



# STURM, RUGER & COMPANY, INC.

LACEY PLACE, SOUTHPORT, CONNECTICUT 06890 U.S.A.

TELEPHONE: (203) 259-7843 FAX: (203) 256-3367

WWW.RUGER.COM • NYSE:RGR

March 15, 2012

Dear Fellow Stockholders:

You are cordially invited to attend the 2012 Annual Meeting of Stockholders of Sturm, Ruger & Company, Inc. to be held at 9:00 a.m. on May 2, 2012 at The Common Man Inn, 21 Water Street, Claremont, NH 03743. Details of the business to be conducted at the meeting are given in the attached Notice of Annual Meeting and Proxy Statement.

The Board of Directors looks forward to joining you at the 2012 Annual Meeting.

**STURM, RUGER & COMPANY, INC.**

Michael O. Fifer  
President and Chief Executive Officer





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## NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

MAY 2, 2012

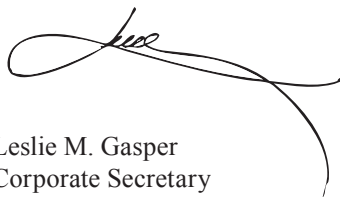
**NOTICE IS HEREBY GIVEN THAT** the Annual Meeting of Stockholders of **STURM, RUGER & COMPANY, INC.** (the "Company") will be held at The Common Man Inn, 21 Water Street, Claremont, NH 03743 on the 2<sup>nd</sup> day of May, 2012 at 9:00 a.m. to consider and act upon the following:

1. A proposal to elect seven (7) Directors to serve on the Board of Directors for the ensuing year;
2. A proposal to ratify the appointment of McGladrey & Pullen, LLP as the Company's independent auditors for the 2012 fiscal year;
3. An advisory vote on the compensation of the Company's Named Executive Officers; and
4. Any other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Only holders of record of Common Stock at the close of business on March 13, 2012 will be entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement thereof. The complete list of stockholders entitled to vote at the Annual Meeting shall be open to the examination of any stockholder, for any purpose germane to the Annual Meeting, during ordinary business hours, for a period of 10 days prior to the Annual Meeting, at the Company's offices located at 411 Sunapee Street, Newport, New Hampshire 03773.

The Company's Proxy Statement is attached hereto.

By Order of the Board of Directors



Leslie M. Gasper  
Corporate Secretary

Southport, Connecticut  
March 15, 2012

**ALL STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING. YOUR VOTE IS IMPORTANT. TO ENSURE THAT YOUR VOTE IS RECORDED PROMPTLY, PLEASE VOTE YOUR PROXY AS SOON AS POSSIBLE, EVEN IF YOU PLAN TO ATTEND THE ANNUAL MEETING. MOST SHAREHOLDERS HAVE THREE OPTIONS FOR SUBMITTING THEIR VOTES PRIOR TO THE ANNUAL MEETING: (1) VIA THE INTERNET, (2) BY TELEPHONE OR (3) BY REQUESTING AND RETURNING A PAPER PROXY USING THE POSTAGE-PAID ENVELOPE PROVIDED. REGISTERED STOCKHOLDERS MAY VIEW OR REQUEST THE PROXY MATERIALS AT [WWW.ENVISIONREPORTS.COM/RGR](http://WWW.ENVISIONREPORTS.COM/RGR) OR BY CALLING 1-800-641-4276, AND MAY VOTE THEIR PROXY AT [WWW.ENVISIONREPORTS.COM/RGR](http://WWW.ENVISIONREPORTS.COM/RGR) OR BY CALLING 1-800-652-8683. STOCKHOLDERS WHO HOLD THEIR SHARES THROUGH A BROKERAGE ACCOUNT MAY VIEW OR REQUEST THE PROXY MATERIALS AT [WWW.PROXYVOTE.COM](http://WWW.PROXYVOTE.COM) OR BY CALLING 1-800-579-1639, AND MAY VOTE THEIR PROXY AT [WWW.PROXYVOTE.COM](http://WWW.PROXYVOTE.COM) OR BY CALLING 1-800-454-8683. PLEASE REVIEW THE PROXY MATERIALS BEFORE VOTING YOUR SHARES.**

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# STURM, RUGER & COMPANY, INC.

March 15, 2012

## PROXY STATEMENT

Annual Meeting of Stockholders of the Company to be held on May 2, 2012

### PROXY SOLICITATION AND VOTING INFORMATION

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the “Board”) of Sturm, Ruger & Company, Inc. (the “Company”) for use at the 2012 Annual Meeting of Stockholders (the “Meeting”) of the Company to be held at 9:00 a.m. on May 2, 2012 at The Common Man Inn, 21 Water Street, Claremont, NH 03743 or at any adjournment or postponement thereof for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. This Proxy Statement has been posted and is available on the Securities and Exchange Commission (the “SEC”) website at [www.sec.gov](http://www.sec.gov) and the Company’s website at [www.ruger.com](http://www.ruger.com). In addition, registered stockholders may view or request the proxy materials at [www.envisionreports.com/RGR](http://www.envisionreports.com/RGR) or by calling 1-800-641-4276, and may vote their proxy at [www.envisionreports.com/RGR](http://www.envisionreports.com/RGR) or by calling 1-800-652-8683. Stockholders who hold their shares through a brokerage account may view or request the proxy materials at [www.proxyvote.com](http://www.proxyvote.com) or by calling 1-800-579-1639, and may vote their proxy at [www.proxyvote.com](http://www.proxyvote.com) or by calling 1-800-454-8683. Please review the proxy materials before voting your shares.

The mailing address of the principal executive office of the Company is 1 Lacey Place, Southport, Connecticut 06890.

