SL GREEN REALTY CORP
Form 424B3
November 29, 2006

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(3). A filing fee of $ , calculated in accordance with Rule 457(r), has been applied against $ in fees carried over pursuant to Rule 457(p), in connection with the securities offered from the registration statement (333-138976) by means of this prospectus supplement.

**SUBJECT TO COMPLETION DATED NOVEMBER 29, 2006**

PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus dated November 28, 2006)

**Shares**

# Common Stock

We are offering shares of our common stock, par value $.01 per share. We will receive all of the net proceeds from the sale of our common stock.

Our common stock is listed on the New York Stock Exchange under the symbol "SLG." The last reported sale price of our common stock on the New York Stock Exchange on November 28, 2006 was $137.70 per share.

The shares of our common stock are subject to certain restrictions on ownership and transfer designed to preserve our qualification as a real estate investment trust for federal income tax purposes. See "Restrictions on Ownership of Capital Stock" in the accompanying prospectus.

*Investing in our common stock involves risks. See "Risk Factors" beginning on page S-4 of this prospectus supplement, page 2 of the accompanying prospectus and on page 7 of our Annual Report on Form 10-K for the year ended December 31, 2005.*

| | Per Share | Total |
|---|---|---|
| Public offering price | $ | $ |
| Underwriting discounts and commissions | $ | $ |
| Proceeds to us (before expenses) | $ | $ |

We have granted Lehman Brothers a 30-day option to purchase up to an additional shares of common stock on the same terms and conditions as set forth above if Lehman Brothers sells more than shares of common stock in this offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers expects to deliver the shares on or about December , 2006.

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# Lehman Brothers

November , 2006

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**Prospectus**


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## ABOUT THIS PROSPECTUS SUPPLEMENT

**You should rely only on the information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus, and any "free writing prospectus" we may authorize to be delivered to you. We have not, and the underwriter has not, authorized anyone to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. This prospectus supplement is not an offer to sell or a solicitation of an offer to buy these shares of common stock in any circumstances under which the offer or solicitation is unlawful. The information appearing in this prospectus supplement or the accompanying prospectus and the documents incorporated by reference herein or therein is accurate only as of their respective dates or on other dates which are specified in those documents regardless of**

**the time of delivery of this prospectus supplement or of any such shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since those dates.**

This document is in two parts. The first part is this prospectus supplement, which adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering of common stock. This prospectus supplement adds, updates and changes information contained in the accompanying prospectus and the information incorporated by reference. To the extent the information contained in this prospectus supplement differs or varies from the information contained in the accompanying prospectus or any document incorporated by reference, the information in this prospectus supplement shall control.

Unless the context requires otherwise, in this prospectus supplement the terms "we," "us," "our" and "our company" refer to SL Green Realty Corp. and all entities owned or controlled by SL Green Realty Corp., including our operating partnership or, as the context may require, SL Green Realty Corp. only. Unless otherwise specified, all property information in this prospectus supplement is as of September 30, 2006. In addition, the term "properties" means those which we directly own by holding fee title, leasehold or otherwise or indirectly own, in whole or in part, by holding interests in entities that own such properties.



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**FORWARD-LOOKING STATEMENTS MAY PROVE INACCURATE**

This document and the documents that are incorporated by reference in this prospectus supplement and the accompanying prospectus contain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future results of our operations, including any forecasts, projections and plans and objectives for future operations. You can identify forward-looking statements by the use of forward-looking expressions such as "may," "will," "should," "expect," "believe," "anticipate," "estimate," "intend," "project," or "continue" or any negative or other variations on such expressions. Many factors could affect our actual financial results, and could cause actual results to differ materially from those in the forward-looking statements. These factors include those listed under the sections titled "Recent Developments" and "Risk Factors" in this prospectus supplement and "Risk Factors" in the accompanying prospectus and the following:

- the uncertainty regarding whether or not our proposed merger with Reckson Associates Realty Corp., or Reckson, will occur, including uncertainties relating to a competing bid from a third party, the vote of the stockholders of Reckson at the upcoming Reckson special meeting and the pending class action lawsuits seeking to enjoin the merger, and the possibility that our stock price could decline, perhaps substantially, if the merger is not completed;
- the timing of the completion of the merger, if completed;
- our ability to successfully integrate the Reckson business, to preserve the goodwill of the acquired business, and to achieve expected synergies, operating efficiencies and other benefits within expected time-frames or at all, or within expected cost projections;
- the amount of expenses and other liabilities incurred or accrued by Reckson, which we will assume if the merger is completed (including any potential tax liabilities of Reckson incurred as a result of the merger, or otherwise), and which could be higher than projected;
- general economic or business (particularly real estate) conditions, either nationally or in New York City, being less favorable than expected;
- reduced demand for office space;
- risks of real estate acquisitions;
- risks of structured finance investments;
- availability and creditworthiness of prospective tenants;
- adverse changes in the real estate markets, including increasing vacancy, decreasing rental revenue and increasing insurance costs;
- availability of capital (debt and equity);
- unanticipated increases in financing and other costs, including a rise in interest rates;
- market interest rates could adversely affect the market price of our common stock, as well as our performance and cash flows;

our ability to satisfy complex rules in order for us to qualify as a real estate investment trust for federal income tax purposes, our operating partnership's ability to satisfy the rules in order for it to qualify as a partnership for federal income tax purposes, the ability of certain of our subsidiaries to qualify as real estate investment trusts and certain of our subsidiaries to qualify as taxable real estate investment trust subsidiaries for federal income tax purposes, and our ability

and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;

accounting principles and policies and guidelines applicable to real estate investment trusts;

competition with other companies;

the continuing threat of terrorist attacks on the national, regional and local economies including, in particular, the New York City area and our tenants;

legislative or regulatory changes adversely affecting real estate investment trusts and the real estate business; and

environmental, regulatory and/or safety requirements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this prospectus supplement and the accompanying prospectus might not occur and actual results, performance or achievement could differ materially from that anticipated or implied in the forward-looking statements.

**INFORMATION ABOUT SL GREEN**

We are a self-managed real estate investment trust, or a REIT, with in-house capabilities in property management, acquisitions, financing, development, construction and leasing. We are the only such REIT to own, manage, lease, acquire and reposition office properties predominantly located in Manhattan. We own substantially all of our assets and conduct all of our business through our operating partnership, SL Green Operating Partnership, L.P. We are the sole managing general partner of our operating partnership and as of September 30, 2006, we owned approximately 95.4% of the outstanding partnership interests in our operating partnership. All of the management and leasing operations with respect to our wholly-owned properties are conducted through SL Green Management LLC, or Management LLC. Our operating partnership owns a 100% interest in Management LLC.

Our primary business objective is to maximize total return to stockholders through growth in funds from operations and appreciation in the value of our assets during any business cycle. We seek to achieve this objective by assembling a high quality portfolio of Manhattan office properties and capitalizing on current opportunities in the Manhattan office market through: (i) property acquisitions (directly or through joint ventures)  acquiring office properties at significant discounts to replacement costs with market rents at a premium to fully escalated in-place rents which provide attractive initial yields and the potential for cash flow growth, as well as properties with significant vacancies; (ii) property repositioning  repositioning acquired retail and commercial office properties that are under-performing through renovations, active management and proactive leasing; (iii) property dispositions; (iv) integrated leasing and property management; and (v) structured finance investments inclusive of our investment in Gramercy Capital Corp., or Gramercy (NYSE: GKK), in the greater New York area. Generally, we focus on properties that are within a ten-minute walk of midtown Manhattan's primary commuter stations.

Our management team has developed a comprehensive knowledge of the Manhattan commercial real estate market, an extensive network of tenant and other business relationships and experience in acquiring underperforming office and retail properties and repositioning them through intensive full-service management and leasing efforts.

As of September 30, 2006, our wholly-owned properties consisted of 20 commercial properties encompassing approximately 9.6 million rentable square feet, which had a weighted average occupancy (total leased square feet divided by total available square feet) of 97.0%. Our portfolio also includes ownership interests in unconsolidated joint ventures, which own seven commercial properties in Manhattan, encompassing approximately 8.8 million rentable square feet, and which had a weighted average occupancy of 95.2% as of September 30, 2006. We also own interests in eight retail and development properties, which encompass approximately 516,000 rentable square feet. In addition, we manage three office properties owned by third parties and affiliated companies encompassing approximately 1.0 million rentable square feet. We also own approximately 25% of the outstanding common stock of Gramercy.

We were incorporated in the State of Maryland on June 10, 1997. Our principal executive offices are located at 420 Lexington Avenue, New York, New York 10170 and our telephone number is (212) 594-2700. We maintain a website at *www.slgreen.com.* The information contained on or connected to our website is not incorporated by reference into, and you must not consider the information to be a part of, this prospectus supplement or the accompanying prospectus.

## RECENT DEVELOPMENTS

**Proposed Reckson Merger Transaction**

On August 3, 2006, we entered into a definitive merger agreement with Reckson and Reckson Operating Partnership, L.P., or Reckson OP, pursuant to which we would acquire Reckson, and in connection therewith each holder of Reckson common stock will receive, for each share of Reckson common stock, a combination of $31.68 in cash (plus a prorated dividend for the current quarter) and 0.10387 shares of our common stock. In addition, in the merger we will assume approximately $2.0 billion of Reckson's outstanding indebtedness. Based on our and Reckson's current capitalization (but not taking into account the effects of this offering), we expect to issue shares of common stock in the merger representing approximately 19.8% of our common stock currently outstanding. Under the terms of the merger agreement, Reckson will merge with and into a subsidiary of our company, with such subsidiary continuing after the merger as the surviving entity. In addition, under the terms of the merger agreement, a subsidiary of our company will merge with and into Reckson OP, with Reckson OP continuing after the merger as the surviving entity. The merger agreement was approved by our board of directors and by a special committee comprised of all of the independent directors of the board of directors of Reckson. Consummation of the merger is subject to customary closing conditions, including the approval of the stockholders of Reckson by the affirmative vote of at least two-thirds of the outstanding shares of Reckson's common stock.

As part of this transaction, we entered into a definitive sale agreement with an entity affiliated with three members of Reckson's management, pursuant to which we will cause Reckson to sell certain of its assets that are located in suburban markets and certain other assets for approximately $2.1 billion in cash to this entity immediately prior to the closing under the merger agreement. We entered into this transaction to limit the number of new markets in which we will be entering as a result of the Reckson merger in order to permit us to remain focused on our core New York City based portfolio.

On October 17, 2006, Reckson mailed a proxy statement to its stockholders in connection with the special meeting Reckson scheduled to be held on November 22, 2006 for its stockholders to consider and approve the merger, and the board of directors of Reckson recommended that its stockholders vote in favor of the proposed merger with us. On November 16, 2006, Reckson received a proposal, or the Rome proposal, from Rome Acquisition Limited Partnership, or Rome, a partnership formed by entities associated with Carl Icahn and Harry Macklowe, to acquire Reckson for $49.00 per share in cash for all of Reckson's outstanding shares, subject to continued due diligence. Reckson's board of directors determined by a vote of its independent directors, and in accordance with the merger agreement with us, to engage in discussions with Rome. On November 26, 2006, Rome informed Reckson by letter that it intended to deliver a definitive binding proposal no later than December 4, 2006. We, together with Reckson, determined to postpone the special meeting of Reckson stockholders in order to enable Reckson to evaluate the Rome proposal. The special meeting of Reckson stockholders was initially postponed and rescheduled for November 28, 2006 and has been subsequently postponed and rescheduled for December 6, 2006. On November 27, 2006, Reckson requested that Rome resolve, to Reckon's satisfaction, certain legal and structural issues regarding its proposal by Wednesday, November 29, 2006 with the goal that Reckson could gain full confirmation and transparency regarding such proposal by Friday, December 1, 2006. Reckson specifically requested, among other things, that Rome provide a detailed debt and equity financing structure for its proposal (including loan committment letters) to Reckson by no later than Wednesday, November 29, 2006 if Reckson is expected to be in a position to properly evaluate the Rome proposal. On November 29, 2006, we have been advised that Mack-Cali Realty, L.P., a wholly owned subsidiary of Mack-Cali Realty Corporation, has agreed to become a partner of Rome and, upon finalization of an amendment to the limited partnership agreement, has agreed to contribute at least an additional $300 million. Reckson cautioned that to date, Rome has not made a binding proposal to acquire Reckson and no assurances can be provided that a binding proposal will be forthcoming in that timeframe or otherwise or that

such a proposal, if submitted, would result in a transaction with Reckson at either the price set forth in such proposal or otherwise. Reckson continues to remain subject to a binding merger agreement with us. The Reckson board, by a vote of its independent directors, has reaffirmed its recommendation of Reckson's pending merger with us.

Reckson is a self-administered and self-managed REIT specializing in the ownership, operation, acquisition, leasing, financing, management and development of commercial real estate properties, principally office and to a lesser extent flex properties, and also owns certain land parcels for future development located in the tri-state area markets surrounding New York City. Reckson's growth strategy is focused in these markets and based on industry surveys, Reckson's management believes it is one of the largest owners and operators of Class A central business district and suburban office properties in the New York tri-state area. Currently, Reckson wholly owns or has interests in a total of 101 properties comprised of approximately 20.2 million square feet. In addition, Reckson's inventory of land parcels aggregates approximately 305 acres in nine separate parcels.

Pursuant to the merger agreement, if in connection with determining that the Rome proposal constitutes a superior competing transaction (as defined in the merger agreement) the Reckson board of directors desires to withdraw or modify, in a manner adverse to us, the favorable recommendation of the merger to its stockholders or terminate the merger agreement, they must give us notice prior to taking any such action, which we refer to as a superior notice. We have three business days after receiving a superior notice, which must be accompanied by a copy of the form of definitive agreement proposed to be entered into in respect of such superior competing transaction, to make a matching or superior offer to the superior competing transaction. The Reckson board of directors is still in discussions with Rome and has not, as of the date of this prospectus supplement, delivered to us a superior notice. It is uncertain whether or when the Reckson board of directors would deliver to us a superior notice.

