stock units are \$7.0 million.

Compensation costs related to all outstanding restricted stock units recognized in the statements of income aggregated \$1.7 million and \$5.1 million for the three and nine months ended October 1, 2022, respectively, and \$1.6 million and \$6.7 million for the three and nine months ended October 2, 2021, respectively.

#### NOTE 11 - 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.

Selected operating segment financial information follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Net Sales				
Firearms	\$138,771	\$177,529	\$444,615	\$560,578
Castings				
Unaffiliated	619	717	2,003	2,116
Intersegment	4,453	5,774	13,781	19,995
	5,072	6,491	15,784	22,111
Eliminations	(4,453)	(5,774)	(13,781)	(19,995)
	\$139,390	\$178,246	\$446,618	\$562,694
Income (Loss) Before Income Taxes				
Firearms	\$21,339	\$48,139	\$88,130	\$161,941
Castings	(1,029)	(753)	(2,754)	(2,084)
Corporate	681	638	1,238	823
	\$20,991	\$48,024	\$86,614	\$160,680
Depreciation				
Firearms	\$5,815	\$6,466	\$17,430	\$19,650
Castings	574	712	1,736	2,135
	\$6,389	\$7,178	\$19,166	\$21,785
Capital Expenditures				
Firearms	\$2,324	\$3,734	\$15,971	\$12,681
Castings	552	419	1,235	2,936
	\$2,876	\$4,153	\$17,206	\$15,617

	October 1, 2022	December 31, 2021
Identifiable Assets		
Firearms	\$205,411	\$188,290
Castings	12,723	13,889
Corporate	242,768	240,164
	\$460,902	\$442,343
Goodwill		
Firearms	\$3,055	\$3,055
Castings	209	209
	\$3,264	\$3,264

#### NOTE 12 - RELATED PARTY TRANSACTIONS

The Company contracts with the National Rifle Association (“NRA”) for some of its promotional and advertising activities. Payments made to the NRA in the three and nine months ended October 1, 2022 totaled \$0.2 million and \$0.4 million, respectively. Payments made to the NRA in the three and nine months ended October 2, 2021 totaled \$0.1 million and \$0.3 million, respectively. One of the Company’s Directors also serves as a Director on the Board of the NRA.

The Company is a member of the National Shooting Sports Foundation (“NSSF”), the firearm industry trade association. Payments made to the NSSF in the three and nine months ended October 1, 2022 totaled \$0.1 million and \$0.2 million, respectively. Payments made to the NSSF in the three and nine months ended October 2, 2021 totaled \$0.1 million and \$0.3 million, respectively. One of the Company’s Directors also serves on the Board of the NSSF.

#### NOTE 13 - CONTINGENT LIABILITIES

As of October 1, 2022, the Company was a defendant in three (3) lawsuits and is aware of certain other such claims. The lawsuits fall into two categories: traditional product liability litigation and municipal litigation. Each is discussed in turn below.

##### Traditional Product Liability Litigation

One lawsuit mentioned above involves a claim for damages related to an allegedly defective product due to its design and/or manufacture. The lawsuit stems from a specific incident of personal injury and is based on a traditional product liability theory such as strict liability, negligence, and/or breach of warranty.

The Company management believes that the allegations in this case are unfounded, that the incident is unrelated to the design or manufacture of the firearms involved, and that there should be no recovery against the Company.

##### Municipal Litigation

Municipal litigation generally includes those cases brought by cities or other governmental entities against firearms manufacturers, distributors and retailers seeking to recover damages allegedly arising out of the misuse of firearms by third parties. There are two lawsuits of this type: the *City of Gary* case, filed

in Indiana State Court in 1999, and *Estados Unidos Mexicanos v. Smith & Wesson, et al.*, which was filed in August 2021.

### *City of Gary*

The *City of Gary* Complaint seeks damages, among other things, for the costs of medical care, police and emergency services, public health services, and other services as well as punitive damages. In addition, nuisance abatement and/or injunctive relief is sought to change the design, manufacture, marketing and distribution practices of the various defendants. The suit alleges, among other claims, negligence in the design of products, public nuisance, negligent distribution and marketing, negligence per se and deceptive advertising. The case does not allege a specific injury to a specific individual as a result of the misuse or use of any of the Company's products.