In accordance with rules established by the SEC that allow companies to furnish their proxy materials over the Internet, on March 23, 2012 we are mailing a Notice of Internet Availability of Proxy Materials instead of a paper copy of our Proxy Statement and Annual Report on Form 10-K to our stockholders who have not specified that they wish to receive paper copies of our proxy materials. The Notice of Availability of Proxy Materials also contains instructions on how to request a paper copy of our proxy materials, including our Proxy Statement, Annual Report on Form 10-K and a form of proxy card. We believe this process will allow us to provide our stockholders with the information they need in a more timely, environmentally friendly and cost-effective manner. All expenses in connection with the solicitation of these proxies, which are estimated to be \$60,000, will be borne by the Company. We encourage our stockholders to contact the Company’s transfer agent, Computershare Investor Services, LLC, or their stockbroker to sign up for electronic delivery of proxy materials in order to reduce printing, mailing and environmental costs.

If your proxy is signed and returned, it will be voted in accordance with its terms. However, a stockholder of record may revoke his or her proxy before it is exercised by: (i) giving written notice to the Company’s Secretary at the Company’s address indicated above, (ii) duly executing a subsequent proxy relating to the same shares and delivering it to the Company’s Secretary at or before the Meeting or (iii) attending the Meeting and voting in person (although attendance at the Meeting will not, in and of itself, constitute revocation of a proxy).

The Company’s Annual Report on Form 10-K for the year ended December 31, 2011, including financial statements, is enclosed herewith and has been posted and is available on the SEC website at [www.sec.gov](http://www.sec.gov) and the Company’s website at [www.ruger.com](http://www.ruger.com).

Only holders of Common Stock, \$1.00 par value, of the Company (the “Common Stock”) of record at the close of business on March 13, 2012 will be entitled to vote at the Meeting. Each holder of record of the issued and outstanding shares of voting Common Stock is entitled to one vote per share. As of March 13, 2012, 19,145,937 shares of Common Stock were issued and outstanding and there were no outstanding shares of any other class of stock. The stockholders holding a majority of the issued and outstanding Common Stock, either present in person or represented by proxy, will constitute a quorum for the transaction of business at the Meeting.

In accordance with the Company's By-Laws and applicable law, with respect to Proposal 1, the election of Directors will be determined by a plurality of the votes cast by the holders of shares present in person or by proxy and entitled to vote. Consequently, the seven nominees who receive the greatest number of votes cast for election as Directors will be elected. Shares present, which are properly withheld as to voting with respect to any one or more nominees, and shares present with respect to which a broker indicates that it does not have authority to vote ("broker non-votes"), will be counted as being present at the Meeting only with respect to Proposal No. 2. These shares will not be counted as voting on the election of Directors, with the result that such abstentions and broker non-votes will have no effect as votes on the election of Directors. With respect to Proposals 2 and 3, the affirmative vote of shares representing a majority of the shares present and entitled to vote is required to ratify the appointment of McGladrey & Pullen, LLP as the Company's independent auditors for the 2011 fiscal year, and to approve the advisory vote on executive compensation. This also applies to any other matters properly presented at the Meeting, whereby stockholder voting will indicate the relative preference among the choices presented on an advisory basis. Shares which are voted to abstain on these matters and broker non-votes will be considered present at the Meeting but will not be counted as voting for these matters, with the result that abstention and broker non-votes will have the same effect as votes against the proposal.

## LIST OF PROPOSALS AND RECOMMENDATIONS OF THE BOARD OF DIRECTORS

### PROPOSAL NO. 1 – ELECTION OF DIRECTORS

Seven Directors will be elected at the Meeting, each to hold office until the next Annual Meeting of Stockholders or until his successor is elected and has qualified.

#### **Board of Director Recommendation**

The Board of Directors recommends a vote "**FOR**" each of the named nominees.

### PROPOSAL NO. 2 – RATIFICATION OF INDEPENDENT AUDITORS

McGladrey & Pullen, LLP has served as the Company's independent auditors since 2005. Subject to the ratification of the Company's stockholders, the Board of Directors has reappointed McGladrey & Pullen, LLP as the Company's independent auditors for the 2012 fiscal year.

#### **Board of Directors Recommendation**

The Board of Directors recommends a vote "**FOR**" the ratification of McGladrey & Pullen, LLP as the Company's independent auditors.

### PROPOSAL NO. 3 – SAY ON PAY

The Company shall seek an advisory vote on executive compensation.

#### **Board of Directors Recommendation**

The Board of Directors recommends a vote "**FOR**" approval of the pay-for-performance compensation policies and practices employed by the Compensation Committee, as described in the Compensation Discussion and Analysis and the tabular disclosure regarding Named Executive Officer compensation in this Proxy Statement.



**PROPOSAL NO. 1 – ELECTION OF DIRECTORS**

Seven Directors will be elected at the Meeting, each to hold office until the next Annual Meeting of Stockholders or until his successor is elected and has qualified.

**Board of Directors Recommendation**

The Board of Directors recommends a vote “**FOR**” each of the nominees named below.

**DIRECTOR NOMINEES**

The following table lists each nominee for Director and sets forth certain information concerning each nominee’s age, business experience, other directorships and committee memberships in publicly-held corporations, current Board committee assignments, and qualifications to serve on the Company’s Board as of the date of this Proxy Statement. In addition to the information presented below regarding each nominee’s specific experience, qualifications, attributes and skills which led the Board to conclude that he should serve as a Director, the Board also believes that all of our Director nominees have established reputations of integrity, honesty and adherence to high ethical standards, and have demonstrated a commitment of service to the Company, an appreciation of its products and the Constitutional rights of American citizens to keep and bear arms. Each nominee has effectively demonstrated business acumen and the ability to exercise sound judgment in their individual careers and service on other public boards and board committees, as applicable.