As a result of the Rome proposal, we have been evaluating whether to make an amended offer to purchase Reckson if and when we receive a superior notice. Absent a significant movement in our stock price, which of course automatically would increase the value of the consideration due to the Reckson shareholders, we have no intention of increasing the price we pay for Reckson to $49 per share. In connection with our evaluation, we have been exploring a number of strategic options including (i) a variety of financing arrangements that could involve fixed or floating rate long-term, short-term or bridge debt or bridge equity, (ii) entering into joint ventures or other strategic alliances for all or a portion of the assets we would acquire in connection with the merger and/or (iii) a combination of these options. There can be no assurance that we will make an amended offer and, in the event we make an amended offer, no assurances can be given regarding the timing or terms of any such offer. These strategic options could replace or supplement the terms of our previously disclosed financing arrangements intended to finance the purchase of Reckson. We may choose not to continue to pursue these strategic options at any time, or, alternatively, we may choose to pursue strategic options that are different than those listed above. There is no assurance that any of these strategic options are available to us on terms we find acceptable, if at all, or within the time frames we might be seeking or that any of them will be consummated. The terms of these strategic options vary materially and are subject to a number of variables that could change in a short time frame, including prior to the closing of this offering.

If we make an amended offer and take advantage of a strategic option we find acceptable, there is no assurance that we would recognize any of the benefits we anticipated receiving in connection with the merger agreement as currently in effect or the benefits we may anticipate receiving as a result of any amended offer we make or strategic option we execute. In addition, our stockholders and analysts may not view the terms of our amended offer positively and our stock price could decline as a result thereof. Further, there is no assurance that either (i) the Reckson stockholders will approve our current merger agreement if no superior notice is delivered, (ii) that a different competing proposal will not be

delivered to the Reckson board of directors or (iii) that any amended offer by us would be accepted by the Reckson board of directors. In the event that the merger agreement is terminated, our portfolio and business will be materially different from the portfolio and business we would have owned had the merger been consummated. Subject to the terms and conditions set forth in the merger agreement, we may be entitled to receive a break-up fee of $99,800,000 and reimbursement of our out-of-pocket third party expenses not to exceed $13,000,000 in the event that the merger agreement is terminated by us or Reckson following any delivery by Reckson of a superior notice. However, our ability to receive all of the break-up fee at the time of the termination, if at all, may be limited by our need to comply with the REIT source of income requirements. In addition, under the terms of the sale agreement with an entity affiliated with certain members of Reckson's management as described above, we are required to pay approximately $8,000,000 of the break-up fee and a percentage of the break-up expenses received by us to this entity, if we receive the break-up fee and break-up expenses.

**Announcement of our Annual Investor Conference**

On November 27, 2006, we announced that we will hold our 2006 Annual Investor Conference and Property Tour on Monday, December 4, 2006. Prior to the conference, we intend to announce our fourth quarter dividend. We will also provide earnings guidance for 2007 at the conference. The management presentation will begin at 1:30 p.m. EST and will be available via webcast and teleconference in listen only mode.

## RISK FACTORS

*In addition to the risks relating to our business which are included in the accompanying prospectus and in our Annual Report on Form 10-K for the year December 31, 2005, you should carefully consider the following material risk factors before making an investment in our common stock.*

**The market price of our common stock may decline if our proposed merger with Reckson is not completed.**

The market price of our common stock may decline, perhaps substantially, if our proposed merger with Reckson is not completed, whether as a result of the competing Rome proposal, the failure of the Reckson stockholders to approve the merger at the special meeting of the Reckson stockholders, the pending class action lawsuits seeking to enjoin the merger, or otherwise.

**Our proposed merger with Reckson and the timing thereof are not within our control and are uncertain.**

The board of directors of Reckson is considering a competing merger proposal from Rome and has twice postponed the timing of the Reckson special meeting of stockholders, now tentatively scheduled for December 6, 2006. The Reckson board of directors could determine that the Rome proposal is a superior proposal and decide to pursue the Rome proposal instead of the merger with us, whether or not we improve the terms of our bid. As a result, we do not control whether our merger with Reckson will be consummated or, if so, the timing thereof.

**Our operations and stock price could be affected negatively if we increase our offer for Reckson.**

We are considering various strategic options and financing alternatives in order to determine whether or not we would increase our offer if the Reckson board of directors determines that the Rome proposal is a superior competing transaction (which would require that we be given the opportunity to top such proposal). Should we increase our offer for Reckson, such increase, as well the consummation of the merger in accordance with the terms of the increased offer, may have a material adverse effect on the market price of our common stock. In addition, there is no assurance that any of the previously discussed strategic options are available to us on terms we find acceptable, if at all, or within the time frames we might be seeking or that any of them will be consummated. The terms of these strategic options vary materially and are subject to a number of variables that could change in a short time frame, including prior to the closing of this offering. These changes could have a material adverse effect on our operations and/or the market price of our common stock.

**The pending class action lawsuits may adversely affect our and Reckson's ability to consummate the merger.**

Since August 4, 2006, six purported class action lawsuits have been filed by Reckson stockholders in New York state and Maryland state courts, seeking to enjoin the proposed merger and the proposed acquisition of certain Reckson assets by the asset purchasing venture owned by certain affiliates of Reckson. The plaintiffs assert, among other things, claims of breach of fiduciary duty against Reckson and its directors, and, in the case of three lawsuits, claims of aiding and abetting breach of fiduciary duty by us. The lawsuits also seek damages, attorneys' fees and costs. While these cases are in their early stages, Reckson and our company believe that the cases are without merit and intend to contest them vigorously. However, any judgments in respect of these lawsuits adverse to Reckson and our company may adversely affect Reckson's and our ability to consummate the merger.

**The market price of our common stock and our earnings per share may decline as a result of the merger with Reckson.**

The market price of our common stock may decline as a result of the merger with Reckson if, among other things, we do not achieve the perceived benefits of the merger as rapidly or to the extent anticipated by financial or industry analysts or if the effect of the merger on our financial results is not consistent with the expectations of financial or industry analysts. In addition, the failure to achieve expected benefits and unanticipated costs relating to the merger could reduce our future earnings per share.

**If we are unable to successfully integrate the operations of Reckson, its business and earnings may be negatively affected and could impact our ability to timely achieve cost savings associated with the merger and could adversely affect our earnings per share and the market price of our common stock.**

The merger with Reckson will involve the integration of companies that have previously operated independently. Successful integration of the operations of Reckson will depend primarily on our ability to consolidate operations, systems procedures, properties and personnel and to eliminate redundancies and costs. The merger will also pose other risks commonly associated with similar transactions, including unanticipated liabilities, unexpected costs and the diversion of management's attention to the integration of the operations of our company and Reckson. We cannot assure you that we will be able to integrate Reckson's operations without encountering difficulties, including, but not limited to, the loss of key employees, the disruption of its respective ongoing businesses or possible inconsistencies in standards, controls, procedures and policies. Estimated cost savings are projected to come from various areas that we have identified through the due diligence and integration planning process. If we have difficulties with any of these integrations, we might not achieve the economic benefits we expect to result from the merger, and this may hurt our business and earnings. In addition, we may experience greater than expected costs or difficulties relating to the integration of the business of Reckson and/or may not realize expected cost savings from the merger within the expected time frame, if at all. Our failure to integrate Reckson successfully in a timely manner could adversely affect our earnings per share and the market price of our common stock.

**We would incur adverse tax consequences if Reckson failed to qualify as a REIT for United States federal income tax purposes.**

If Reckson failed to qualify as a REIT for federal income tax purposes in any taxable year, it will have been subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. Unless statutory relief provisions apply, Reckson also would have been disqualified from treatment as a REIT for the four taxable years following the year during which it lost qualification. If Reckson were not to qualify as a REIT at the time of the merger, Reckson would incur a corporate level federal income tax liability in connection with the merger, which will be treated as a taxable asset sale by Reckson for federal income tax purposes. The resulting gain subject to tax would generally be equal to the excess of the value of the merger consideration and the Reckson liabilities assumed by us at the time of the merger over Reckson's adjusted tax basis in its assets at that time.

Based upon our own due diligence and a tax opinion that will be issued at closing of the Reckson merger (covering the period from January 1, 2000 to the closing of the merger), we believe that Reckson has at all times since 1995, the year in which its initial public offering occurred, qualified and will continue to qualify as a REIT for United States federal income tax purposes and that we will be able to continue to qualify as a REIT following the merger. However, if Reckson has failed or fails to qualify as a REIT and the merger is completed, we generally would succeed to or incur significant tax liabilities (including the significant tax liability that would result from the deemed sale of assets by

Reckson pursuant to the merger), and we could possibly lose our REIT status should disqualifying activities continue after the acquisition.

In addition, if Reckson did not qualify as a REIT at any time during the 10 years preceding the merger, even if it qualifies as a REIT at the time of the merger, Reckson would incur a corporate level federal income tax liability in connection with the merger based on the taxable gain that existed with respect to its assets at the time if re-qualified as a REIT following such disqualification. Again, as successor to Reckson, we would succeed to this tax liability. As noted above, we believe that Reckson will have qualified as a REIT at all times during the relevant 10-year period.

REITs are subject to a range of complex organizational and operational requirements. As REITs, our company and Reckson must each distribute with respect to each year at least 90% of its REIT taxable income to its stockholders. Other restrictions apply to a REIT's income and assets. For any taxable year that our company or Reckson fails to qualify as a REIT, it will not be allowed a deduction for dividends paid to its stockholders in computing taxable income and thus would become subject to United States federal income tax as if it were a regular taxable corporation. In such an event, it could be subject to potentially significant tax liabilities. Unless entitled to relief under certain statutory provisions, our company or Reckson, as the case may be, would also be disqualified from treatment as a REIT for the four taxable years following the year in which it lost its qualification. If our company or Reckson failed to qualify as a REIT, the market price of our common stock may decline and we may need to reduce substantially the amount of distributions to our stockholders because of our increased tax liability.

If the Reckson merger does not occur, our ability to receive all of the break-up fee at the time of the termination, if at all, may be limited by our need to comply with the REIT source-of-income requirements.

**CAPITALIZATION**

The following table sets forth (i) our capitalization as of September 30, 2006 on a historical basis, and (ii) our capitalization on a pro forma basis to reflect the probable acquisition of Reckson, and (iii) our capitalization on a pro forma basis as adjusted to give effect to the sale of our common stock in this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us and the application of the expected net proceeds of this offering as set forth under "Use of Proceeds." The information set forth in the following table should be read in conjunction with the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2005, our Quarterly Reports on Form 10-Q for the periods ended March 31, 2006, June 30, 2006 and September 30, 2006, and our Current Reports on Form 8-K filed on September 18, 2006 and November 28, 2006.

| | As of September 30, 2006 | | |
|---|---|---|---|
| | **Historical** | **Pro Forma** | **Pro Forma As Adjusted** |
| Cash and cash equivalents | $ 176,444 | $ 10,034 | $ |
| Mortgage notes payable | 1,255,325 | 1,804,946 | 1,804,946 |
| Revolving credit facilities | | 57,784 | 57,784 |
| Senior unsecured notes | | 1,255,059 | 1,255,059 |
| Term loan | 525,000 | 1,379,500 | 1,379,500 |
| Junior subordinate deferrable debentures held by trust | 100,000 | 100,000 | 100,000 |
| Stockholders' equity: | | | |
| 7.625% Series C Cumulative Redeemable Preferred Stock, $.01 par value; 6,300 issued and outstanding on a historical, pro forma and pro forma as adjusted basis | 151,981 | 151,981 | 151,981 |
| 7.875% Series D Cumulative Redeemable Preferred Stock, $.01 par value; 4,000 issued and outstanding on a historical, pro forma and pro forma as adjusted basis | 96,321 | 96,321 | 96,321 |
| Common Stock, $.01 par value; 100,000 shares authorized; 45,773,779 issued and outstanding on a historical basis, 54,808,840 issued and outstanding on a pro forma basis and issued and outstanding on a pro forma as adjusted basis | 458 | 548 | |
| Additional paid-in-capital and deferred compensation plans | 1,268,491 | 2,280,628 | |
| Accumulated other comprehensive loss | 13,060 | 13,060 | 13,060 |
| Total Stockholders' Equity | 1,858,055 | 2,870,282 | |
| Total Capitalization | $ 3,410,636 | $ 7,139,827 | $ |

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**PRICE RANGE OF COMMON STOCK AND DIVIDENDS**

Our common stock began trading on the New York Stock Exchange, or the NYSE, on August 15, 1997 under the symbol "SLG." On November 28, 2006, the reported closing sale price per share of common stock on the NYSE was $137.70, and there were approximately 116 holders of record of our common stock. The table below sets forth the quarterly high and low closing sales prices of the common stock on the NYSE and the distributions declared per share of our common stock with respect to the periods indicated.

| | High | Low | Declared Dividends |
|---|---|---|---|
| 2005: | | | |
| First Quarter | $ 59.74 | $ 52.70 | $ 0.54 |
| Second Quarter | $ 66.05 | $ 55.38 | $ 0.54 |
| Third Quarter | $ 70.10 | $ 64.76 | $ 0.54 |
| Fourth Quarter | $ 77.14 | $ 63.80 | $ 0.60 |
| 2006: | | | |
| First Quarter | $ 103.09 | $ 77.70 | $ 0.60 |
| Second Quarter | $ 109.47 | $ 95.31 | $ 0.60 |
| Third Quarter | $ 116.98 | $ 106.50 | $ 0.60 |
| Fourth Quarter (as of November 28, 2006) | $ 143.00 | $ 112.37 | N/A |

If dividends are declared in a quarter, those dividends will be paid during the subsequent quarter. We expect to continue our policy of distributing our taxable income through regular cash dividends on a quarterly basis, although there is no assurance as to future dividends because they depend on future earnings, capital requirements and financial condition.

**USE OF PROCEEDS**

We expect that the net proceeds from this offering will be approximately $ million, or approximately $ million if the underwriter's over-allotment option is exercised in full, after deducting underwriting discounts and commissions and our expenses. We will contribute the net proceeds from this offering to our operating partnership in exchange for additional units of limited partnership interest in our operating partnership, which have substantially identical economic terms as our common stock. Our operating partnership intends to use the net proceeds from this offering to fund acquisitions, which may include funding a portion of the cash purchase price relating to the Reckson transaction, and structured finance investments, to repay all or a portion of the amount outstanding under any of our borrowings, and for other general corporate and/or working capital purposes. See the section entitled "Recent Developments" for more detail relating to the terms of the Reckson transaction.