After a long procedural history, the case was scheduled for trial on June 15, 2009. The case was not tried on that date and 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. 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. Defendants 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.

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 presented related issues. The Indiana Supreme Court decided *KS&E Sports* on April 24, 2017, and the *City of Gary* court lifted the stay. The *City of 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 was held on December 12, 2017. On January 2, 2018, the court issued an order granting Defendants' motion for judgment on the pleadings, but denying Defendants' request for attorney's fees and costs. On January 8, 2018, the court entered judgment for Defendants. The City filed a Notice of Appeal on February 1, 2018. Defendants cross-appealed the order denying attorney's fees and costs.

Briefing in the Indiana Court of Appeals was completed on the City's appeal and Defendants' cross appeal on September 10, 2018. The Court of Appeals issued its ruling on May 23, 2019, affirming dismissal of the City's negligent design and warnings count on the basis that the City had not alleged that the Manufacturer Defendants' conduct was unlawful. However, the court reversed dismissal of the City's negligent sale and distribution and related public nuisance counts for damages and injunctive relief.

The Manufacturer Defendants filed a Petition to Transfer the case to the Indiana Supreme Court on July 8, 2019. The Petition was denied on November 26, 2019. The case was remanded to the trial court for further proceedings.

During the quarter ended April 3, 2021, the City initiated discovery and the Manufacturer Defendants reciprocated. Discovery is ongoing.



## *Estados Unidos Mexicanos*

*Estados Unidos Mexicanos v. Smith & Wesson Brands, Inc., et al.* was filed by the Country of Mexico and names seven defendants, mostly U.S.-based firearms manufacturers, including the Company. The Complaint advances a variety of legal theories including negligence, public nuisance, unjust enrichment, restitution, and others. Plaintiff essentially alleges that Defendants design, manufacture, distribute, market and sell firearms in a way that they know results in the illegal trafficking of firearms into Mexico, where they are used by Mexican drug cartels for criminal activities. Plaintiff seeks injunctive relief and monetary damages.

On November 22, 2021, Defendants filed a joint Rule 12(b)(6) motion to dismiss the Mexican Government's complaint based on the Government's lack of Article III standing, Protection of Lawful Commerce in Arms Act immunity, and lack of proximate cause. The Company, along with other non-Massachusetts defendants, also filed a Rule 12(b)(2) motion to dismiss based on lack of specific personal jurisdiction. The motions were fully briefed and the court heard oral argument on April 12, 2022. On September 30, 2022, the court entered an order granting the Defendants' joint Rule 12(b)(6) motion. The Company's Rule 12(b)(2) motion was denied as moot, without prejudice. The plaintiff filed a Notice of Appeal on October 26, 2022.

### 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 for a particular period.

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

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

In most cases, an accrual is established only for estimated legal defense costs. Product liability accruals are periodically reviewed to reflect then-current estimates of possible liabilities and expenses

incurred to date and reasonably anticipated in the future. Threatened product liability claims are reflected in the Company's product liability accrual on the same basis as actual claims; i.e., an accrual is made for reasonably anticipated possible liability and claims handling expenses on an ongoing basis.

A range of reasonably possible 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 \$0.9 million and \$1.1 million at December 31, 2021 and 2020, 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 14 - SUBSEQUENT EVENTS

On October 28, 2022, the Board of Directors authorized a dividend of 41¢ per share, for shareholders of record as of November 16, 2022, payable on November 30, 2022.

On October 3, 2022 the Company purchased a 225,000 square foot facility, which it had previously been leasing, in Mayodan, North Carolina for \$8.3 million for use in its manufacturing and warehousing operations.

On October 4, 2022, a purported class action complaint was filed against the Company in the U.S. District Court for the District of Connecticut. The Complaint is styled as *Mark Jones, Individually and on Behalf of All Others Similarly Situated v. Sturm, Ruger & Company., Inc.* and alleges damages arising from a reported data breach of the third-party software vendor that owns and manages the server hosting ShopRuger.com. The Complaint alleges negligence, breach of implied contract, and unjust enrichment and seeks a variety of damages.

The Company has evaluated events and transactions occurring subsequent to October 1, 2022 and determined that there were no other unreported events or transactions that would have a material impact on the Company's results of operations or financial position.