All of the seven nominees for Director listed below were elected at last year’s Annual Meeting. Should any of the said nominees for Director not remain a candidate at the time of the Meeting (a condition which is not now anticipated), proxies solicited hereunder will be voted in favor of those nominees for Director selected by the Board of Directors of the Company.

| Name,<br>Age,<br>First Became A<br>Director                              | Business Experience<br>During the Past Five Years,<br>Other Directorships, Current Committee Memberships and Board Qualifications  |
|--|--|
| <p><b>C. Michael Jacobi</b><br/>Age 70<br/>Director since June, 2006</p> | <p>Mr. Jacobi has been the non-executive Chairman of the Board of Directors since 2010. Mr. Jacobi has been the President of Stable House 1, LLC, a private real estate development company, since 1999. He served as the President, CEO and Board member of Katy Industries, Inc. from 2001 to 2005, and is the former President, CEO and Board member of Timex Corporation. Mr. Jacobi has been a member of the Boards of Directors and Audit Committee Chairman of the Corrections Corporation of America since 2000. He has been a member of the Board of Directors of Webster Financial Corporation since 1993, served as a member of its Audit Committee from 1993 (including as Audit Committee chair from 1996) to 2011, and became a member of its Compensation Committee in 2011. He has been a member of the Board of Directors and Audit Committee of Kohlberg Capital Corporation since 2006, and was a member of the Board of Directors of Invisible Technologies, Inc. from 2001 to 2006. Mr. Jacobi is a Certified Public Accountant. Mr. Jacobi is currently the Chairman of the Board and a member of the Compensation Committee. The Board believes that Mr. Jacobi’s extensive business, investment management, board experience and financial expertise qualify him to serve on the Board of Directors.</p> |

| <b>Name,<br/>Age,<br/>First Became A<br/>Director</b>                  | <b>Business Experience<br/>During the Past Five Years,<br/>Other Directorships, Current Committee Memberships and Board Qualifications</b>  |
|--|---|
| <b>John A. Cosentino, Jr.</b><br>Age 62<br>Director since August, 2005 | <p>Mr. Cosentino has been a partner of Ironwood Manufacturing Fund, LP since 2002, a Director of Simonds Industries, Inc. since 2003, the Chairman of North American Specialty Glass, LLC since 2005, a Director of the Bilco Company since 2010, and a Director of Whitcraft LLC since 2011. He was the Vice Chairman of Primary Steel, LLC from 2005 to 2007, a partner of Capital Resource Partners, LP from 2000 to 2001, and a Director in the following Capital Resource Partners, LP portfolio companies: Spirit Brands from 1998 to 2006, Pro Group, Inc. from 1999 to 2002, WPT, Inc. from 1998 to 2001, and Todd Combustion, Inc. from 1997 to 1999. Mr. Cosentino is the former Vice President-Operations of the Stanley Works, former President of PCI Group, Inc., Rau Fastener, LLC, and Otis Elevator-North America division of United Technologies, former Group Executive of the Danaher Corporation, and former Director of Integrated Electrical Services, Olympic Manufacturing Company, and the Wiremold Company. Mr. Cosentino is currently the Vice Chairman of the Board, Chairman of the Compensation Committee and a member of the Company's Audit Committee. The Board believes that Mr. Cosentino's extensive executive management, investment management and board experience qualify him to serve on the Board of Directors.</p>                                  |
| <b>James E. Service</b><br>Age 81<br>Director since July, 1992         | <p>Admiral Service has been Chairman Emeritus since 2010, and was non-executive Chairman of the Board of the Company from 2006 to 2010. He is a retired Vice Admiral of the United States Navy, and was the Commander of the United States Naval Air Force, Pacific Fleet, from 1985 to 1987. Admiral Service is a former Director of Wood River Medical Center, Ketchum, Idaho. Admiral Service currently serves as a member of the Company's Nominating and Corporate Governance Committee and Compensation Committee. The Board believes that Admiral Service's significant leadership experience, knowledge of the firearms industry and its products and 20 years of service on the Board, including four as its Chairman, qualify him to serve on the Board of Directors.</p>   |
| <b>Amir P. Rosenthal</b><br>Age 50<br>Director since January, 2010     | <p>Mr. Rosenthal has been the Chief Financial Officer of Bauer Performance Sports Ltd. since 2008. From 2001 to 2008, he served in a variety of positions at Katy Industries, Inc., including Vice President, Chief Financial Officer, General Counsel and Secretary. From 1989 to 2001, Mr. Rosenthal served in a variety of positions at Timex Corporation, including Treasurer, Counsel and Senior Counsel, as well as Director and Chairman of Timex Watches Ltd. Mr. Rosenthal is currently Chairman of the Company's Risk Oversight Committee and a member of the Company's Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. The Board believes that Mr. Rosenthal's comprehensive business, legal and financial expertise qualify him to serve on the Board of Directors.</p>  |
| <b>Ronald C. Whitaker</b><br>Age 64<br>Director since June, 2006       | <p>Mr. Whitaker served as the President and CEO of Hyco International from 2003, and as a member of its Board from 2001, until his retirement in July, 2011. In July 2011, he joined the Board of Global Brass and Copper Company, Inc., and serves as the chair of its Compensation Committee and as a member of its Audit Committee. Mr. Whitaker has been a Board member of Panghorn Corporation since 2006 and serves as the chair of its Compensation Committee. He was a member of the Board and executive committee of Strategic Distribution, Inc., and was its President and CEO from 2000 to 2003. Mr. Whitaker was the President and CEO of Johnson Outdoors from 1996 to 2000, and CEO, President and Chairman of the Board of Colt's Manufacturing Co., Inc. from 1992 to 1995. He is a former Board member of Firearms Training Systems, Group Decco, Michigan Seamless Tube, Precision Navigation, Inc., Weirton Steel Corporation and Code Alarm, and a former Trustee of the College of Wooster. Mr. Whitaker is currently the Chairman of the Nominating and Corporate Governance Committee and a member of the Company's Audit Committee and Risk Oversight Committee. The Board believes that Mr. Whitaker's significant executive, board and firearms industry experience, and his knowledge of the Company's products qualify him to serve on the Board of Directors.</p> |