## UNDERWRITING

### General

Under the terms of an underwriting agreement, which will be filed as an exhibit to a current report on Form 8-K and incorporated by reference in this prospectus supplement and the accompanying prospectus, Lehman Brothers Inc., as underwriter in this offering, has agreed to purchase from us shares of our common stock.

The underwriting agreement provides that the underwriter's obligation to purchase shares of common stock depends on the satisfaction of the conditions contained in the underwriting agreement, including:

- the obligation to purchase all shares of common stock offered hereby if any of the shares are purchased;
- the representations and warranties made by us to the underwriter are true;
- there is no material change in the financial markets; and
- we deliver customary closing documents to the underwriter.

### Commissions and Expenses

The following table summarizes the underwriting discounts and commissions we will pay to the underwriter. These amounts are shown assuming both no exercise and full exercise of the underwriter's option to purchase additional shares. The underwriting fee is the difference between the initial price to the public and the amount the underwriter pays us for the shares.

| | No Exercise | Full Exercise |
|---|---|---|
| Per Share | $ | $ |
| Total | $ | $ |

The underwriter has advised us that it proposes to offer the shares of common stock directly to the public at the public offering price set forth on the cover page of this prospectus supplement, and to selected dealers, which may include the underwriter, at such public offering price less a selling concession not in excess of $ per share. After the offering, the underwriter may change the offering price and other selling terms.

The expenses of the offering that are payable by us are estimated to be $ (excluding underwriting discounts and commissions).

### Option to Purchase Additional Shares

We have granted the underwriter an option exercisable for 30 days after the date of the underwriting agreement to purchase, from time to time, in whole or in part, up to an aggregate of additional shares of common stock, at the public offering price less the underwriting discounts and commissions. This option may be exercised if the underwriter sells more than shares of common stock in connection with this offering.

### Lock-Up Agreement

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities that are substantially similar to our common stock, including any securities convertible into or exchangeable or exercisable for, or that represent the right to receive, any shares of our common stock, without the prior written consent of the underwriter for a period of 30 days after the closing date of this offering, except issuances pursuant to the merger

with Reckson, (including any amended offer), employee benefit plans, qualified stock option plans, dividend reinvestment plans or other employee compensation plans existing on the date hereof, sales or offers in private placement transactions or direct placements to sellers relating to the acquisition of real property or interests therein or in conjunction with joint venture transactions, or the issuance of shares of our common stock upon the redemption of units of limited partnership interest in the Operating Partnership, but only with respect to such units of limited partnership that are outstanding as of the date of this prospectus supplement.

**Listing**

Our common stock is listed on the New York Stock Exchange under the symbol "SLG."

**Indemnification**

We have agreed to indemnify the underwriter against liabilities relating to the offering, including liabilities under the Securities Act of 1933, as amended, and to contribute to payments that the underwriter may be required to make for these liabilities.

**Stabilization and Short Positions**

The underwriter may exercise its option to purchase additional shares or engage in stabilizing transactions and covering transactions, or purchases for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Securities Exchange Act of 1934, as amended:

- Exercising an option to purchase additional shares involves sales by the underwriter of shares of common stock in excess of the number of shares the underwriter is obligated to purchase, which creates a short position. The underwriter may close out any short position by either exercising its option to purchase additional shares and/or purchasing shares of common stock in the open market.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover short positions.

These stabilizing transactions and covering transactions may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Neither we nor the underwriter make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor the underwriter make any representation that the underwriter will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

**Electronic Distribution**

A prospectus supplement accompanied by a prospectus in electronic format may be made available on the Internet sites or through other online services maintained by the underwriter or by its affiliates. In those cases, prospective investors may view offering terms online and may be allowed to place orders online. The underwriter may agree with us to allocate a specific number of shares for sale to online

brokerage account holders. Any such allocation for online distributions will be made by the underwriter on the same basis as other allocations.

Other than the prospectus supplement and accompanying prospectus in electronic format, the information on the underwriter's website and any information contained in any other website maintained by the underwriter is not part of the prospectus supplement, the accompanying prospectus or the registration statement of which the prospectus forms a part, has not been approved and/or endorsed by us or the underwriter and should not be relied upon by investors.

**Stamp Taxes**

If you purchase shares of common stock offered by this prospectus supplement, you may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering per share price listed on the cover page of this prospectus supplement. Accordingly, we urge you to consult a tax advisor with respect to whether you may be required to pay those taxes or charges, as well as any other tax consequences that may arise under the laws of the country of purchase.

**Relationships**

From time to time Lehman Brothers and its affiliates have, directly or indirectly, provided investment and commercial banking or financial advisory services to our company, its affiliates and other companies in our industry, for which they have received customary fees and commissions, and expect to provide these services to us and others in the future, for which they expect to receive customary fees and commissions. An affiliate of the underwriter is a lender under our unsecured revolving credit facility; however, no amounts are currently outstanding under such revolving credit facility. Therefore, none of the proceeds of this offering will be repayable to such affiliate.

## LEGAL MATTERS

The validity of the issuance of the common stock offered hereby will be passed upon for us by Clifford Chance US LLP, New York, New York, and for the underwriter by Hogan & Hartson LLP, and the legal matters described under "Material Federal Income Tax Consequences" in the accompanying prospectus will be passed upon by Greenberg Traurig, LLP, New York, New York.

## EXPERTS

The consolidated financial statements of SL Green Realty Corp., appearing in SL Green Realty Corp.'s Current Report (Form 8-K dated September 18, 2006), for the year ended December 31, 2005 (including the schedule appearing therein), and SL Green Realty Corp. management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 included in SL Green Realty Corp.'s Annual Report (Form 10-K), and the consolidated financial statements of Rock-Green Inc. appearing in SL Green Realty Corp.'s Annual Report (Form 10-K) for the year ended December 31, 2005, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements and management's assessment are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Reckson Associates Realty Corp. for the year ended December 31, 2005 (including the schedule appearing therein) and Reckson Associates Realty Corp. management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 included therein, appearing in SL Green Realty Corp.'s Current Report (Form 8-K dated November 28, 2006), have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements and management's assessment are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

## WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, we file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information we file with the SEC at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The SEC maintains an Internet website (http://www.sec.gov) that contains reports, proxy statements and information statements, and other information regarding issuers that file electronically with the SEC. Our SEC filings are also available on our Internet website (http://www.slgreen.com). The information contained on or connected to our website is not, and you must not consider the information to be, a part of this prospectus supplement or the accompanying prospectus. Our securities are listed on the NYSE and all such material filed by us with the NYSE also can be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

We have filed with the SEC a registration statement on Form S-3, of which this prospectus supplement is a part, under the Securities Act with respect to the securities. This prospectus supplement does not contain all of the information set forth in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the SEC. For further information concerning our company and the securities, reference is made to the registration statement. Statements contained in this prospectus as to the contents of any contract or other documents are not necessarily complete, and in each instance, reference is made to the copy of such contract or documents filed as

exhibits to the registration statement, each such statement being qualified in all respects by such reference.

The SEC allows us to "incorporate by reference" information into this prospectus supplement, which means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus supplement, except for any information superseded by information in this prospectus supplement. This prospectus supplement incorporates by reference the documents set forth below that we have previously filed with the SEC. These documents contain important information about us, our business and our finances.

| Document | Period |
| --- | --- |
| Annual Report on Form 10-K (File No. 1-13199) | Year ended December 31, 2005 |
| Quarterly Reports on Form 10-Q (File No. 1-13199) | Quarter ended March 31, 2006<br>Quarter ended June 30, 2006<br>Quarter ended September 30, 2006 |
| | **Filed** |
| Current Reports on Form 8-K and 8-K/A (File No. 1-13199) | January 24, 2006 (with respect to Item 8.01 only)<br>March 21, 2006<br>March 24, 2006<br>April 25, 2006 (with respect to Items 1.01 and 8.01 only)<br>June 16, 2006 (filed pursuant to Item 8.01)<br>July 7, 2006<br>July 18, 2006<br>August 9, 2006<br>August 18, 2006<br>September 14, 2006<br>September 18, 2006<br>September 22, 2006<br>October 19, 2006<br>October 24, 2006 (with respect to Item 8.01 only)<br>October 27, 2006<br>November 28, 2006 |
| | **Filed** |
| Definitive Proxy Statement on Schedule 14A (File No. 1-13199) | April 17, 2006 |
| | **Filed** |
| Description of our common stock contained in our Registration Statement on Form 8-A (File No. 1-13199) | July 21, 1997 |
| Description of the rights to purchase shares of our Series B junior participating preferred stock contained in our Registration Statement on Form 8-A (File No. 1-13199) | March 16, 2000 |

| | Filed |
|---|---|
| Description of our Series C cumulative redeemable preferred stock contained in our Registration Statement on Form 8-A (File No. 1-13199) | December 10, 2003 |
| Description of our Series D cumulative redeemable preferred stock contained in our Registration Statement on Form 8-A (File No. 1-13199) | May 20, 2004 |
| Description of our Series D cumulative redeemable preferred stock contained in our Registration Statement on Form 8-A/A (File No. 1-13199) | July 14, 2004 |

All documents which we file pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this prospectus supplement but before the termination of the offering of securities made under this prospectus supplement will also be deemed to be incorporated by reference.

If you request, either orally or in writing, we will provide you with a copy of any or all documents which are incorporated by reference. Such documents will be provided to you free of charge, but will not contain any exhibits, unless those exhibits are specifically incorporated by reference into those documents. Requests should be addressed to Andrew S. Levine, Esq., SL Green Realty Corp., 420 Lexington Avenue, New York, NY 10170, telephone number (212) 594-2700.

**PROSPECTUS**

**Common Stock, Preferred Stock, Depositary Shares Representing Preferred Stock and Warrants**

We may from time to time offer, in one or more series or classes, separately or together, and in amounts, at prices and on terms to be set forth in one or more supplements to this prospectus, the following securities:

- shares of common stock, par value $.01 per share;
- shares of preferred stock, par value $.01 per share;
- depositary shares representing entitlement to all rights and preferences of fractions of shares of preferred stock of a specified series and represented by depositary receipts; or
- warrants to purchase shares of common stock, preferred stock or depositary shares.

We refer to the common stock, preferred stock, depositary shares and warrants collectively as the "securities" in this prospectus.

This prospectus describes some of the general terms that may apply to these securities and the general manner in which they may be offered. The specific terms of any securities to be offered, and the specific manner in which they may be offered, will be set forth in the applicable prospectus supplement. The prospectus supplement will also contain information, where applicable, about certain federal income tax considerations relating to, and any listing on a securities exchange of, the securities covered by such prospectus supplement. It is important that you read both this prospectus and the applicable prospectus supplement before you invest in the securities.

We may offer and sell these securities to or through one or more underwriters, dealers and agents, or directly to purchasers, on a continuous or delayed basis. The prospectus supplement will describe the terms of the plan of distribution and set forth the names of any agents, dealers or underwriters involved in the sale of the securities. See "Plan of Distribution" beginning on page 50 for more information on this topic. No securities may be sold without delivery of a prospectus supplement describing the method and terms of the offering of those securities.

Our common stock is listed on the New York Stock Exchange, or the NYSE, under the symbol "SLG." On November 27, 2006, the closing sale price of our common stock on the NYSE was $134.90 per share. Our 7.625% Series C cumulative redeemable preferred stock, liquidation preference $25.00 per share, is listed on the NYSE under the symbol "SLGPrC." On November 27, 2006, the closing sale price of our 7.625% Series C cumulative redeemable preferred stock on the NYSE was $25.84 per share. Our 7.875% Series D cumulative redeemable preferred stock, liquidation preference $25.00 per share, is listed on the NYSE under the symbol "SLGPrD." On November 27, 2006, the closing sale price of our 7.875% Series D cumulative redeemable preferred stock on the NYSE was $26.10 per share.

**See "Risk Factors" beginning on page 2 of this prospectus for a description of risk factors that should be considered by purchasers of the securities.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is November 28, 2006.

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**You should rely only on the information contained or incorporated by reference in this prospectus and any accompanying prospectus supplement. We have not authorized anyone to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information appearing in this prospectus, any accompanying prospectus supplement and the documents incorporated by reference herein or therein is accurate only as of their respective dates or on other dates which are specified in those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.**

**ABOUT THIS PROSPECTUS**

This prospectus is part of an automatic shelf registration statement that we filed with the Securities and Exchange Commission, or the SEC, in accordance with General Instruction I.D. of Form S-3, using a "shelf" registration process for the delayed offering and sale of securities pursuant to Rule 415 under the Securities Act of 1933, as amended, or the Securities Act. Under the shelf process, we may, from time to time, sell the offered securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement containing specific information about the terms of the securities being offered and the specific manner in which they will be offered. The prospectus supplement may also add, update or change information contained in this prospectus.

This prospectus and any accompanying prospectus supplement do not contain all of the information included in the registration statement. We have omitted parts of the registration statement in accordance with the rules and regulations of the SEC. For further information, we refer you to the registration statement on Form S-3 of which this prospectus is a part, including its exhibits. Statements contained in this prospectus and any accompanying prospectus supplement about the provisions or contents of any agreement or other document are not necessarily complete. If the SEC's rules and regulations require that an agreement or document be filed as an exhibit to the registration statement, please see that agreement or document for a complete description of these matters.

You should read this prospectus together with any additional information you may need to make your investment decision. You should also read and carefully consider the information in the documents we have referred you to in "Where You Can Find More Information" below. Information incorporated by reference after the date of this prospectus may add, update or change information contained in this prospectus. Any information in such subsequent filings that is inconsistent with this prospectus will supersede the information in this prospectus or any earlier prospectus supplement.

As used in this prospectus, unless the context otherwise requires, the terms "we," "us," "our" and "our company" refer to SL Green Realty Corp. all entities owned or controlled by SL Green Realty Corp., including SL Green Operating Partnership, L.P., our operating partnership. In addition, the term "properties" means those which we directly own by holding fee title, leasehold or otherwise or indirectly own, in whole or in part, by holding interests in entities that own such properties.