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

### **Company Overview**

Sturm, Ruger & Company, Inc. (the “Company”) is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Approximately 99% of sales are from firearms. Export sales typically represent no more than 5% of total sales, although they did account for 7% of total sales for the nine month period ended October 1, 2022. Export sales accounted for 5% of total sales for the three month period ended October 1, 2022. 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.

### **Impact of Covid-19**

The global outbreak of the coronavirus disease 2019 (“COVID-19”) was declared a pandemic by the World Health Organization and a national emergency by the U.S. Government in March 2020. The COVID-19 pandemic created significant uncertainty and adversely impacted many industries throughout the global economy. During the nine month period ended October 1, 2022, the Company did not experience a significant adverse impact on its business from COVID-19 or related government restrictions. The impact of the COVID-19 pandemic is fluid and continues to evolve, and, therefore, the Company cannot predict the extent to which its business, results of operations, financial condition, or cash flows will ultimately be impacted. Management continues to monitor and assess the situation and to prepare for potential implications for the Company’s business, supply chain and customer demand.

The Company has taken many proactive steps to maintain the health and safety of its employees and to mitigate the impact on its business and believes it remains well positioned to continue to manage through this global crisis. At the end of the third quarter of 2022, the Company was debt-free, and had cash and short-term investments totaling \$215 million.

The ultimate impact of COVID-19 on the Company’s business, results of operations, financial condition and cash flows is dependent on future developments, including the duration of the pandemic and the related length of its impact on the global economy, which are uncertain and cannot be predicted at this time.

## Results of Operations

### Demand

The estimated unit sell-through of the Company's products from the independent distributors to retailers decreased 29% in the first nine months of 2022 compared to the prior year period. For the same period, NICS background checks (as adjusted by the National Shooting Sports Foundation ("NSSF")) decreased 14%. These decreases are attributable to decreased consumer demand for firearms from the unprecedented levels of the surge that began in 2020 and remained for most of 2021. Estimated sell-through from the independent distributors to retailers and total adjusted NICS background checks for the trailing seven quarters follow:

	2022			2021			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Estimated Units Sold from Distributors to Retailers (1)	343,500	354,300	411,200	458,200	457,400	583,300	518,900
Total adjusted NICS Background Checks (thousands) (2)	3,764	3,917	4,213	4,763	3,971	4,298	5,483

- (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. The adjusted NICS checks represent less than half of the total NICS checks.

Adjusted NICS data can be impacted by changes in state laws and regulations and any directives and interpretations issued by governmental agencies.

### Orders Received and Ending Backlog

The Company uses the estimated unit sell-through of its 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.

The units ordered, value of orders received, average sales price of units ordered, and ending backlog 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.)

	2022			2021			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Units Ordered	295,600	250,600	381,600	373,000	218,800	453,400	790,300
Orders Received	\$124.3	\$98.9	\$147.0	\$119.2	\$61.1	\$158.3	\$267.9
Average Sales Price of Units Ordered	\$421	\$395	\$385	\$320	\$279	\$349	\$339
Ending Backlog	\$377.6	\$389.6	\$420.5	\$429.7	\$471.7	\$582.3	\$612.3
Average Sales Price of Ending Unit Backlog	\$427	\$405	\$384	\$357	\$354	\$355	\$346

### 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. The Company's overall production in the first nine months of 2022 decreased by 19% from the first nine months of 2021.

### 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):

	2022			2021			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Units Ordered	295,600	250,600	381,600	373,000	218,800	453,400	790,300
Units Produced	382,800	431,800	521,300	512,100	525,200	575,400	541,900
Units Shipped	373,800	382,600	491,500	502,300	524,800	580,800	535,000
Average Sales Price of Units Shipped	\$371	\$366	\$338	\$334	\$338	\$343	\$343
Ending Unit Backlog	884,400	962,600	1,094,600	1,204,500	1,333,800	1,639,800	1,767,200

## Inventories

During the third quarter of 2022, the Company's finished goods inventory increased by 8,900 units and distributor inventories of the Company's products increased by 30,300 units.