| Name,<br>Age,<br>First Became A<br>Director                           | Business Experience<br>During the Past Five Years,<br>Other Directorships, Current Committee Memberships and Board Qualifications   |
|---|---|
| <b>Phillip C. Widman</b><br>Age 57<br>Director since<br>January, 2010 | <p>Mr. Widman has been the Senior Vice President and Chief Financial Officer of Terex Corporation since 2002. He served as a Board and Nominating and Governance Committee member, and as Audit Committee chair, of Lubrizol Corp from November 2008 until September 2011. Mr. Widman was the Executive Vice President and Chief Financial Officer of Philip Services Corporation from 1998 to 2001. Mr. Widman is currently Chairman of the Company’s Audit Committee and a member of the Risk Oversight Committee. The Board believes that Mr. Widman’s extensive business management, board and audit committee experience, financial expertise and knowledge of shooting sports qualify him to serve on the Board of Directors.</p>   |
| <b>Michael O. Fifer</b><br>Age 54<br>Director since<br>October, 2006  | <p>Mr. Fifer has been Chief Executive Officer of the Company since September 25, 2006, and President and Chief Executive Officer of the Company since April 23, 2008. He was the Executive Vice President and President of Engineered Products of Mueller Industries, Inc. from 2003 to 2006, President of North American Operations of Watts Industries, Inc. from 1998 to 2002, and a member of the Board of Directors and Audit, Compensation and Special Committees of Conbraco Industries from 2003 to 2006. Mr. Fifer is a member of the Board of Governors of the National Shooting Sports Foundation. The Board believes that Mr. Fifer’s executive leadership and management experience and skills, including five and one-half years of service as the CEO and President of the Company, and his deep understanding of the Company and its products and the firearms industry qualify him to serve on the Board of Directors.</p> |

**Board of Directors Recommendation**

The Board of Directors recommends a vote “**FOR**” each of the nominees named above.

## THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors is committed to good business practice, transparency in financial reporting and the highest level of corporate governance. To that end, the Board of Directors and its committees continually review the Company's governance policies and practices as they relate to the practices of other public companies, specialists in corporate governance, the rules and regulations of the SEC, Delaware law (the state in which the Company is incorporated) and the listing standards of the NYSE.

### **Corporate Board Governance Guidelines and Code of Business Conduct and Ethics**

The Company's corporate governance practices are embodied in the Corporate Board Governance Guidelines. In addition, the Company has adopted a Code of Business Conduct and Ethics which governs the obligation of all employees, executive officers and Directors of the Company to conform their business conduct to be in compliance with all applicable laws and regulations, among other things. Copies of the Corporate Board Governance Guidelines and Code of Business Conduct and Ethics are posted on the Company's website at [www.ruger.com](http://www.ruger.com) and are available in print to any stockholder who requests it by contacting the Corporate Secretary as set forth in "STOCKHOLDER COMMUNICATIONS" below.

### **The Board's Role in Risk Oversight**

The Board's role in the oversight of risk management includes receiving regular reports from the Risk Oversight Committee and senior management in areas of material risk to the Company, including operational, financial, legal and regulatory, strategic, reputational and industry-related risks. The Risk Oversight Committee and the full Board review and discuss these reports with the goal of overseeing the identification, management and mitigation strategies for these risks.

### **Independent, Non-Management Directors**

More than a majority of the current Directors, including each member that serves on any committee of the Board, are "independent" under the rules of the New York Stock Exchange, Inc. ("NYSE"). The Board has affirmatively determined that none of Messrs. Cosentino, Jacobi, Rosenthal, Service, Whitaker and Widman has or had a material relationship with the Company or any affiliate of the Company, either directly or indirectly, as a partner, shareholder or officer of an organization (including a charitable organization) that has a relationship with the Company, and are therefore "independent" for such purposes under the rules of the NYSE, including Rule 303A thereof.

The independent, non-management members of the Board meet regularly in executive sessions and each such meeting is led by the independent, non-executive Chairman of the Board, or in his absence, the independent, non-management Vice-Chairman and Lead Director. C. Michael Jacobi has served as the non-executive Chairman of the Board since April 28, 2010, and John A. Cosentino, Jr. has served as the Vice Chairman since April 28, 2010 and as the Lead Director since April 24, 2007.

### **Board Leadership Structure**

On April 24, 2007, the By-Laws were amended to require the Chairman of the Board to be an independent, non-management Director who would preside at all meetings of the Board, including meetings of the independent, non-management Directors in executive session, which would generally occur as part of each regularly scheduled Board meeting. The separation of Chairman and Chief Executive Officer duties recognizes the difference in the two roles: the Chairman of the Board leads the Board of Directors as they provide guidance to and oversight of the CEO, while the CEO is responsible for setting the strategic direction for the Company and the day-to-day leadership and performance of the Company. The April 24, 2007 By-Law amendment also provided that an independent, non-management Lead Director would be named to preside at stockholder, Board and executive session meetings and to act as an intermediary between the non-management Directors and management of the Company when special circumstances exist or communication out of the ordinary course is necessary, such as the absence or disability of the non-executive Chairman of the Board. On April 28, 2010, the Board amended the By-Laws to create the position of Vice-Chairman, who assumes the duties of Lead Director as outlined above.

## Membership and Meetings of the Board and Its Committees

In 2011, the members of the Board were C. Michael Jacobi, John A. Cosentino, Jr., James E. Service, Amir P. Rosenthal, Ronald C. Whitaker, Phillip C. Widman and Michael O. Fifer.