**INFORMATION ABOUT SL GREEN**

We are a self-managed real estate investment trust, or a REIT, with in-house capabilities in property management, acquisitions, financing, development, construction and leasing. We are the only such REIT to own, manage, lease, acquire and reposition office properties predominantly located in Manhattan. We own substantially all of our assets and conduct all of our business through our operating partnership, SL Green Operating Partnership, L.P. We are the sole managing general partner of our operating partnership and as of September 30, 2006, we owned approximately 95.4% of the outstanding partnership interests in our operating partnership. All of the management and leasing operations with respect to our wholly-owned properties are conducted through SL Green Management LLC, or Management LLC. Our operating partnership owns a 100% interest in Management LLC.

Our primary business objective is to maximize total return to stockholders through growth in funds from operations and appreciation in the value of our assets during any business cycle. We seek to achieve this objective by assembling a high quality portfolio of Manhattan office properties and capitalizing on current opportunities in the Manhattan office market through: (i) property acquisitions (directly or through joint ventures)  acquiring office properties at significant discounts to replacement costs with market rents at a premium to fully escalated in-place rents which provide attractive initial yields and the potential for cash flow growth, as well as properties with significant vacancies; (ii) property repositioning  repositioning acquired retail and commercial office properties that are under-performing through renovations, active management and proactive leasing; (iii) property dispositions; (iv) integrated leasing and property management; and (v) structured finance investments inclusive of our investment in Gramercy Capital Corp., or Gramercy (NYSE: GKK), in the greater New York area. Generally, we focus on properties that are within a ten-minute walk of midtown Manhattan's primary commuter stations.

Our management team has developed a comprehensive knowledge of the Manhattan commercial real estate market, an extensive network of tenant and other business relationships and experience in acquiring underperforming office and retail properties and repositioning them through intensive full-service management and leasing efforts.

As of September 30, 2006, our wholly-owned properties consisted of 20 commercial properties encompassing approximately 9.6 million rentable square feet, which had a weighted average occupancy (total leased square feet divided by total available square feet) of 97.0%. Our portfolio also includes ownership interests in unconsolidated joint ventures, which own seven commercial properties in Manhattan, encompassing approximately 8.8 million rentable square feet, and which had a weighted average occupancy of 95.2% as of September 30, 2006. We also own interests in eight retail and development properties, which encompass approximately 516,000 rentable square feet. In addition, we manage three office properties owned by third parties and affiliated companies encompassing approximately 1.0 million rentable square feet. We also own approximately 25% of the outstanding common stock of Gramercy.

We were incorporated in the State of Maryland on June 10, 1997. Our principal executive offices are located at 420 Lexington Avenue, New York, New York 10170 and our telephone number is (212) 594-2700. We maintain a website at *www.slgreen.com.* The information contained on or connected to our website is not incorporated by reference into this prospectus, and you must not consider the information to be a part of this prospectus.

## RISK FACTORS

*This section describes some, but not all, of the risks of purchasing our securities. You should carefully consider the risks described below, in addition to the other information contained in this document, in an applicable prospectus supplement, or incorporated by reference herein or therein, before purchasing any of our securities. These risks are not the only ones faced by us. Additional risks not presently known or that are currently deemed immaterial could also materially and adversely affect our financial condition, results of operations, business and prospects. In connection with the forward-looking statements that appear in this prospectus, you should carefully review the factors discussed below and the cautionary statements referred to in "Forward-Looking Statements May Prove Inaccurate" beginning on page 17 of this prospectus. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and in the documents incorporated herein by reference.*

**Declines in the demand for office space in New York City, and in particular, in midtown Manhattan, resulting from general economic conditions could adversely affect the value of our real estate portfolio and our results of operations and, consequently, our ability to service current debt and to pay dividends to stockholders.**

Most of our office properties are located in midtown Manhattan. As a result, our business is dependent on the condition of the New York City economy in general and the market for office space in midtown Manhattan, in particular. Weakness in the New York City economy could materially reduce the value of our real estate portfolio and our revenues, and thus adversely affect our ability to service current debt and to pay dividends to stockholders.

**We may be unable to renew leases or relet space as leases expire.**

When our tenants decide not to renew their leases upon their expiration, we may not be able to relet the space. Even if tenants do renew or we can relet the space, the terms of renewal or reletting, including the cost of required renovations, may be less favorable than current lease terms. Over the next five years, through the end of 2010, leases will expire on approximately 35.2% and 32.9% of the rentable square feet at our wholly-owned and joint venture properties, respectively. As of September 30, 2006, approximately 3.4 million and 2.7 million square feet are scheduled to expire by December 31, 2010 at our wholly-owned and joint venture properties, respectively, and these leases currently have annualized escalated rental income totaling approximately $141.8 million and $134.2 million, respectively. If we are unable to promptly renew the leases or relet this space at similar rates, our cash flow and ability to service debt and pay dividends to stockholders would be adversely affected.

**The expiration of long term leases or operating sublease interests could adversely affect our results of operations.**

Our interest in six of our commercial office properties is through either long-term leasehold or operating sublease interests in the land and the improvements, rather than by a fee interest in the land. Unless we can purchase a fee interest in the underlying land or extend the terms of these leases before their expiration, we will lose our right to operate these properties and our interest in the improvements upon expiration of the leases, which would significantly adversely affect our results of operations. These properties are 673 First Avenue, 420 Lexington Avenue, 461 Fifth Avenue, 711 Third Avenue, 625 Madison Avenue and 521 Fifth Avenue. The average remaining term of these long-term leases, including our unilateral extension rights on each of the properties, is approximately 38 years. Pursuant to the operating sublease arrangements, we, as tenant under the operating sublease, perform the functions traditionally performed by landlords with respect to our subtenants. We are responsible for not only collecting rent from our subtenants, but also maintaining the property and paying expenses

relating to the property. The annualized escalated rents of these properties at September 30, 2006 totaled approximately $159.3 million, or 40.5%, of our total annualized revenue associated with wholly-owned properties.

**Reliance on major tenants and insolvency or bankruptcy of these and other tenants could adversely affect our results of operations.**

Giving effect to leases in effect as of September 30, 2006 for wholly-owned and joint venture properties as of that date, our five largest tenants, based on square footage leased, accounted for approximately 22.4% of our share of portfolio annualized rent, and, other than three tenants, Viacom International Inc., Credit Suisse Securities (USA) LLC and Omnicom Group, who accounted for approximately 8.3%, 4.1% and 3.5% of our share of portfolio annualized rent, respectively, no tenant accounted for more than 3.3% of that total. Our business would be adversely affected if any of these tenants or any other tenants became insolvent, declared bankruptcy or otherwise refused to pay rent in a timely fashion or at all.

**We may suffer adverse consequences if our revenues decline since our operating costs do not necessarily decline in proportion to our revenue.**

We earn a significant portion of our income from renting our properties. Our operating costs, however, do not necessarily fluctuate in relation to changes in our rental revenue. This means that our costs will not necessarily decline even if our revenues do. Our operating costs could also increase while our revenues do not. If our operating costs increase but our rental revenues do not, we may be forced to borrow to cover our costs, we may incur losses and we may not have cash available for distributions to our stockholders.

**We face risks associated with property acquisitions.**

Since our initial public offering, we have made acquisitions of individual properties and portfolios of properties. We intend to continue to acquire individual properties and portfolios of properties, including large portfolios that could significantly increase our size and alter our capital structure. Our acquisition activities and their success may be exposed to the following risks:

- we may be unable to acquire a desired property because of competition from other well capitalized real estate investors, including publicly traded REITs, institutional investment funds and private investors;
- even if we enter into an acquisition agreement for a property, it is usually subject to customary conditions to closing;
- even if we are able to acquire a desired property, competition from other real estate investors may significantly increase the purchase price;
- we may be unable to finance acquisitions on favorable terms or at all;
- acquired properties may fail to perform as we expected;

TYLE="font: 18pt Times New Roman, Times, Serif">**Comparison of Five-Year Cumulative Total Return***

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

(Performance Results Through 12/31/14)

Assumes $100 invested at the close of trading 12/09 in Sturm, Ruger & Company, Inc. common stock,

Standard & Poor’s 500, Value Line Recreation Index and Smith & Wesson Holding

* Cumulative total return assumes reinvestment of dividends.

Source: Value Line Publishing LLC

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

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

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**Securities Authorized for Issuance Under Equity Compensation Plans**

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

**Equity Compensation Plan Information**

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

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

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**ITEM 6—SELECTED FINANCIAL DATA**

(Dollars in thousands, except per share data)

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

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

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## ITEM 7— MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Company Overview

Sturm, Ruger & Company, Inc. (the "Company") is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Virtually all of the Company's sales for 2014 were firearms sales, with less than 1% from the castings segment. Export sales represent approximately 4% of total sales. The Company's design and manufacturing operations are located in the United States and almost all product content is domestic. The Company's firearms are sold through a select number of independent wholesale distributors, principally to the commercial sporting market.

The Company also manufactures investment castings made from steel alloys for internal use in its firearms and for sale to unaffiliated, third-party customers. In November 2014, the Company established a metal injection molding ("MIM") subsidiary, whose production is intended to supply the firearms segment, with only minimal outside sales.

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

**Results of Operations - 2014**

Product Demand

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

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

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

§ the reduction in overall consumer demand,
§

high inventory levels at retail, which encouraged retailers to buy fewer firearms than they were selling, in an effort to reduce their inventories and generate cash,

§ aggressive price discounting by many of our competitors, and

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

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

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

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

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

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

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

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

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

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

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Orders Received and Ending Backlog

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

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

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

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

Production

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

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

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

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

Annual Summary Unit Data

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

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

Inventories

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

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

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

Inventory data follows:

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

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

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

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

Net Sales

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

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

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

Cost of Products Sold and Gross Profit

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

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

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

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

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

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

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

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

Product Liability- This expense includes the cost of outside legal fees, insurance, and other expenses incurred in the management and defense of product liability matters. These costs totaled $0.8 million and $1.3 million in 2014 and 2013, respectively. See Note 16 in the notes to the financial statements "Contingent Liabilities" for further discussion of the Company's product liability.

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

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

Selling, General and Administrative

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

profit-sharing expenses in 2014 compared to 2013.

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Defined Benefit Pension Plans Settlement Charge

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

Other Operating Expenses (Income), net

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

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

Operating Income

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

Royalty Income

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

Interest Income

Interest income was negligible in 2014 and 2013.

Interest Expense

Interest expense was negligible in 2014 and 2013.

Other Income (Expense), Net

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

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Income Taxes and Net Income

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

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

**Non-GAAP Financial Measure**

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

Non-GAAP Reconciliation – EBITDA

EBITDA

*(Unaudited, dollars in thousands)*

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

EBITDA is defined as earnings before interest, taxes, and depreciation and amortization. The Company calculates this by adding the amount of interest expense, income tax expense and depreciation and amortization expenses that have been deducted from net income back into net income, and subtracting the amount of interest income that was included in net income from net income to arrive at EBITDA. The Company's EBITDA calculation also excludes any one-time non-cash, non-operating expense, such as the pension plan termination expense.

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Quarterly Data

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

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

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

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

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

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

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

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

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Fourth Quarter Gross Profit Analysis

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

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

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

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**Results of Operations - 2013**

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

Annual Summary Unit Data

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

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

Orders Received and Ending Backlog

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Orders Received | $636.0 | $796.7 | $385.9 |

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

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

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

Product Demand

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

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

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

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

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

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

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

- Rely on data provided by independent distributors that are not verified by the Company,

- Do not consider potential timing issues within the distribution channel, including goods-in-transit, and
- Do not consider fluctuations in inventory at retail.

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

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

Production

Total unit production in 2013 increased 33% from 2012. This increase in unit production resulted from investment in incremental capacity for new product introductions and from the utilization of lean methodologies for continuous improvement in our operations. Our increase in production was facilitated by $54.6 million of capital expenditures during 2013. These capital expenditures exceeded depreciation by approximately $34.3 million during 2013, which represented an approximate 14% increase to our capital equipment base.

In 2013, the Company revised its estimate of the useful life of machinery and equipment from 10 to 7 years. This change, which became effective December 31, 2013, resulted in increased depreciation expense of $0.7 million for the year then ended. The Company estimates that this change will increase depreciation expense for the machinery and equipment on hand at December 31, 2013 by approximately $7 million and $3 million in 2014 and 2015, respectively.

Inventories

The Company's finished goods inventory increased 12,100 units during 2013 and remains below optimal levels to support rapid fulfillment of distributor demand. The Company has a goal of replenishing its finished goods inventory in future periods to levels that will better serve its customers. This replenishment could increase the FIFO value of finished goods inventory by as much as $30 million from the current level upon the attainment of the desired levels of finished goods inventory.

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

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Quarterly Summary Unit Data

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

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

| | 2012<br>Q4 | Q3 | Q2 | Q1 |
|---|---|---|---|---|
| Units Ordered | 1,069,200 | 318,300 | 291,500 | 1,200,100 |
| Units Produced | 461,500 | 436,500 | 418,800 | 379,100 |
| Units Shipped | 467,300 | 425,500 | 421,100 | 382,500 |
| Estimated Units Sold from Distributors to Retailers | 504,700 | 396,900 | 410,300 | 460,800 |

| | | | | |
|---|---|---|---|---|
| Total Adjusted NICS Background Checks | 4,882,000 | 2,904,000 | 2,619,000 | 3,376,000 |
| Average Sales Price | $295 | $273 | $280 | $290 |
| Units on Backorder | 1,507,200 | 908,700 | 1,016,700 | 1,153,500 |
| Units – Company Inventory | 15,600 | 21,400 | 10,400 | 12,800 |
| Units – Distributor Inventory (3) | 59,200 | 96,600 | 68,000 | 57,200 |

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

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

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

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

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

Net Sales

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

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

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

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Cost of Products Sold and Gross Profit

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

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

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

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

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

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

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

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

Product Liability- This expense includes the cost of outside legal fees, insurance, and other expenses incurred in the management and defense of product liability matters. These costs totaled $1.3 million and $0.2 million in 2013 and 2012, respectively. See Note 16 in the notes to the financial statements "Contingent Liabilities" for further discussion of the Company's product liability.

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

Selling, General and Administrative

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

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

Other Operating Expenses (Income), net

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

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

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Operating Income

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

Royalty Income

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

Interest Income

Interest income was negligible in 2013 and 2012.

Interest Expense

Interest expense was negligible in 2013 and 2012.