Inventory data for the trailing seven quarters follows:

	2022			2021			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Units – Company Inventory	108,600	99,700	50,400	20,600	10,900	10,400	15,700
Units – Distributor Inventory (1)	303,100	272,800	244,600	164,200	120,100	52,800	55,300
Total Inventory (2)	411,700	372,500	295,000	184,800	131,000	63,200	71,000

- (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, Cost of Products Sold, and Gross Profit

Net sales, cost of products sold, and gross profit data for the three months ended (dollars in millions):

	October 1, 2022	October 2, 2021	Change	% Change
Net firearms sales	\$138.8	\$177.5	\$(38.7)	(21.8%)
Net castings sales	0.6	0.7	(0.1)	(13.5%)
Total net sales	139.4	178.2	(38.8)	(21.8%)
Cost of products sold	100.5	113.4	(12.9)	(11.4%)
Gross profit	\$ 38.9	\$ 64.8	\$(25.9)	(40.0%)
Gross margin	27.9%	36.4%	(8.5%)	(23.4%)

Net sales, cost of products sold, and gross profit data for the nine months ended (dollars in millions):

	October 1, 2022	October 2, 2021	Change	% Change
Net firearms sales	\$444.6	\$560.6	\$(116.0)	(20.7%)
Net castings sales	2.0	2.1	(0.1)	(5.3%)
Total net sales	446.6	562.7	(116.1)	(20.6%)
Cost of products sold	306.1	346.6	(40.5)	(11.7%)
Gross profit	\$140.5	\$216.1	\$(75.6)	(35.0%)
Gross margin	31.5%	38.4%	(6.9%)	(18.0%)

The decrease in total consolidated net sales and net firearms sales for the three and nine months ended October 1, 2022 is attributable to decreased consumer demand for firearms from the unprecedented levels of the surge that began in 2020 and remained for most of 2021. Sales of new products, including the PC Charger, MAX-9 pistol, LCP MAX pistol, Marlin 1895 lever-action rifles, LC Carbine, and Small-Frame Autoloading Rifle represented \$54.9 million or 13% of firearm sales in the first nine months of 2022. New product sales include only major new products that were introduced in the past two years. Several popular firearms that were considered new products in 2021, including the Wrangler revolver, Ruger-5.7 pistol, and LCP II in .22 LR pistol, have now been in production for over two years and are no longer included in new product sales for 2022.

The decreased gross profit for the three and nine months ended October 1, 2022 is attributable to the decrease in sales and inflationary cost increases in materials, commodities, services, energy, fuel and transportation.

The decrease in gross margin for the three and nine months ended October 1, 2022 is attributable to unfavorable deleveraging of fixed costs, including depreciation, engineering and other indirect labor, resulting from decreased sales and production and decreased labor efficiencies. In addition to unfavorable deleveraging of fixed costs, the aforementioned inflationary cost increases, partially offset by increased pricing, resulted in lower margins.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$19.0 million for the three months ended October 1, 2022, an increase of \$0.9 million or 5.2% from \$18.1 million in the comparable prior year period. As a percentage of sales, selling, general, and administrative expenses increased to 13.6% in the three months ended October 1, 2022 from 10.1% in the prior year period. Selling, general and administrative expenses were \$56.8 million for the nine months ended October 1, 2022, a decrease of \$1.0 million or 1.8% from \$57.8 million in the comparable prior year period. As a percentage of sales, selling, general, and administrative expenses increased to 12.7% in the nine months ended October 1, 2022 from 10.3% in the prior year period.

The increase in these expenses for the three months ended October 1, 2022 was primarily attributable to the resumption of trade show participation costs, travel expenditures, and advertising that had been deferred during the height of the COVID-19 restrictions, partially offset by decreased sales volume and decreased incentive compensation expenses. For the nine months ended October 1, 2022, the decrease in these expenses was primarily attributable to decreased sales volume and decreased incentive compensation expenses, partially offset by the resumption of trade show participation costs, travel expenditures, and advertising that had been deferred during the height of the COVID-19 restrictions. The increase of expenses as a percentage of sales was attributable to the decrease in sales and higher freight expenses.

#### Other income, net

Other income, net of \$1.1 million and \$2.8 million for the three and nine months ended October 1, 2022, respectively, decreased from \$1.3 million and increased from \$2.3 million for the three and nine months ended October 2, 2021, respectively. For the three months ended October 1, 2022, the decrease is the result of decreases in royalty and miscellaneous income, partially offset by increased interest income in 2022 compared to 2021. For the nine months ended October 1, 2022, the increase is the result of increased interest income, partially offset by reduced royalty and miscellaneous income in 2022 compared to 2021.