Each Director attended all 2011 meetings of the Board, with the exception of Amir P. Rosenthal, who did not attend one meeting of the Board with the prior permission of the Chairman, and at least 75% of the meetings of the Committees on which they served during their 2011 tenure. In addition, all members of the Company's Board attended the 2011 Annual Meeting of Stockholders. It is the policy of the Company that attendance at all meetings of the Board, all committee meetings, and the Annual Meeting of Stockholders is expected, unless the Director has previously been excused by the Chairman of the Board for good cause. Committee memberships and the number of meetings of the full Board and its committees held during the fiscal year 2011 are set forth in the table below. When feasible and appropriate, it is the practice of the Board to hold its regular committee meetings in conjunction with the regular meetings of the Board of Directors.

Each Committee is governed by a written charter that has been adopted by the Board. A copy of each Committee's Charter is posted on the Company's website at [www.ruger.com](http://www.ruger.com), and is available in print to any stockholder who requests it by contacting the Corporate Secretary as set forth in "STOCKHOLDER COMMUNICATIONS" below.

**MEMBERSHIP AND MEETINGS OF THE BOARD AND ITS COMMITTEES TABLE  
FOR YEAR 2011**

| <u>Name</u>                     | <u>Board of Directors</u> | <u>Audit Committee</u> | <u>Compensation Committee</u> | <u>Nominating and Corporate Governance Committee</u> | <u>Risk Oversight Committee</u> |
|---------------------------------|---------------------------|------------------------|-------------------------------|--|---------------------------------|
| <b>C. Michael Jacobi</b>        | Chairman                  |                        | Member                        |  |                                 |
| <b>John A. Cosentino, Jr.</b>   | Vice Chairman             | Member                 | Chair                         |  |                                 |
| <b>James E. Service</b>         | Chairman Emeritus         |                        | Member                        | Member   |                                 |
| <b>Amir P. Rosenthal</b>        | Member                    | Member                 |                               | Member   | Chair                           |
| <b>Ronald C. Whitaker</b>       | Member                    | Member                 |                               | Chair  | Member                          |
| <b>Philip C. Widman</b>         | Member                    | Chair                  |                               |  | Member                          |
| <b>Michael O. Fifer</b>         | Member                    |                        |                               |  |                                 |
| <b>Total Number of Meetings</b> | <b>4</b>                  | <b>4</b>               | <b>4</b>                      | <b>2</b>   | <b>4</b>                        |

## COMMITTEES OF THE BOARD

### Audit Committee

In 2011, the members of the Audit Committee of the Board were Phillip C. Widman, John A. Cosentino, Jr., Amir P. Rosenthal and Ronald C. Whitaker. Mr. Widman serves as Chairman of the Audit Committee. All members of the Audit Committee are considered “independent” for purposes of service on the Audit Committee under the rules of the NYSE, including Rule 303A thereof, and Rule 10A-3 of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”). All members of the Audit Committee are financially literate and have a working familiarity with basic finance and accounting practices. In addition, the Company has determined that each of Messrs. Cosentino, Jacobi, Rosenthal, Whitaker and Widman are audit committee financial experts as defined by the SEC rules and regulations.

The purpose of the Audit Committee is to provide assistance to the Board in fulfilling its responsibility with respect to its oversight of: (i) the quality and integrity of the Company’s financial statements; (ii) the Company’s compliance with legal and regulatory requirements; (iii) the independent auditor’s qualifications and independence; and (iv) the performance of the Company’s internal audit function and independent auditors. In addition, the Audit Committee prepares the report required by the SEC rules included in this Proxy Statement.

The Audit Committee held four meetings during 2011. All members of the Audit Committee attended all meetings of the committee during their 2011 tenure, with the exception of Amir P. Rosenthal, who did not attend one meeting of the Audit Committee with the prior permission of the Audit Committee Chair. The Annual Report of the Audit Committee is included in this Proxy Statement.

## Report of the Audit Committee\*

Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed the audited financial statements in the Annual Report with management, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

McGladrey & Pullen, LLP is the independent registered public accounting firm appointed by the Company, and ratified by the Company's stockholders on April 27, 2011, to serve as the Company's independent auditors for the 2011 fiscal year. The Audit Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the committee by Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU § 380). In addition, the committee has discussed with the independent auditors the auditors' independence from management and the Company, and has received the written disclosures and the letter from the independent auditors as required by PCAOB Ethics and Independence Rule 3526, "*Communication with Audit Committees Concerning Independence*". The Audit Committee also has considered whether McGladrey & Pullen, LLP's provision of non-audit services to the Company is compatible with the independent public accounting firm's independence.

The committee discussed with the independent auditors the overall scope and plans for their audit. The committee met with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. The committee held four meetings during fiscal year 2011.

In reliance on the reviews and discussions referred to above, the committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2011 for filing with the Securities and Exchange Commission.

The Audit Committee's responsibility is to monitor and oversee the audit and financial reporting processes. However, the members of the Audit Committee are not practicing certified public accountants or professional auditors and rely, without independent verification, on the information provided to them and on the representations made by management, and the report issued by the independent registered public accounting firm.

### AUDIT COMMITTEE

Phillip C. Widman, Audit Committee Chairman

John A. Cosentino, Jr.

Amir P. Rosenthal

Ronald C. Whitaker

March 5, 2012

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\* The report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under either the Securities Act of 1933, as amended, or the Exchange Act (together, the "Acts"), except to the extent that the Company specifically incorporates such report by reference; and further, such report shall not otherwise be deemed to be "soliciting material" or "filed" under the Acts.



## **Compensation Committee**

In 2011, the members of the Compensation Committee of the Board were John A. Cosentino, Jr., C. Michael Jacobi, and James E. Service. Mr. Cosentino serves as Chairman of the Compensation Committee. On February 14, 2012, the Board appointed Amir P. Rosenthal as a member of the Compensation Committee.

The purposes of the Compensation Committee are: (i) discharging the responsibilities of the Board with respect to the compensation of the Chief Executive Officer of the Company, the other executive officers of the Company and members of the Board; (ii) establishing and administering the Company's cash-based and equity-based incentive plans; and (iii) producing an annual report on executive compensation to be included in the Company's annual Proxy Statement, in accordance with the rules and regulations of the NYSE and the SEC, and any other applicable rules or regulations. The Compensation Committee has the authority to form and delegate authority to one or more subcommittees, made up of one or more of its members, as it deems appropriate from time to time.