Other Income, Net

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

Income Taxes and Net Income

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

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

**Non-GAAP Financial Measure**

In an effort to provide investors with additional information regarding its results, the Company refers to various GAAP financial measures and one non-GAAP financial measure, EBITDA, which management believes provides useful information to investors. This non-GAAP measure may not be comparable to similarly titled measures being disclosed by other companies. In addition, the Company believes that the non-GAAP financial measure should be considered in addition to, and not in lieu of, GAAP financial measures. The Company believes that EBITDA is useful to understanding its operating results and the ongoing performance of its underlying business, as EBITDA provides information on the Company’s ability to meet its capital expenditure and working capital requirements, and is also an indicator of profitability. The Company believes that this reporting provides better transparency and comparability to the Company operating results. The Company uses both GAAP and non-GAAP financial measures to evaluate the Company’s financial performance.

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Non-GAAP Reconciliation – EBITDA

EBITDA

*(Unaudited, dollars in thousands)*

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

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

**Financial Condition**

Liquidity

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

Operations

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

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

Third parties supply the Company with various raw materials for its firearms and castings, such as fabricated steel components, walnut, birch, beech, maple and laminated lumber for rifle

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

Investing and Financing

Capital expenditures were $45.6 million, $54.6 million, and $27.3 million in 2014, 2013, and 2012, respectively. In 2015, the Company expects to spend $30 million on capital expenditures to purchase tooling and fixtures for new product introductions and to upgrade and modernize manufacturing equipment. The Company finances, and intends to continue to finance, all of these activities with funds provided by operations and current cash.

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

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

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

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

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

In 2007, the Company migrated its retirement benefits from defined-benefit pension plans to defined-contribution retirement plans, utilizing its current 401(k) plan.

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

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

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

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

Based on its unencumbered assets, the Company believes it has the ability to raise cash through issuance of short-term or long-term debt. The Company's unsecured $40 million credit facility, which expires on June 15, 2015, remained unused at December 31, 2014 and the Company has no debt.

Contractual Obligations

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

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

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Payment due by period (in thousands)

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

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

Firearms Legislation and Litigation

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

Other Operational Matters

In the normal course of its manufacturing operations, the Company is subject to occasional governmental proceedings and orders pertaining to workplace safety, firearms serial number tracking and control, waste disposal, air emissions and water discharges into the environment. The Company believes that it is generally in compliance with applicable Bureau of Alcohol, Tobacco, Firearms & Explosives, environmental, and safety regulations and the outcome of any proceedings or orders will not have a material adverse effect on the financial position or results of operations of the Company.

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

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

Critical Accounting Policies and Estimates

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

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

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

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

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

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

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

**Forward-Looking Statements and Projections**

The Company may, from time to time, make forward-looking statements and projections concerning future expectations. Such statements are based on current expectations and are subject to certain qualifying risks and uncertainties, such as market demand, sales levels of firearms, anticipated castings sales and earnings, the need for external financing for operations or capital expenditures, the results of pending litigation against the Company, the impact of future firearms control and environmental legislation and accounting estimates, any one or more of

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which could cause actual results to differ materially from those projected. Words such as “expect,” “believe,” “anticipate,” “intend,” “estimate,” “will,” “should,” “could” and other words and terms of similar meaning, typically identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publish revised forward-looking statements to reflect events or circumstances after the date such forward-looking statements are made or to reflect the occurrence of subsequent unanticipated events.

**ITEM 7A-QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

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

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## ITEM 8—FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## INDEX TO CONDOLIDATED FINANCIAL STATEMENTS

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders

Sturm, Ruger & Company, Inc. and Subsidiary

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

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

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

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

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

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

/s/McGladrey LLP

Stamford, Connecticut

February 25, 2015

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Sturm, Ruger & Company, Inc. and Subsidiary

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

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

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

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

/s/McGladrey LLP

Stamford, Connecticut

February 25, 2015

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Consolidated Balance Sheets

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

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

*See accompanying notes to consolidated financial statements.*

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| December 31, | 2014 | 2013 |
| --- | --- | --- |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Trade accounts payable and accrued expenses | $36,150 | $46,991 |
| Product liability | 641 | 971 |
| Employee compensation and benefits | 18,302 | 34,626 |
| Workers' compensation | 5,133 | 5,339 |
| Income taxes payable | 156 | 239 |
| Total Current Liabilities | 60,382 | 88,166 |
| Product liability | 204 | 265 |
| Deferred income taxes | 8,334 | 9,601 |
| Contingent liabilities (Note 16) | — | — |
| Stockholders' Equity | | |
| Common stock, non-voting, par value $1: | | |
| Authorized shares – 50,000; none issued | | |
| Common stock, par value $1: | | |
| Authorized shares – 40,000,000 | | |
| 2014 – 23,717,321 issued, 18,737,074 outstanding | 23,717 | 23,647 |
| 2013 – 23,647,350 issued, 19,347,916 outstanding | | |
| Additional paid-in capital | 25,472 | 20,614 |
| Retained earnings | 198,159 | 192,088 |
| Less: Treasury stock – at cost | | |
| 2014 – 5,054,747 shares | (61,886 ) | (37,884 ) |
| 2013 – 4,299,434 shares | | |
| Accumulated other comprehensive loss | — | (19,379 ) |
| Total Stockholders' Equity | 185,462 | 179,086 |
| Total Liabilities and Stockholders' Equity | $254,382 | $277,118 |

*See accompanying notes to consolidated financial statements.*

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Consolidated Statements of Income and Comprehensive Income

*(In thousands, except per share data)*

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

*See accompanying notes to consolidated financial statements.*

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Condolidated Statements of Stockholders' Equity

*(Dollars in thousands)*

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

| | | | | | | |
|---|---|---|---|---|---|---|
| RSU's | | | | | | |
| Common stock issued – compensation plans | 70 | (70) | | | | |
| Unpaid dividends accrued | | | (1,111) | | | (1,111) |
| Repurchase of 680,813 shares of common stock | | | | (24,002) | | (24,002) |
| Balance at December 31, 2014 | $23,717 | $25,472 | $198,159 | $(61,886) | $ — | $185,462 |

*See accompanying notes to financial statements.*

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Consolidated Statements of Cash Flows

*(In thousands)*

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

*See accompanying notes to consolidated financial statements.*

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**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share)*

## 1. Summary of Significant Accounting Policies

### Organization

Sturm, Ruger & Company, Inc. (the "Company") is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Virtually all of the Company's total sales for the year ended December 31, 2014 were from the firearms segment and export sales represented approximately 4% of firearms sales. The Company's design and manufacturing operations are located in the United States and almost all product content is domestic. The Company's firearms are sold through a select number of independent wholesale distributors principally to the commercial sporting market.

The Company manufactures investment castings made from steel alloys and metal injection molding ("MIM") parts for internal use in its firearms and utilizes available capacity to manufacture and sell investment castings and MIM parts to unaffiliated, third-party customers. Castings were less than 1% of the Company's total sales for the year ended December 31, 2014.

### Preparation of Financial Statements

The Company follows United States generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The significant accounting policies described below, together with the notes that follow, are an integral part of the Financial Statements.

### 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

Substantially all product sales are sold FOB (free on board) shipping point. Revenue is recognized when product is shipped and the customer takes ownership and assumes the risk of loss. Accruals are made for sales discounts and incentives based on the Company’s experience. The Company accounts for cash sales discounts as a reduction in sales and sales incentives as a charge to selling expense. Amounts billed to customers for shipping and handling fees are included in net sales and costs incurred by the Company for the delivery of goods are classified as selling expenses. Federal excise taxes are excluded from net sales.

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Cash and Cash Equivalents

The Company considers interest-bearing deposits with financial institutions with remaining maturities of three months or less at the time of acquisition to be cash equivalents.\

Accounts Receivable

The Company establishes an allowance for doubtful accounts based on the credit worthiness of its customers and historical experience. While the Company uses the best information available to make its evaluation, future adjustments to the allowance for doubtful accounts may be necessary if there are significant changes in economic and industry conditions or any other factors considered in the Company's evaluation. Bad debt expense has been immaterial during each of the last three years.

Inventories

Substantially all of the Company's inventories are valued at the lower of cost, principally determined by the last-in, first-out (LIFO) method, or market. Elements of cost in inventories include raw materials, direct labor and manufacturing overhead.

Property, Plant, and Equipment

Property, plant, and equipment are carried at cost. Depreciation is computed over useful lives using the straight-line and declining balance methods predominately over 15 years for buildings, 7 years for machinery and equipment and 3 years for tools and dies. When assets are retired, sold or otherwise disposed of, their gross carrying values and related accumulated depreciation are removed from the accounts and a gain or loss on such disposals is recognized when appropriate.

Maintenance and repairs are charged to operations; replacements and improvements are capitalized.

Long-lived Assets

The Company evaluates the carrying value of long-lived assets to be held and used when events or changes in circumstances indicate the carrying value may not be recoverable. In performing this review, the carrying value of the assets is compared to the projected undiscounted cash flows to be generated from the assets. If the sum of the undiscounted expected future cash flows is less than the carrying value of the assets, the assets are considered to be impaired. Impairment losses are measured as the amount by which the carrying value of the assets exceeds their fair value. The Company bases fair value of the assets on quoted market prices if available or, if not available, quoted market prices of similar assets. Where quoted market prices are not available, the Company estimates fair value using the estimated future cash flows generated by the assets discounted at a rate commensurate with the risks associated with the recovery of the assets.

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Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences of “temporary differences” by applying enacted statutory rates applicable to future years to temporary differences between the financial statement carrying amounts and the tax basis of the Company’s assets and liabilities.

Product Liability

The Company provides for product liability claims including estimated legal costs to be incurred defending such claims. The provision for product liability claims is charged to cost of products sold.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expenses for 2014, 2013, and 2012, were $3.6 million, $3.2 million, and $3.4 million, respectively.

Shipping Costs

Costs incurred related to the shipment of products are included in selling expense. Such costs totaled $7.1 million, $6.8 million, and $5.6 million in 2014, 2013, and 2012, respectively.

Research and Development

In 2014, 2013, and 2012, the Company spent approximately $10.0 million, $6.2 million, and $5.9 million, respectively, on research and development activities relating to new products and the improvement of existing products. These costs are expensed as incurred.

Earnings per Share

Basic earnings per share is based upon the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per share reflect the impact of options, restricted stock units, and deferred stock outstanding using the treasury stock method.

**2. Trade Receivables, Net**

Trade receivables consist of the following:

| December 31, | 2014 | 2013 |
|---|---|---|
| Trade receivables | $51,138 | $69,028 |
| Allowance for doubtful accounts | (400 ) | (300 ) |
| Allowance for discounts | (1,003 ) | (1,344 ) |
| | $49,735 | $67,384 |

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In 2014, the largest individual trade receivable balances accounted for 28%, 15%, 11%, and 10% of total trade receivables, respectively.

In 2013, the largest individual trade receivable balances accounted for 17%, 17%, and 15% of total trade receivables, respectively.

**3. Inventories**

Inventories consist of the following:

| December 31, | 2014 | 2013 |
|---|---|---|
| Finished goods | $20,083 | $6,552 |
| Materials and products in process | 65,184 | 55,225 |
| | 85,267 | 61,777 |
| Adjustment of inventories to a LIFO basis | (40,578) | (38,516) |
| | $44,689 | $23,261 |

**4. Property, Plant and Equipment**

Property, plant and equipment consist of the following:

| December 31, | 2014 | 2013 |
|---|---|---|
| Land and improvements | $1,926 | $1,819 |
| Buildings and improvements | 42,432 | 39,034 |
| Machinery and equipment | 201,562 | 172,987 |
| Dies and tools | 42,316 | 36,287 |
| | $288,236 | $250,127 |

In 2013, the Company revised its estimate of the useful life of machinery and equipment from 10 to 7 years. This change, which became effective December 31, 2013, resulted in increased depreciation expense of $7.1 million and $0.7 million for 2014 and 2013, respectively. The Company estimates that this change will increase depreciation expense for the machinery and equipment that was on hand at December 31, 2013 by approximately $3 million in 2015.

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**5. Other Assets**

Other assets consist of the following:

| December 31, | 2014 | 2013 |
|---|---|---|
| Patents, at cost | $6,113 | $5,401 |
| Accumulated amortization | (3,364 ) | (3,075 ) |
| Deposits on capital items | 19,011 | 14,091 |
| Software development costs, at cost | 2,057 | 2,057 |
| Accumulated amortization | (1,381 ) | (969 ) |
| Investment in equity securities | — | 259 |
| Other | 3,111 | 700 |
| | $25,547 | $18,464 |

The capitalized cost of patents is amortized using the straight-line method over their useful lives. The cost of patent amortization was $0.3 million in 2014 and $0.2 million in both 2013 and 2012. The estimated annual patent amortization cost for each of the next five years is $0.3 million. Costs incurred to maintain existing patents are charged to expense in the year incurred.

Software development costs were incurred to develop and implement an integrated ERP system prior to the time the system became operational. These costs are being amortized using the straight line method over a period of sixty months. Costs incurred subsequent to the system becoming operational are being expensed. The cost of software development cost amortization was $0.4 million, $0.5 million, and $0.4 million in 2014, 2013, and 2012, respectively.

**6. Trade Accounts Payable and Accrued Expenses**

Trade accounts payable and accrued expenses consist of the following:

| December 31, | 2014 | 2013 |
|---|---|---|
| Trade accounts payable | $11,796 | $15,871 |
| Federal excise taxes payable | 9,386 | 14,127 |
| Accrued other | 14,968 | 16,993 |
| | $36,150 | $46,991 |

**7. Line of Credit**

The Company has an unsecured $40 million revolving line of credit with a bank. This facility, which is renewable annually, has an expiration date of June 15, 2015.

The credit facility remained unused throughout 2013 and 2014. Borrowings under this facility would bear interest at LIBOR (0.629% at December 31, 2014) plus 200 basis points and the Company is charged three-eighths of a percent (0.375%) per year on the unused portion. At

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December 31, 2014 and 2013, the Company was in compliance with the terms and covenants of the credit facility.

**8. Employee Benefit Plans**

In the fourth quarter of 2014, the Company completed the migration of its retirement benefits from defined-benefit pension plans to defined-contribution retirement plans, utilizing its 401(k) plan.