#### Income Taxes and Net Income

The Company's 2022 and 2021 effective tax rates differ from the statutory federal tax rate due principally to the availability of research and development tax credits, state income taxes and the nondeductibility of certain executive compensation. The Company's effective income tax rate was 12.3% and 19.9% for the three and nine months ended October 1, 2022, respectively. The Company's effective income tax rate was 26.7% for both the three and nine months ended October 2, 2021, respectively. The decrease in the 2022 effective tax rates was primarily attributable to research and development tax credits, some of which related to amended prior year income tax returns. The impact related to research and development tax credits on the effective tax rate is expected to decline in future years. The substantial reduction in the effective tax rate for the three months ended October 1, 2022 was primarily due to a favorable provision-to-return adjustment related to research and development credits.

As a result of the foregoing factors, consolidated net income was \$18.4 million and \$69.4 million for the three and nine months ended October 1, 2022. This represents a decrease of 47.8% and 41.1% from \$35.2 million and \$117.8 million in the comparable prior year periods.

#### **Non-GAAP Financial Measures**

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 two non-GAAP financial measures, EBITDA and EBITDA margin, which management believes provides useful information to investors. These non-GAAP financial measures may not be comparable to similarly titled financial measures being disclosed by other companies. In addition, the Company believes that the non-GAAP financial measures should be considered in addition to, and not in lieu of, GAAP financial measures. The Company believes that EBITDA and EBITDA margin are 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 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 calculates EBITDA margin by dividing EBITDA by total net sales.

EBITDA was \$27.0 million for the three months ended October 1, 2022, a decrease of 51.2% from \$55.4 million in the comparable prior year period.

For the nine months ended October 1, 2022 EBITDA was \$106.0 million, a decrease of 42.0% from \$182.8 million in the comparable prior year period.

#### Non-GAAP Reconciliation – EBITDA

##### EBITDA

*(Unaudited, dollars in thousands)*

	Three Months Ended		Nine Months Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Net income	\$18,389	\$35,202	\$69,378	\$117,778
Income tax expense	2,602	12,822	17,236	42,902
Depreciation and amortization expense	6,656	7,250	20,120	22,001
Interest income	(730)	(11)	(951)	(31)
Interest expense	88	114	205	164
EBITDA	\$27,005	\$55,377	\$105,988	\$182,814
EBITDA margin	19.4%	31.1%	23.7%	32.5%

#### Financial Condition

##### Liquidity and Capital Resources

At the end of the third quarter of 2022, the Company's cash and short-term investments totaled \$215.2 million. Pre-LIFO working capital of \$338.9 million, less the LIFO reserve of \$54.4 million, resulted in working capital of \$284.5 million and a current ratio of 5.8 to 1.

##### Operations

Cash provided by operating activities was \$50.3 million for the nine months ended October 1, 2022, compared to \$117.0 million for the comparable prior year period. The decrease in cash provided in the nine months ended October 1, 2022 is primarily attributable to the decrease in net income, reduced annual incentive compensation, and the increase in inventory in the nine months ended October 1, 2022.

Third parties supply the Company with various raw materials for its firearms and castings, such as steel, 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. In the nine months ended October 1, 2022, the Company's manufacturing operations were impacted by limited deliveries of raw materials. A limited supply of these materials in the marketplace can result in increases to purchase prices and adversely affect production levels. 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 October 1, 2022 totaled \$17.2 million, an increase from \$15.6 million in the comparable prior year period. In 2022, the Company expects capital expenditures related to new product introductions and upgrades to our manufacturing equipment and facilities to total approximately \$25 million. In addition to these investments, in the fourth quarter of 2022 the Company purchased a 225,000 square foot facility in Mayodan, North Carolina for \$8.3 million for use in its manufacturing and warehousing operations. 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 \$35.5 million were paid during the nine months ended October 1, 2022. The Company has financed its dividends with cash provided by operations and current cash. The quarterly dividend varies every quarter because the Company pays a percentage of earnings rather than a fixed amount per share. The Company's practice is to pay a dividend of approximately 40% of net income.