The Compensation Committee held four meetings during 2011. All members of the Compensation Committee attended at least 75% of all meetings of the committee during their 2011 tenure. The annual Compensation Committee Report on Executive Compensation is included in this Proxy Statement.

## **Compensation Committee Interlocks and Insider Participation**

During the 2011 fiscal year, none of the Company's executive officers served on the board of directors of any entities whose directors or officers serve on the Company's Compensation Committee. No current or past executive officers of the Company serve on the Compensation Committee.

## **Compensation Committee Report on Executive Compensation\***

The committee has reviewed and discussed with management the Compensation Discussion & Analysis. In reliance on the reviews and discussions referred to above, the committee recommended to the Board of Directors that the Compensation Discussion & Analysis be included in this Proxy Statement.

### COMPENSATION COMMITTEE

John A. Cosentino, Jr., Compensation Committee Chairman  
C. Michael Jacobi  
James E. Service  
Amir P. Rosenthal

March 12, 2012

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\* The report of the Compensation Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing of the Acts, except to the extent that the Company specifically incorporates such report by reference; and further, such report shall not otherwise be deemed to be "soliciting material" or "filed" under the Acts.



## **Nominating and Corporate Governance Committee**

In 2011, the members of the Nominating and Corporate Governance Committee of the Board were Ronald C. Whitaker, Amir P. Rosenthal and James E. Service. Mr. Whitaker serves as Chairman of the Nominating and Corporate Governance Committee.

The Nominating and Corporate Governance Committee is responsible to the Board for identifying, vetting and nominating potential Directors and establishing, maintaining and supervising the corporate governance program. Some of these responsibilities are discussed in more detail below.

The Nominating and Corporate Governance Committee held two meetings during 2011. All members of the committee attended all meetings of that committee during their 2011 tenure.

As required under its charter, the Nominating and Corporate Governance Committee has adopted criteria for the selection of new Directors, including, among other things, career specialization, technical skills, strength of character, independent thought, practical wisdom, mature judgment and cultural, gender and ethnic diversity. Functional skills considered important for Directors to possess include experience as a chief executive or financial officer or similar position in finance, audit, manufacturing, advertising, military or government, and knowledge and familiarity of firearms and the firearms industry. The committee will also consider any such qualifications as required by law or applicable rule or regulation, and will consider questions of independence and conflicts of interest. In addition, the following characteristics and abilities, as excerpted from the Company's Corporate Board Governance Guidelines, will be important considerations of the Nominating and Corporate Governance Committee:

- Personal and professional ethics, strength of character, integrity and values;
- Success in dealing with complex problems or having excelled in a position of leadership;
- Sufficient education, experience, intelligence, independence, fairness, ability to reason, practicality, wisdom and vision to exercise sound and mature judgment;
- Stature and capability to represent the Company before the public and the stockholders;
- The personality, confidence and independence to undertake full and frank discussion of the Company's business assumptions;
- Willingness to learn the business of the Company, to understand all Company policies and to make themselves aware of the Company's finances;
- Willingness at all times to execute their independent business judgment in the conduct of all Company matters;
- Diversity of skills, attributes and experience which augment the composition of the Board in execution of its oversight responsibilities to the benefit to the Company; and
- Cultural, gender and ethnic diversity.

The charter also grants the Nominating and Corporate Governance Committee the responsibility to identify and meet individuals believed to be qualified to serve on the Board and recommend that the Board select candidates for directorships. The Nominating and Corporate Governance Committee's process for identifying and evaluating nominees for Director, as set forth in the charter, includes inquiries into the backgrounds and qualifications of candidates. These inquiries include studies by the Nominating and Corporate Governance Committee and may also include the retention of a professional search firm to be used to assist it in identifying or evaluating candidates. The Nominating and Corporate Governance Committee has previously retained the firms Boardbench, LLC and Korn/Ferry International to assist in the search for qualified Directors.

The Nominating and Corporate Governance Committee has a written policy which states that it will consider Director candidates recommended by stockholders. There is no difference in the manner in which the Nominating and Corporate Governance Committee will evaluate nominees recommended by stockholders and the manner in which it evaluates candidates recommended by other sources. Shareholder recommendations for the nomination of directors should set forth (a) as to each proposed nominee, (i) their name, age, business address and, if known, residence address, (ii) their principal occupation or employment, (iii) the number of shares of stock of the Company which are beneficially owned by each such nominee and (iv) any other information concerning the nominee that must be disclosed as to nominees in proxy solicitations pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to be named as a nominee and to serve as a director of the Company if elected); (b) as to the shareholder giving the notice, (i) their name and address, as they appear on the Company's books, (ii) the number of shares of the corporation which are beneficially owned by such shareholder and (iii) a representation that such shareholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such nomination; and (c) as to the beneficial owner, if any, on whose behalf the nomination is made, (i) the name and address of such person and (ii) the class and number of shares of the Company which are beneficially owned by such person. The Company may require any proposed nominee to furnish such other information as it may reasonably need to determine the eligibility of a proposed nominee to serve as a director of the Company, including a statement of the qualifications of the candidate and at least three business references. All recommendations for nomination of directors should be sent to the Corporate Secretary, Sturm, Ruger & Company, Inc., 1 Lacey Place, Southport, CT 06890. The Corporate Secretary will accept such recommendations and forward them to the Chairman of the Nominating and Corporate Governance Committee. In order to be considered for inclusion by the Nominating and Corporate Governance Committee as a candidate at the Company's next Annual Meeting of Stockholders, stockholder recommendations for director candidates must be received by the Company in writing delivered or mailed by first class United States mail, postage prepaid, no earlier than January 2, 2013 (120 days prior to the first anniversary of this year's Annual Meeting of Stockholders) and no later than February 2, 2013 (90 days prior to the first anniversary of this year's Annual Meeting of Stockholders).