The Company previously sponsored two qualified defined-benefit pension plans that covered substantially all employees. In 2007, the Company amended its hourly and salaried defined-benefit pension plans so that employees no longer accrued benefits under them. This action “froze” the benefits for all employees and prevented future hires from joining the plans. A third defined-benefit pension plan was non-qualified and covered certain executive officers of the Company.

The Company sponsors a defined-contribution 401(k) plan that covers substantially all employees. The Company matches employee contributions to their 401(k) accounts using the “safe harbor” guidelines provided in the Internal Revenue Code. In addition, the Company provides discretionary supplemental contributions to substantially all employees’ individual 401(k) accounts.

Defined-Benefit Plans

In December 2014 the Company terminated its defined benefit pension plans and settled all obligations to employees. As a result of the termination of the plans, the Company recognized a one-time charge to expense of $41.0 million in the fourth quarter of 2014, primarily comprised of the recognition of previously deferred actuarial losses.

Active employees, all of whom were 100 percent vested in their pension benefits, were given the option of rolling the actuarially determined present value of their benefits into their 401(k) accounts, receiving deferred annuity contracts issued by an insurance carrier, or receiving a lump sum payment.

The Company contributed $7.5 million to the frozen pension plans in 2014 in order to fully fund the settlement, representing the shortfall of the existing pension fund assets on the termination date to the settlement value. The Company contributed $3 million and $3 million to these frozen pension plans in 2013 and 2012, respectively, which satisfied the required minimum contribution in each year. Since the plans have been fully funded and settled, no further cash contributions will be required in future years.

The measurement dates of the assets and liabilities of all plans presented for 2014 and 2013 were December 31, 2014 and December 31, 2013, respectively.

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Summarized information on the Company's defined-benefit pension plans is as follows:

| Obligations and Funded Status at December 31, | 2014 | 2013 |
| --- | --- | --- |
| Change in Benefit Obligation | | |
| Benefit obligation at beginning of year | $77,484 | $85,516 |
| Service cost | — | — |
| Interest cost | 3,595 | 3,349 |
| Actuarial (gain) loss | 5,855 | (7,921 ) |
| Benefits paid | (3,301 ) | (3,460 ) |
| Settlement of obligations | (83,633) | — |
| Benefit obligation at end of year | — | 77,484 |
| Change in Plan Assets | | |
| Fair value of plan assets at beginning of year | 77,993 | 65,890 |
| Actual return on plan assets | 311 | 12,403 |
| Employer contributions | 8,630 | 3,160 |
| Benefits paid | (3,301 ) | (3,460 ) |
| Settlement of obligations | (83,633) | — |
| Fair value of plan assets at end of year | — | 77,993 |
| Funded Status | | |
| Funded status | — | 509 |
| Unrecognized net actuarial loss | — | 30,284 |
| Unrecognized prior service cost | — | — |
| Net amount recognized | $— | $30,793 |

| Weighted Average Assumptions for the years ended December 31, | 2014 | 2013 |
| --- | --- | --- |
| Discount rate | 4.75% | 4.00% |
| Expected long-term return on plan assets | N/A | 8.00% |
| Rate of compensation increases | N/A | N/A |

| Components of Net Periodic Pension Cost | 2014 | 2013 |
| --- | --- | --- |
| Service cost | $— | $— |
| Interest cost | 3,595 | 3,349 |
| Expected return on assets | (6,114 ) | (5,238) |
| Recognized gains | 997 | 1,645 |
| Net periodic pension cost | $(1,522 ) | $(244 ) |
| Benefit plan termination costs (see above) | 40,999 | — |
| Net periodic pension cost and benefit plan termination costs | $39,477 | $(244 ) |

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| Amounts Recognized on the Balance Sheet | 2014 | 2013 |
| --- | --- | --- |
| Accrued benefit liability | $ — | $509 |
| Accumulated other comprehensive loss, net of tax | — | 19,379 |
| Deferred tax asset | — | 10,905 |
| | $ — | $30,793 |

| Weighted Average Assumptions as of December 31, | 2014 | 2013 |
| --- | --- | --- |
| Discount rate | N/A | 4.75% |
| Rate of compensation increases | N/A | N/A |

| Information for Pension Plans with an Accumulated Benefit Obligation in excess of plan assets | 2014 | 2013 |
| --- | --- | --- |
| Projected benefit obligation | $ — | $77,484 |
| Accumulated benefit obligation | $ — | $77,484 |
| Fair value of plan assets | $ — | $77,993 |

| Pension Weighted Average Asset Allocations as of December 31, | 2014 | 2013 |
| --- | --- | --- |
| Debt securities | — | — |
| Equity securities | — | 6% |
| Real estate | — | — |
| Money market funds | — | 94% |
| | — | 100% |

In conjunction with the termination and settlement of the defined-benefit pension plans, the additional minimum pension liability was fully recognized. The Company recorded an adjustment to the additional minimum pension liability, net of tax, which increased comprehensive income by $10.2 million in 2013, and decreased comprehensive income by $2.1 million in 2012, respectively.

*Plan Assets*

As a result of the termination and settlement of the defined-benefit pension plans, there are no plan assets as of December 31, 2014. The following table sets forth the defined-benefit plans' assets at fair value as of December 31, 2013:

| December 31, | 2014 | 2013 |
| --- | --- | --- |

| | | |
|---|---|---|
| Pooled separate accounts: | | |
| Equity securities: | | |
| International equity funds | $ — | $4,458 |
| Money market fund | — | 73,535 |
| | $ — | $77,993 |

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Defined-Contribution Plans

Prior to 2007, the Company also sponsored two qualified defined-contribution plans that covered substantially all of its hourly and salaried employees. Effective January 1, 2007, the qualified defined-contribution plans were merged into a single 401(k) plan. Under the terms of the 401(k) plan, the Company matches a certain portion of employee contributions. Expenses related to matching employee contributions to the 401(k) plan were $3.2 million, $3.0 million, and $2.3 million in 2014, 2013, and 2012, respectively.

Additionally, in 2014, 2013, and 2012 the Company provided discretionary supplemental contributions to the individual 401(k) accounts of substantially all employees. Each employee received a supplemental contribution to their account based on a uniform percentage of qualifying compensation established annually. The cost of these supplemental contributions totaled $5.6 million, $4.9 million, and $3.3 million in 2014, 2013, and 2012, respectively.

**9. Other Operating (Income) Expenses, net**

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

| Year ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| Gain on sale of operating assets | $(1 ) | $(65 ) | $(27 ) |
| Frozen defined-benefit pension plan (income) expense | (1,611) | (336) | 320 |
| Total other operating (income) expenses, net | $(1,612) | $(401) | $293 |

**10. Income Taxes**

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2010.

The federal and state income tax provision consisted of the following:

| Year ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|

| | Current | Deferred | Current | Deferred | Current | Deferred |
|---|---|---|---|---|---|---|
| Federal | $25,797 | $(10,429) | $49,022 | $4,879 | $34,941 | $(327) |
| State | 5,019 | (1,775) | 9,202 | 857 | 6,635 | 231 |
| | $30,816 | $(12,204) | $58,224 | $5,736 | $41,576 | $(96) |

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The effective income tax rate varied from the statutory federal income tax rate as follows:

| Year ended December 31, | 2014 | 2013 | 2012 |
| --- | --- | --- | --- |
| Statutory federal income tax rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit | 3.7 | 3.7 | 4.0 |
| Domestic production activities deduction | (4.6 ) | (2.7 ) | (3.0 ) |
| Other items | (1.6 ) | 0.5 | 1.0 |
| Effective income tax rate | 32.5% | 36.5% | 37.0% |

Significant components of the Company’s deferred tax assets and liabilities are as follows:

| December 31, | 2014 | 2013 |
| --- | --- | --- |
| Deferred tax assets: | | |
| Product liability | $289 | $451 |
| Employee compensation and benefits | 3,621 | 3,708 |
| Allowances for doubtful accounts and discounts | 2,351 | 2,558 |
| Inventories | 1,411 | 932 |
| Additional minimum pension liability | — | 10,905 |
| Stock-based compensation | 4,517 | 3,672 |
| Other | 1,487 | 1,853 |
| Total deferred tax assets | 13,676 | 24,079 |
| Deferred tax liabilities: | | |
| Pension plans | — | 11,310 |
| Depreciation | 14,377 | 14,311 |
| Other | 387 | 422 |
| Total deferred tax liabilities | 14,764 | 26,043 |
| Net deferred tax (liabilities) assets | $(1,088 ) | $(1,964 ) |

Changes in deferred tax assets relating to the additional minimum pension liability are not charged to expense and are therefore not included in the deferred tax provision; instead they are charged to other comprehensive income.

The Company made income tax payments of approximately $34.0 million, $59.9 million, and $33.0 million, during 2014, 2013, and 2012, respectively. The Company expects to realize its deferred tax assets through tax deductions against future taxable income or carry back against taxes previously paid.

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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**11. 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:

| Year ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| Numerator: | | | |
| Net income | $38,628 | $111,272 | $70,629 |
| Denominator: | | | |
| Weighted average number of common shares outstanding – Basic | 19,367,928 | 19,327,394 | 19,160,849 |
| Dilutive effect of options and restricted stock units outstanding under the Company's employee compensation plans | 469,480 | 613,324 | 474,392 |
| Weighted average number of common shares outstanding – Diluted | 19,837,408 | 19,940,718 | 19,635,241 |

The dilutive effect of outstanding options and restricted stock units is calculated using the treasury stock method. There are no anti-dilutive stock options in 2014, 2013, and 2012 because the closing price of the Company's stock on December 31, 2014, 2013, and 2012 exceeded the strike price of all outstanding options on that date.

**12. Stock Repurchases**

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

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program |
|---|---|---|---|---|
| November 13, 2014 to December 31, 2014 | 680,813 | $ 35.22 | 680,813 | |
| Total | 680,813 | $ 35.22 | 680,813 | $75,998,000 |

All of these purchases were made with cash held by the Company and no debt was incurred.

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

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**13. Compensation Plans**

In April 2007, the Company adopted and the shareholders approved the 2007 Stock Incentive Plan (the "2007 SIP") under which employees, independent contractors, and non-employee directors may be granted stock options, restricted stock, deferred stock awards, restricted stock units ("RSU's"), and stock appreciation rights, any of which may or may not require the achievement of performance objectives. Vesting requirements are determined by the Compensation Committee of the Board of Directors. The Company reserved 2,550,000 shares for issuance under the 2007 SIP. At December 31, 2014, an aggregate of 628,000 shares remain available for grant under the 2007 SIP.

Compensation expense related to stock options is recognized based on the grant-date fair value of the awards estimated using the Black-Scholes option pricing model. Compensation expense related to deferred stock, restricted stock, and restricted stock units is recognized based on the grant-date fair value of the Company's common stock. The total stock-based compensation cost included in the Statements of Income was $5.6 million, $5.3 million, and $4.7 million in 2014, 2013, and 2012, respectively.

Stock Options

There were no stock options granted in 2014 and 2013. In 2012, 9,830 stock options were granted as an equitable adjustment in conjunction with the special dividend declared in the fourth quarter of 2012. For purposes of determining the fair value of stock option awards granted, the Company used the Black-Scholes option pricing model and the assumptions set forth in the table below.

| | 2012 |
|---|---|
| Dividend yield | 2.9% |
| Expected volatility | 44.2% |
| Risk free rate of return | 4.0% |
| Expected lives | 2.9 years |

The estimated fair value of options granted is subject to the assumptions made and if the assumptions changed, the estimated fair value amounts could be significantly different.

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The following table summarizes the stock option activity of the Plans:

| | Shares | Weighted Average Exercise Price | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Life (Years) |
|---|---|---|---|---|
| Outstanding at December 31, 2011 | 328,700 | 8.58 | 4.42 | 6.2 |
| Granted | 9,830 | 8.59 | 32.57 | 5.6 |
| Exercised | (217,820) | 7.92 | 4.40 | 4.8 |
| Canceled | (250 ) | 8.69 | 4.57 | 6.3 |
| Outstanding at December 31, 2012 | 120,460 | 8.58 | 6.76 | 5.7 |
| Granted | — | — | — | — |
| Exercised | (63,239 ) | 8.51 | 6.86 | 4.4 |
| Canceled | — | — | — | — |
| Outstanding at December 31, 2013 | 57,221 | 8.66 | 6.65 | 5.0 |
| Granted | — | — | — | — |
| Exercised | (16,244 ) | 8.25 | 7.54 | 3.9 |
| Canceled | — | — | — | — |
| Outstanding at December 31, 2014 | 40,977 | 8.82 | 6.29 | 4.1 |
| Exercisable Options Outstanding at December 31, 2014 | 40,977 | 8.82 | 6.29 | 4.1 |
| Non-Vested Options Outstanding at December 31, 2014 | — | — | — | — |

At December 31, 2014, the aggregate intrinsic value of all options, including exercisable options, was $1.1 million.

Deferred Stock

Deferred stock awards vest based on the passage of time or the Company's attainment of performance objectives. Upon vesting, these awards convert one-for-one to common stock.

In 2014, 3,711 deferred stock awards were issued to non-employee directors that will vest in April 2015 and 7,002 deferred stock awards were issued to non-employee directors that will vest in April 2017.

In 2013, 4,430 deferred stock awards were issued to non-employee directors that will vest in April 2014 and 5,952 deferred stock awards were issued to non-employee directors that will vest in April 2016.

In 2012, 4,542 deferred stock awards were issued to non-employee directors that will vest in April 2013 and 6,102 deferred stock awards were issued to non-employee directors that will vest in April 2015.

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Compensation expense related to these awards is amortized ratably over the vesting period. Compensation expense related to these awards was $0.6 million, $0.5 million and $0.5 million in 2014, 2013, and 2012, respectively.

At December 31, 2014, there was $0.6 million of unrecognized compensation cost related to deferred stock that is expected to be recognized over a period of three years.

Restricted Stock Units

Beginning in the second quarter of 2009, the Company began granting restricted stock units in lieu of incentive stock options to senior employees. These RSU's have a vesting "double trigger." The vesting of these RSU's is dependent on the achievement of corporate objectives established by the Compensation Committee of the Board of Directors and the passage of time.

During 2014, 59,000 restricted stock units were issued. Compensation costs related to these restricted stock units was $3.8 million, of which $1.0 million was recognized in 2014. The remaining costs will be recognized ratably over the remaining period required before the units vest, which is 27 months.