On October 28, 2022, the Company's Board of Directors authorized a dividend of 41¢ per share to shareholders of record on November 16, 2022, payable on November 30, 2022. 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 invests in a bank-managed money market fund that invests exclusively in United States Treasury instruments which mature within one year with available cash. At October 1, 2022, the Company's investment in these instruments totaled \$165.3 million.

During the three months ended October 1, 2022, the Company purchased 2,136 shares of its common stock for \$0.1 million in the open market. The average price per share purchased was \$49.97. These purchases were funded with cash on hand. The Company did not purchase any shares of its common stock in the nine months ended October 2, 2021. As of October 2, 2022, \$86.6 million remained authorized for future stock repurchases.

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 January 7, 2024, was unused at October 1, 2022.

### 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. If these regulations become more stringent in the future and the Company is not able to comply with them, such noncompliance could have a material adverse impact on the Company.

The Company has 14 independent distributors that service the domestic commercial market. Additionally, the Company has 45 and 25 distributors servicing the export and law enforcement markets, respectively.

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 2021 Annual Report on Form 10-K filed on February 23, 2022, 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, the impact of COVID-19, 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 three months ended October 1, 2022.

### 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 October 1, 2022.

Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of October 1, 2022, 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.

The Company’s Chief Executive Officer and Chief Financial Officer have further concluded that, as of October 1, 2022, there have been no material changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended October 1, 2022 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. The Company has not experienced any material impact to its internal controls over financial reporting as a result of the COVID-19 pandemic.

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

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The nature of the legal proceedings against the Company is discussed at Note 13 to the financial statements, which are included in this Form 10-Q.

The Company has reported all cases instituted against it through July 2, 2022, 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 October 1, 2022.

### ITEM 1A. RISK FACTORS

During the three months ended October 1, 2022, there were 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, 2021.

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

Share repurchase activity during the three months ended October 1, 2022 was as follows. These purchases were funded with cash on hand.

Issuer Purchases of Equity Securities

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 (1)
Third Quarter 2022				
July 3 to July 30	-	-	-	
July 31 to August 27	-	-	-	
August 28 to October 1	2,136	\$49.97	2,136	
Total	2,136	\$49.97	2,136	\$86,600,000

(1) On July 29, 2014, the Company announced a program to repurchase up to \$100 million of the Company's common stock, subject to certain conditions, in the open market or in privately negotiated transactions. As of October 1, 2022, \$13,400,000 of the \$100,000,000 had been utilized. The remaining \$86,600,000 represents the authorized amount available to repurchase shares under the program as of October 1, 2022.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

STURM, RUGER & COMPANY, INC.

FORM 10-Q FOR THE THREE MONTHS ENDED OCTOBER 1, 2022

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: November 2, 2022

S/THOMAS A. DINEEN

Thomas A. Dineen  
Principal Financial Officer,  
Principal Accounting Officer,  
Senior Vice President, Treasurer and Chief  
Financial Officer

## CERTIFICATION

I, Christopher J. Killoy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the “Report”) of Sturm, Ruger & Company, Inc. (the “Registrant”);
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
  - d) Disclosed in this Report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and



5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 2, 2022

S/CHRISTOPHER J. KILLOY

Christopher J. Killoy  
Chief Executive Officer

## CERTIFICATION

I, Thomas A. Dineen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the "Report") of Sturm, Ruger & Company, Inc. (the "Registrant");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
  - d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 2, 2022

S/THOMAS A. DINEEN  
Thomas A. Dineen  
Senior Vice President, Treasurer and  
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Sturm, Ruger & Company, Inc. (the “Company”) for the period ended October 1, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christopher J. Killoy, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respect, the financial condition and results of operations of the Company.

Date: November 2, 2022

S/CHRISTOPHER J. KILLOY

Christopher J. Killoy  
Chief Executive Officer

A signed original of this statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report on Form 10-Q of Sturm, Ruger & Company, Inc. (the "Company") for the period ended October 1, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas A. Dineen, Senior Vice President, Treasurer and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respect, the financial condition and results of operations of the Company.

Date: November 2, 2022

S/THOMAS A. DINEEN  
Thomas A. Dineen  
Senior Vice President, Treasurer and  
Chief Financial Officer

A signed original of this statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.