The Company has not rejected any Director candidates put forward by a stockholder or group of stockholders who beneficially owned more than 5% of the Company's Common Stock for at least one year prior to the date of the recommendation.

### **Risk Oversight Committee**

In 2011, the members of the Risk Oversight Committee were Amir P. Rosenthal, Ronald C. Whitaker and Phillip C. Widman. Amir P. Rosenthal serves as Chairman of the Risk Oversight Committee.

The Board established the Risk Oversight Committee in 2010 to collaborate with the Company's executive team in assisting the Board in fulfilling its responsibility with respect to the Company's enterprise risk management oversight. The Risk Oversight Committee's responsibilities and roles are as follows:

- To monitor all enterprise risk. In doing so, the Committee recognizes the responsibilities delegated to other committees of the Board, and understands that the other committees of the Board may emphasize specific risk monitoring through their respective activities.
- To receive, review and discuss regular reports from senior management in areas of material risk to the Company, including operational, financial, legal and regulatory, strategic, reputational and industry-related risks.
- To discuss with management the Company's major risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessments and risk management policies.
- To study or investigate any matter of interest or concern that the Committee deems appropriate.

The Risk Oversight Committee held four meetings during 2011. All members of the committee attended all of the meetings of the committee during their 2011 tenure.

## DIRECTOR COMPENSATION

The Board believes that compensation for the Company's independent Directors should be a combination of cash and equity-based compensation. The Directors and the Compensation Committee annually review Director compensation utilizing published compensation studies. Any recommendations for changes are made to the full Board by the Compensation Committee. In 2010, as a result of these reviews, the Directors' fee structure was changed as described below.

### **Directors' Fees and Other Compensation**

As of April 28, 2010, the Board approved a fee schedule whereby non-management independent Directors receive annual retainer compensation as follows: Chairman of the Board \$140,000; Vice Chairman of the Board \$130,000; all others \$100,000. The retainer compensation is paid as 2/3 in cash and 1/3 in one-year restricted stock. In addition to the annual retainer fees, all non-management independent Directors annually receive long-term equity compensation of \$50,000 paid in the form of \$33,333 of three-year-restricted stock units at a one-third discount to market.

On April 27, 2011, the date of the 2011 Annual Meeting, the independent Directors received their awards of restricted stock, and the vesting period for the one-year restricted shares awarded for their service during the period of April 28, 2010 to April 27, 2011 was satisfied.

Under the 2007 Stock Incentive Plan, options to purchase 20,000 shares of the Company's Common Stock were granted to Directors upon joining the Board at an exercise price equal to the closing price on the date of award. These options vest and become exercisable in four equal annual installments of 25% of the total number of options awarded, beginning on the date of grant and on each of the next succeeding three anniversaries thereafter. Until the April 24, 2007 ratification of the 2007 Stock Incentive Plan, these options were previously granted under the 2001 Stock Option Plan for Non-Employee Directors. On April 28, 2010, the Board of Directors eliminated such awards altogether for future new Directors.

Directors are covered under the Company's business travel accident insurance policy for \$1,000,000 while traveling on Company business, and are covered under the Company's director and officer liability insurance policies for claims alleged in connection with their service as a Director.

All Directors were reimbursed for reasonable out-of-pocket expenses related to attendance at meetings.

## DIRECTORS' COMPENSATION TABLE FOR YEAR 2011

The following table reflects the compensation received during the 2011 fiscal year by each independent Director. Please see "SUMMARY COMPENSATION TABLE" for disclosure of Directors' fees paid to management Directors in the 2011 fiscal year.

| <u>Name</u>                   | <u>Fees<br/>Earned or<br/>Paid in<br/>Cash (1)<br/>(\$)</u> | <u>Number of<br/>Shares<br/>Underlying<br/>Stock<br/>Awards (1)<br/>(#)</u> | <u>Stock<br/>Awards<br/>(2)<br/>(\$)</u> | <u>Total Director<br/>Compensation (3)<br/>(\$)</u> |
|-------------------------------|---|---|--|---|
| <b>C. Michael Jacobi</b>      | \$93,332  | 4,106   | \$96,667                                 | \$190,000   |
| <b>John A. Cosentino, Jr.</b> | \$86,667  | 3,965   | \$93,333                                 | \$180,000   |
| <b>James E. Service</b>       | \$66,667  | 3,540   | \$83,333                                 | \$150,000   |
| <b>Amir P. Rosenthal</b>      | \$66,667  | 3,540   | \$83,333                                 | \$150,000   |
| <b>Ronald C. Whitaker</b>     | \$66,667  | 3,540   | \$83,333                                 | \$150,000   |
| <b>Phillip C. Widman</b>      | \$66,667  | 3,540   | \$83,333                                 | \$150,000   |

### Notes to Directors' Compensation Table

- (1) See "DIRECTOR'S FEES AND OTHER COMPENSATION" above.
- (2) Represents aggregate grant date dollar value of non-qualified equity awards made to each non-management independent director on May 2, 2011 under the 2007 Stock Incentive Plan in accordance with the Director annual fee schedule approved on April 28, 2010. The amounts shown represent the full grant date fair value of the awards calculated in accordance with the provisions of FASB ASC 718, and are shown at the maximum value expected upon achievement of the time-based goals of the awards.
- (3) The Company's non-management Directors do not receive non-equity incentive plan compensation, pension or medical plan benefits or non-qualified deferred compensation.