During 2013, 32,000 restricted stock units were issued. Compensation costs related to these restricted stock units was $1.8 million, of which $0.6 and $0.5 million was recognized in 2014 and 2013, respectively. The remaining costs will be recognized ratably over the remaining period required before the units vest, which is 15 months.

During 2012, 139,000 restricted stock units were issued. Compensation costs related to these restricted stock units was $6.2 million, of which $1.5 million, $1.5 million and $1.2 million was recognized in 2014, 2013 and 2012, respectively. The remaining costs will be recognized ratably over the remaining period required before the units vest, which ranges from one to two years.

At December 31, 2014, there was $7.2 million of unrecognized compensation cost related to restricted stock units that is expected to be recognized over a period of 2.3 years.

**14. Operating Segment Information**

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

Corporate segment income relates to interest income on short-term investments, the sale of non-operating assets, and other non-operating activities. Corporate segment assets consist of cash and short-term investments and other non-operating assets.

The Company evaluates performance and allocates resources, in part, based on profit and loss before taxes. The accounting policies of the reportable segments are the same as those described

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in the summary of significant accounting policies (see Note 1). Intersegment sales are recorded at the Company's cost plus a fixed profit percentage.

| Year ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| Net Sales | | | |
| Firearms | $542,267 | $678,552 | $484,933 |
| Castings | | | |
| Unaffiliated | 2,207 | 9,724 | 6,891 |
| Intersegment | 34,095 | 32,794 | 26,462 |
| | 36,302 | 42,518 | 33,353 |
| Eliminations | (34,095 ) | (32,794 ) | (26,462 ) |
| | $544,474 | $688,276 | $491,824 |
| Income (Loss) Before Income Taxes | | | |
| Firearms | $57,525 | $177,736 | $113,660 |
| Castings | (1,294 ) | (3,866 ) | (1,858 ) |
| Corporate | 1,009 | 1,362 | 307 |
| | $57,240 | $175,232 | $112,109 |
| Identifiable Assets | | | |
| Firearms | $211,338 | $201,660 | $120,879 |
| Castings | 16,772 | 11,402 | 6,467 |
| Corporate | 26,272 | 64,056 | 47,140 |
| | $254,382 | $277,118 | $174,486 |
| Depreciation | | | |
| Firearms | $33,594 | $18,679 | $13,413 |
| Castings | 2,321 | 897 | 823 |
| | $35,915 | $19,576 | $14,236 |
| Capital Expenditures | | | |
| Firearms | $39,511 | $51,536 | $26,773 |
| Castings | 6,060 | 3,080 | 509 |
| | $45,571 | $54,616 | $27,282 |

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

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

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

The Company’s assets are located entirely in the United States and domestic sales represented greater than 94% of total sales in 2014, 2013, and 2012.

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**15. Quarterly Results of Operations (Unaudited)**

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 2014:

| | Three Months Ended | | | |
|---|---|---|---|---|
| | 3/29/14 | 6/28/14 | 9/27/14 | 12/31/14 |
| Net Sales | $169,884 | $153,657 | $98,327 | $122,606 |
| Gross profit | 61,123 | 50,353 | 23,738 | 33,960 |
| Net income (loss) | 24,319 | 22,286 | 6,781 | (14,758 ) |
| Basic earnings (loss) per share | 1.26 | 1.15 | 0.35 | (0.77 ) |
| Diluted earnings (loss) per share | $1.22 | $1.12 | $0.34 | $(0.77 ) |

| | Three Months Ended | | | |
|---|---|---|---|---|
| | 3/30/13 | 6/29/13 | 9/28/13 | 12/31/13 |
| Net Sales | $155,905 | $179,528 | $170,942 | $181,901 |
| Gross profit | 61,309 | 70,724 | 62,940 | 63,632 |
| Net income | 23,718 | 32,308 | 28,671 | 26,575 |
| Basic earnings per share | 1.23 | 1.67 | 1.48 | 1.37 |
| Diluted earnings per share | $1.20 | $1.63 | $1.44 | $1.33 |

**16. Contingent Liabilities**

As of December 31, 2014, the Company was a defendant in approximately three (3) lawsuits and is aware of certain other such claims. The lawsuits fall into three general categories, traditional products liability, municipal litigation, and commercial litigation, discussed in turn below.

Traditional Product Liability Litigation

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

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

Municipal Litigation

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

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

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

Commercial Litigation

From time to time, the Company may be involved in commercial disputes that result in litigation. These disputes run the gamut and may involve intellectual property, real property, supply or distribution agreements, contract disputes, or other, general commercial matters. As of December 31, 2014, the Company was involved in one such lawsuit and is aware of certain other such claims.

Summary of Claimed Damages and Explanation of Product Liability Accruals

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

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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 loss relating to unfavorable outcomes cannot be made. However, in product liability cases in which a dollar amount of damages is claimed, the amount of damages claimed, which totaled $0.0 million and $0.0 million at December 31, 2014 and 2013, respectively, are set forth as an indication of possible maximum liability that the Company might be required to incur in these cases (regardless of the likelihood or reasonable probability of any or all of this amount being awarded to claimants) as a result of adverse judgments that are sustained on appeal.

As of December 31, 2014 and 2013 the Company was a defendant in 2 and 4 lawsuits, respectively, involving its products and is aware of other such claims. During 2014 and 2013, respectively, 0 and 2 claims were filed against the Company, 2 and 0 claims were settled, and no claims were dismissed in either year.

The Company's product liability expense was $0.8 million in 2014, $1.3 million in 2013, and $0.2 million in 2012. This expense includes the cost of outside legal fees, insurance, and other expenses incurred in the management and defense of product liability matters.

A roll-forward of the product liability reserve and detail of product liability expense for the three years ended December 31, 2014 follows:

Balance Sheet Roll-forward for Product Liability Reserve

| | Balance Beginning | Accrued Legal Expense (Income) (b) | Cash Payments | | Balance End of Year (a) |
|---|---|---|---|---|---|
| | | | Legal Fees (c) | Settlements (d) | |

| | of Year (a) | | | | |
|---|---|---|---|---|---|
| 2012 | $ 1,746 | (633 ) | (52) | (4 ) | $ 1,057 |
| 2013 | $ 1,057 | 230 | (44) | (7 ) | $ 1,236 |
| 2014 | $ 1,236 | (295 ) | (18) | (78 ) | $ 845 |

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Income Statement Detail for Product Liability Expense

| | Accrued Legal Expense (b) | Insurance Premium Expense (e) | Total Product Liability Expense |
|---|---|---|---|
| 2012 | $ (633) | 810 | $ 177 |
| 2013 | $ 230 | 1,023 | $ 1,253 |
| 2014 | $ (295) | 1,069 | $ 774 |

**Notes**

(a) The beginning and ending liability balances represent accrued legal fees only. Settlements and administrative costs are expensed as incurred. Only in rare instances is an accrual established for settlements.

(b) The expense accrued in the liability is for legal fees only. In 2012, the costs incurred related to cases that were settled or dismissed were less than the amounts accrued for these cases in prior years.

(c) Legal fees represent payments to outside counsel related to product liability matters.

(d) Settlements represent payments made to plaintiffs or allegedly injured parties in exchange for a full and complete release of liability.

(e) Insurance expense represents the cost of insurance premiums.

There were no insurance recoveries during any of the above years.

**17. Financial Instruments**

The Company does not hold or issue financial instruments for trading or hedging purposes, nor does it hold interest rate, leveraged, or other types of derivative financial instruments. Fair values of accounts receivable,

accounts payable, accrued expenses and income taxes payable reflected in the December 31, 2014 and 2013 balance sheets approximate carrying values at those dates.

**18. Subsequent Events**

On February 10, 2015, the Company's Board of Directors authorized a dividend of 17¢ per share to shareholders of record on March 13, 2015.

The Company's management has evaluated transactions occurring subsequent to December 31, 2014 and determined that there were no events or transactions during that period that would have a material impact on the Company's results of operations or financial position.

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**ITEM 9— CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A—CONTROLS AND PROCEDURES**

Evaluation of Disclosure Controls and Procedures

The Company conducted an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of December 31, 2014. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2014, the Company's disclosure controls and procedures over financial reporting were effective.

**Management's Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company conducted an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its internal control over financial reporting as of December 31, 2014. This evaluation was performed based on the criteria established in "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013.

Management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014, based on criteria established in "Internal Control — Integrated Framework" issued by the COSO in 2013.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014 has been audited by McGladrey LLP, an independent registered public accounting firm, as stated in their report which is included in this Form 10-K.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**New York Stock Exchange Certification**

Pursuant to Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, the Company submitted an unqualified certification of our Chief Executive Officer to the New York Stock Exchange on May 15, 2007. The Company has also filed, as exhibits to this Annual Report on Form 10-K, the Chief Executive Officer and Chief Financial Officer Certifications required under the Sarbanes-Oxley Act of 2002.

## ITEM 9B-OTHER INFORMATION

None.

# PART III

## ITEM 10-DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning the Company's directors, including the Company's separately designated standing audit committee, and on the Company's code of business conduct and ethics required by this Item is incorporated by reference from the Company's Proxy Statement relating to the 2015 Annual Meeting of Stockholders scheduled to be held May 5, 2015, which will be filed with the SEC in March 2015.

Information concerning the Company's executive officers required by this Item is set forth in Item 1 of this Annual Report on Form 10-K under the caption "Executive Officers of the Company."

Information concerning beneficial ownership reporting compliance required by this Item is incorporated by reference from the Company's Proxy Statement relating to the 2015 Annual Meeting of Stockholders scheduled to be held May 5, 2015, which will be filed with the SEC in March 2015.

**ITEM 11—EXECUTIVE COMPENSATION**

Information concerning director and executive compensation required by this Item is incorporated by reference from the Company's Proxy Statement relating to the 2015 Annual Meeting of Stockholders scheduled to be held May 5, 2015, which will be filed with the SEC in March 2015.

**ITEM 12— SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information concerning the security ownership of certain beneficial owners and management and related stockholder matters required by this Item is incorporated by reference from the Company's Proxy Statement relating to the 2015 Annual Meeting of Stockholders scheduled to be held May 5, 2015, which will be filed with the SEC in March 2015.

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**ITEM 13— CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Information concerning certain relationships and related transactions required by this Item is incorporated by reference from the Company's Proxy Statement relating to the 2015 Annual Meeting of Stockholders scheduled to be held May 5, 2015.

**ITEM 14—PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information concerning the Company's principal accountant fees and services and the pre-approval policies and procedures of the audit committee of the board of directors required by this Item is incorporated by reference from the Company's Proxy Statement relating to the 2015 Annual Meeting of Stockholders scheduled to be held May 5, 2015, which will be filed with the SEC in March 2015.

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**PART IV**

**ITEM 15—EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Exhibits and Financial Statement Schedules

(1) Financial Statements can be found under Item 8 of Part II of this Form 10-K

(2) Schedules can be found on Page 86 of this Form 10-K

(3) Listing of Exhibits:

| | |
|---|---|
| Exhibit 3.1 | Certificate of Incorporation of the Company, as amended (Incorporated by reference to Exhibits 4.1 and 4.2 to the Form S-3 Registration Statement previously filed by the Company File No. 33-62702). |
| Exhibit 3.2 | Bylaws of the Company, as amended. |
| Exhibit 3.3 | Amended and restated Article 3, Section 2 of Bylaws (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on April 24, 2007). |
| Exhibit 3.4 | Amended and restated Article 3, Section 4 and Article 4, Section 5 of Bylaws (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on April 24, 2007). |
| Exhibit 3.5 | Amended and restated Bylaws (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on July 26, 2007). |
| Exhibit 3.6 | Amended and restated Bylaws (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on April 25, 2008). |
| Exhibit 3.7 | Amendment to Article 5, Section 1 of Bylaws (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on February 6, 2009). |

| Exhibit 10.1 | Sturm, Ruger & Company, Inc. 1986 Stock Bonus Plan (Incorporated by reference to Exhibit 10.1 to the Company’s Annual Report on Form 10-K for the year ended December 31, 1988, as amended by Form 8 filed March 27, 1990, SEC File No. 1-10435). |
|---|---|

| | |
|---|---|
| Exhibit 10.2 | Amendment to Sturm, Ruger & Company, Inc. 1986 Stock Bonus Plan (Incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991, SEC File No. 1-10435). |
| Exhibit 10.3 | Sturm, Ruger & Company, Inc. Supplemental Executive Profit Sharing Retirement Plan (Incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991, SEC File No. 1-10435). |
| Exhibit 10.4 | Agreement and Assignment of Lease dated September 30, 1987 by and between Emerson Electric Co. and Sturm, Ruger & Company, Inc. (Incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991, SEC File No. 1-10435). |
| Exhibit 10.5 | Sturm, Ruger & Company, Inc. Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, SEC File No. 1-10435). |
| Exhibit 10.6 | [Intentionally omitted.] |
| Exhibit 10.7 | Sturm, Ruger & Company, Inc. 1998 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, SEC File No. 1-10435). |
| Exhibit 10.8 | Sturm, Ruger & Company, Inc. 2001 Stock Option Plan for Non-Employee Directors (Incorporated by reference to Exhibit 4 to the Form S-8 Registration Statement filed by the Company File No. 33-53234). |
| Exhibit 10.9 | Agreement and Release, dated as of February 28, 2006, by and between Sturm, Ruger & Company, Inc. and William B. Ruger (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 4, 2006, SEC File No. 1-10435). |
| Exhibit 10.10 | Sale and Purchase Agreement, dated as of September 26, 2006, by and between Sturm, Ruger & Company, Inc. and Ruger Business Holdings, L.P. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2006, SEC File No. 1-10435). |
| Exhibit 10.11 | Severance Agreement, dated as of September 21, 2006, by and between Sturm, Ruger & Company, Inc. and Stephen L. Sanetti (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 27, 2006, SEC File No. 1-10435). |

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|---|---|
| Exhibit 10.12 | Severance Agreement, dated as of September 21, 2006, by and between Sturm, Ruger & Company, Inc. and Thomas A. Dineen (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on September 27, 2006, SEC File No. 1-10435). |
| Exhibit 10.13 | Severance Agreement, dated as of September 21, 2006, by and between Sturm, Ruger & Company, Inc. and Robert R. Stutler (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on September 27, 2006, SEC File No. 1-10435). |
| Exhibit 10.14 | Offer Letter, dated as of September 5, 2006, by and between Sturm, Ruger & Company, Inc. and Michael O. Fifer (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 28, 2006, SEC File No. 1-10435). |
| Exhibit 10.15 | Severance Agreement, dated as of December 15, 2006, by and between Sturm, Ruger & Company, Inc. and Michael O. Fifer (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 19, 2006, SEC File No. 1-10435). |
| Exhibit 10.16 | Severance Agreement, dated as of December 15, 2006, by and between Sturm, Ruger & Company, Inc. and Christopher John Killoy (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on December 19, 2006, SEC File No. 1-10435). |
| Exhibit 10.17 | Amended Severance Agreement, dated as of December 15, 2006, by and between Sturm, Ruger & Company, Inc. and Thomas P. Sullivan (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on December 19, 2006, SEC File No. 1-10435). |
| Exhibit 10.18 | Retention and Consultation Agreement, dated December 4, 2007, by and between Sturm, Ruger & Company, Inc. and Robert R. Stutler. |
| Exhibit 10.19 | Credit Agreement, dated as of December 14, 2007, by and between the Company and Bank of America (Incorporated by reference to Exhibit 10.18 to the Company's Current Report on Form 8-K filed with the SEC on December 20, 2007). |
| Exhibit 10.20 | Severance Agreement, dated as of April 10, 2008, by and between the Company and Michael O. Fifer (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008). |

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|---|---|
| Exhibit 10.21 | Severance Agreement, dated as of April 10, 2008, by and between the Company and Thomas A. Dineen (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008). |
| Exhibit 10.22 | Severance Agreement, dated as of April 10, 2008, by and between the Company and Mark T. Lang (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008). |
| Exhibit 10.23 | Severance Agreement, dated as of April 10, 2008, by and between the Company and Christopher J. Killoy (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008). |
| Exhibit 10.24 | Severance Agreement, dated as of April 10, 2008, by and between the Company and Steven M. Maynard (Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008). |
| Exhibit 10.25 | Severance Agreement, dated as of April 10, 2008, by and between the Company and Thomas P. Sullivan (Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008). |
| Exhibit 10.26 | Severance Agreement, dated as of April 10, 2008, by and between the Company and Leslie M. Gasper (Incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008). |
| Exhibit 10.27 | Agreement, dated as of April 10, 2008, by and between the Company and Stephen L. Sanetti (Incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K/A filed with the SEC on April 30, 2008). |
| Exhibit 10.28 | Severance Agreement, dated as of May 2, 2008 by and between the Company and Kevin B. Reid, Sr. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 5, 2008). |
| Exhibit 10.29 | First Amendment to Credit Agreement, dated as of December 15, 2008, by and between the Company and Bank of America (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on December 22, 2008). |
| Exhibit 10.30 | Second Amendment to Credit Agreement, dated December 11, 2009, by and between the Company and Bank of America (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on December 21, 2009). |

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|---|---|
| Exhibit 10.31 | Fifth Amendment to Credit Agreement, dated February 14, 2013 by and between the Company and Bank of America (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on February 21, 2013). |
| Exhibit 10.32 | Sixth Amendment to Credit Agreement, dated June 9, 2014, by and between the Company and Bank of America (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on June 16, 2014). |
| Exhibit 23.1 | Consent of McGladrey LLP |
| Exhibit 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act. |
| Exhibit 31.2 | Certification of Treasurer and Chief Financial Officer Pursuant to Rule 13a-14(a) of the Exchange Act. |
| Exhibit 32.1 | Certification of the Chief Executive Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.2 | Certification of the Treasurer and Chief Financial Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 99.1 | Item 1 LEGAL PROCEEDINGS from the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 1999, SEC File No. 1-10435, incorporated by reference in Item 3 LEGAL PROCEEDINGS. |
| Exhibit 99.2 | Item 1 LEGAL PROCEEDINGS from the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2012, SEC File No. 1-10435, incorporated by reference in Item 3 LEGAL PROCEEDINGS. |

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.
(Registrant)

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

February 25, 2015
Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | | | |
|---|---|---|---|
| S/MICHAEL O. FIFER<br>Michael O. Fifer<br>Chief Executive Officer, Director<br>(Principal Executive Officer) | 2/25/15 | S/JOHN A. COSENTINO, JR.<br>John A. Cosentino, Jr.<br>Director | 2/25/15 |
| S/C. MICHAEL JACOBI<br>C. Michael Jacobi<br>Director | 2/25/15 | S/RONALD C. WHITAKER<br>Ronald C. Whitaker<br>Director | 2/25/15 |

| | | | |
|---|---|---|---|
| S/AMIR P. ROSENTHAL<br>Amir P. Rosenthal<br>Director | 2/25/15 | S/PHILLIP C. WIDMAN<br>Phillip C. Widman<br>Director | /25/15 |
| S/TERRENCE G. O'CONNOR<br>Terrence G. O'Connor<br>Director | 2/25/15 | S/THOMAS A. DINEEN<br>Thomas A. Dineen<br>Principal Financial Officer,<br>Principal Accounting Officer, Vice President,<br>Treasurer and Chief Financial Officer | 2/25/15 |

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EXHIBIT INDEX

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|---|---|---|
| Exhibit 3.1 | Certificate of Incorporation of the Company, as amended (Incorporated by reference to Exhibits 4.1 and 4.2 to the Form S-3 Registration Statement previously filed by the Company File No. 33-62702). | |
| Exhibit 3.2 | Bylaws of the Company, as amended. | |
| Exhibit 3.3 | Amended and restated Article 3, Section 2 of Bylaws (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on April 24, 2007). | |
| Exhibit 3.4 | Amended and restated Article 3, Section 4 and Article 4, Section 5 of Bylaws (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on April 24, 2007). | |
| Exhibit 3.5 | Amended and restated Bylaws (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on July 26, 2007). | |
| Exhibit 3.6 | Amended and restated Bylaws (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on April 25, 2008). | |
| Exhibit 3.7 | Amendment to Article 5, Section 1 of Bylaws (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on February 6, 2009). | |
| Exhibit 10.1 | Sturm, Ruger & Company, Inc. 1986 Stock Bonus Plan (Incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988, as amended by Form 8 filed March 27, 1990, SEC File No. 1-10435). | |
| Exhibit 10.2 | Amendment to Sturm, Ruger & Company, Inc. 1986 Stock Bonus Plan (Incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991, SEC File No. 1-10435). | |
| Exhibit 10.3 | Sturm, Ruger & Company, Inc. Supplemental Executive Profit Sharing Retirement Plan (Incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991, SEC File No. 1-10435). | |
| Exhibit 10.4 | Agreement and Assignment of Lease dated September 30, 1987 by and between Emerson Electric Co. and Sturm, Ruger & Company, Inc. (Incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991, SEC File No. 1-10435). | |

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EXHIBIT INDEX (continued)

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|---|---|
| Exhibit 10.5 | Sturm, Ruger & Company, Inc. Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, SEC File No. 1-10435). |
| Exhibit 10.6 | [Intentionally omitted.] |
| Exhibit 10.7 | Sturm, Ruger & Company, Inc. 1998 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, SEC File No. 1-10435). |
| Exhibit 10.8 | Sturm, Ruger & Company, Inc. 2001 Stock Option Plan for Non-Employee Directors (Incorporated by reference to Exhibit 4 to the Form S-8 Registration Statement filed by the Company File No. 33-53234). |
| Exhibit 10.9 | Agreement and Release, dated as of February 28, 2006, by and between Sturm, Ruger & Company, Inc. and William B. Ruger (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 4, 2006, SEC File No. 1-10435). |
| Exhibit 10.10 | Sale and Purchase Agreement, dated as of September 26, 2006, by and between Sturm, Ruger & Company, Inc. and Ruger Business Holdings, L.P. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2006, SEC File No. 1-10435). |
| Exhibit 10.11 | Severance Agreement, dated as of September 21, 2006, by and between Sturm, Ruger & Company, Inc. and Stephen L. Sanetti (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 27, 2006, SEC File No. 1-10435). |
| Exhibit 10.12 | Severance Agreement, dated as of September 21, 2006, by and between Sturm, Ruger & Company, Inc. and Thomas A. Dineen (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on September 27, 2006, SEC File No. 1-10435). |
| Exhibit 10.13 | Severance Agreement, dated as of September 21, 2006, by and between Sturm, Ruger & Company, Inc. and Robert R. Stutler (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on September 27, 2006, SEC File No. 1-10435). |
| Exhibit 10.14 | Offer Letter, dated as of September 5, 2006, by and between Sturm, Ruger & Company, Inc. and Michael O. Fifer (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 28, 2006, SEC File No. 1-10435). |

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EXHIBIT INDEX (continued)

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|---|---|
| Exhibit 10.15 | Severance Agreement, dated as of December 15, 2006, by and between Sturm, Ruger & Company, Inc. and Michael O. Fifer (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 19, 2006, SEC File No. 1-10435). |
| Exhibit 10.16 | Severance Agreement, dated as of December 15, 2006, by and between Sturm, Ruger & Company, Inc. and Christopher John Killoy (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on December 19, 2006, SEC File No. 1-10435). |
| Exhibit 10.17 | Amended Severance Agreement, dated as of December 15, 2006, by and between Sturm, Ruger & Company, Inc. and Thomas P. Sullivan (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on December 19, 2006, SEC File No. 1-10435). |
| Exhibit 10.18 | Retention and Consultation Agreement, dated December 4, 2007, by and between Sturm, Ruger & Company, Inc. and Robert R. Stutler. |
| Exhibit 10.19 | Credit Agreement, dated as of December 14, 2007, by and between the Company and Bank of America (Incorporated by reference to Exhibit 10.18 to the Company's Current Report on Form 8-K filed with the SEC on December 20, 2007). |
| Exhibit 10.20 | Severance Agreement, dated as of April 10, 2008, by and between the Company and Michael O. Fifer (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008). |
| Exhibit 10.21 | Severance Agreement, dated as of April 10, 2008, by and between the Company and Thomas A. Dineen (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008). |
| Exhibit 10.22 | Severance Agreement, dated as of April 10, 2008, by and between the Company and Mark T. Lang (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008). |
| Exhibit 10.23 | Severance Agreement, dated as of April 10, 2008, by and between the Company and Christopher J. Killoy (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008). |
| Exhibit 10.24 | Severance Agreement, dated as of April 10, 2008, by and between the Company and Steven M. Maynard (Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008). |

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EXHIBIT INDEX (continued)

| | | |
|---|---|---|
| Exhibit 10.25 | Severance Agreement, dated as of April 10, 2008, by and between the Company and Thomas P. Sullivan (Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008). | |
| Exhibit 10.26 | Severance Agreement, dated as of April 10, 2008, by and between the Company and Leslie M. Gasper (Incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008). | |
| Exhibit 10.27 | Agreement, dated as of April 10, 2008, by and between the Company and Stephen L. Sanetti (Incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K/A filed with the SEC on April 30, 2008). | |
| Exhibit 10.28 | Severance Agreement, dated as of May 2, 2008 by and between the Company and Kevin B. Reid, Sr. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 5, 2008). | |
| Exhibit 10.29 | First Amendment to Credit Agreement, dated as of December 15, 2008, by and between the Company and Bank of America (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on December 22, 2008). | |
| Exhibit 10.30 | Second Amendment to Credit Agreement, dated December 11, 2009, by and between the Company and Bank of America (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on December 21, 2009). | |
| Exhibit 10.31 | Fifth Amendment to Credit Agreement, dated February 14, 2013 by and between the Company and Bank of America (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on February 21, 2013). | |
| Exhibit 10.32 | Sixth Amendment to Credit Agreement, dated June 9, 2014, by and between the Company and Bank of America (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on June 16, 2014). | |
| Exhibit 23.1 | Consent of McGladrey LLP | 89 |
| Exhibit 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act. | 90 |
| Exhibit 31.2 | Certification of Treasurer and Chief Financial Officer Pursuant to Rule 13a-14(a) of the Exchange Act. | 92 |

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EXHIBIT INDEX (continued)

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| Exhibit 32.1 | Certification of the Chief Executive Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | 94 |
| Exhibit 32.2 | Certification of the Treasurer and Chief Financial Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | 95 |
| Exhibit 99.1 | Item 1 LEGAL PROCEEDINGS from the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 1999, SEC File No. 1-10435, incorporated by reference in Item 3 LEGAL PROCEEDINGS. | |
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YEAR ENDED DECEMBER 31, 2014

STURM, RUGER & COMPANY, INC.

ITEMS 15(a)
FINANCIAL STATEMENT SCHEDULE

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Sturm, Ruger & Company, Inc.

Item 15(a)--Financial Statement Schedule

Schedule II—Valuation and Qualifying Accounts

*(In Thousands)*

| COL. A | COL. B | COL. C ADDITIONS | | COL. D | | COL. E |
|---|---|---|---|---|---|---|
| Description | Balance at Beginning of Period | (1) Charged (Credited) to Costs and Expenses | (2) Charged to Other Accounts –Describe | Deductions | | Balance at End of Period |
| Deductions from asset accounts: | | | | | | |
| Allowance for doubtful accounts: | | | | | | |
| Year ended December 31, 2014 | $ 300 | $ 100 | | | | $ 400 |
| Year ended December 31, 2013 | $ 300 | | | | | $ 300 |
| Year ended December 31, 2012 | $ 185 | $ 115 | | | | $ 300 |
| Allowance for discounts: | | | | | | |
| Year ended December 31, 2014 | $ 1,344 | $ 11,485 | | $ 11,826 | (b) | $ 1,003 |
| Year ended December 31, 2013 | $ 825 | $ 14,515 | | $ 13,996 | (b) | $ 1,344 |
| Year ended December 31, 2012 | $ 807 | $ 10,679 | | $ 10,661 | (b) | $ 825 |
| Excess and obsolete inventory reserve: | | | | | | |
| Year ended December 31, 2014 | $ 2,422 | $ 1,328 | | | | $ 3,750 |
| Year ended December 31, 2013 | $ 1,729 | $ 693 | | | | $ 2,422 |
| Year ended December 31, 2012 | $ 1,311 | $ 761 | | $ 343 | (c) | $ 1,729 |

(a) Accounts written off
(b) Discounts taken

(c) Inventory written off