## Directors' and Executive Officers' Beneficial Equity Ownership

In 2006 the Board set a minimum equity ownership requirement for independent, non-management Directors of five times their annual base cash retainer of \$50,000 to be achieved within five years of the later of the date of adoption or the date of a Director's election. As Directors are expected to hold a meaningful ownership position in the Company, a significant portion of overall Director compensation is intended to be in the form of Company equity. This has been partially achieved through options granted to each independent Director under the 2001 Stock Option Plan for Non-Employee Directors and through the annual deferred equity awards under the 2007 Stock Incentive Plan. In 2007 the Board also set a minimum equity ownership requirement for the Company's Chief Executive Officer of three times his base salary, and for the Company's Vice Presidents of two times their base salary, to be achieved within five years of their appointment. The current amounts of Common Stock beneficially owned by each Director and Named Executive Officer may be found in the "BENEFICIAL OWNERSHIP TABLE" below.

### BENEFICIAL OWNERSHIP OF DIRECTORS AND MANAGEMENT TABLE

The following table sets forth certain information as of March 13, 2012 as to the number of shares of the Company's Common Stock beneficially owned by each Director, Named Executive Officer and all Directors and Executive Officers of the Company as a group.

| <u>Name</u>   | <u>Beneficially Owned Shares of Common Stock (#)</u> | <u>Stock Options Currently Exercisable or to Become Exercisable within 60 days after March 13, 2012 (#)</u> | <u>Total Shares Beneficially Owned (#)</u> | <u>Percent of Class (%)</u> |
|---|--|---|--|-----------------------------|
| <b>Independent Directors:</b>   |  |   |  |                             |
| C. Michael Jacobi   | 26,570   | 0   | 26,570                                     | *                           |
| John A. Cosentino, Jr.  | 38,077   | 0   | 38,077                                     | *                           |
| James E. Service  | 19,123   | 0   | 19,123                                     | *                           |
| Amir P. Rosenthal   | 8,961  | 15,000  | 23,961                                     | *                           |
| Ronald C. Whitaker  | 27,234   | 20,000  | 47,234                                     | *                           |
| Phillip C. Widman   | 17,961   | 15,000  | 32,961                                     | *                           |
| <b>Named Executive Officers:</b>  |  |   |  |                             |
| Michael O. Fifer (also a Director)  | 253,923  | 0   | 253,923                                    | 1.3%                        |
| Thomas A. Dineen  | 36,279   | 13,000  | 49,279                                     | *                           |
| Christopher J. Killoy   | 44,127   | 0   | 44,127                                     | *                           |
| Mark T. Lang  | 14,505   | 100,864   | 115,369                                    | *                           |
| Thomas P. Sullivan  | 60,250   | 0   | 60,250                                     | *                           |
| <b>Directors and executive officers as a group: (6 independent Directors, 1 Director who is also an executive officer and 7 other executive officers)</b> | <b>638,015</b>                                       | <b>186,864</b>  | <b>824,879</b>                             | <b>4.3%</b>                 |

#### Notes to Beneficial Ownership Table

\* Beneficial owner of less than 1% of the outstanding Common Stock of the Company.

## SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's officers and Directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC and NYSE. Officers, Directors and greater-than-10% stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of the Section 16(a) report forms furnished to the Company and written representations that no other reports were required, that with respect to the period from January 1, 2011 through December 31, 2011, all such forms were filed in a timely manner by the Company's officers, Directors and greater-than-10% beneficial owners.

## CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS

The Company's Board has a policy of monitoring and reviewing issues involving potential conflicts of interest, and reviewing and approving all related party transactions. There were no related-party transactions in 2011.

## PRINCIPAL STOCKHOLDERS

The following table sets forth as of March 13, 2012 the ownership of the Company's Common Stock by each person of record or known by the Company to beneficially own more than 5% of such stock.

| <u>Title of Class</u> | <u>Name and Address of Beneficial Owner</u>   | <u>Amount and Nature of Beneficial Ownership (1)</u><br><u>(#)</u> | <u>Percent of Class</u><br><u>(%)</u> |
|-----------------------|---|--|---------------------------------------|
| Common Stock          | The London Company<br>1801 Bayberry Court, Suite 301<br>Richmond, VA 23226  | 1,519,568  | 7.94%                                 |
| Common Stock          | Black Rock Inc.<br>40 East 52 <sup>nd</sup> Street<br>New York, NY 10022  | 1,461,232  | 7.63%                                 |
| Common Stock          | Allianz Global Investors Capital LLC<br>600 West Broadway, Suite 2900<br>San Diego, CA 92101<br><br>NJF Investment Group LLC<br>2100 Ross Avenue, Suite 700<br>Dallas, TX 75201 | 1,120,949  | 5.85%                                 |
| Common Stock          | The Vanguard Group, Inc.<br>100 Vanguard Boulevard<br>Malvern, PA 19355   | 1,115,624  | 5.83%                                 |
| Common Stock          | Renaissance Technologies LLC<br>Renaissance Technologies Holding Corporation<br>800 Third Avenue<br>New York, NY 10022  | 1,096,500  | 5.73%                                 |

### Notes to Principal Stockholder Table

- (1) Such information is as of December 31, 2011 and is derived exclusively from Schedules 13G or Schedules 13G/A filed by the named beneficial owners on or before February 15, 2012.

**PROPOSAL NO. 2 - RATIFICATION OF INDEPENDENT AUDITORS**

**PRINCIPAL ACCOUNTANTS' FEES AND SERVICES**

The following table summarizes the fees incurred by the Company for professional services rendered by McGladrey & Pullen, LLP during fiscal years 2011 and 2010.

| <b>Principal Accountants' Fees</b> |                  |                  |
|------------------------------------|------------------|------------------|
|                                    | <b>2011</b>      | <b>2010</b>      |
| Audit Fees                         | \$582,000        | \$581,000        |
| Audit-Related Fees                 | \$47,000         | \$45,000         |
| Tax Fees                           | \$14,000         | \$13,100         |
| All Other Fees                     | \$0              | \$32,000         |
| <b>Total Fees</b>                  | <b>\$643,000</b> | <b>\$671,100</b> |

*Audit Fees*

Consist of fees billed for professional services rendered for the audit of the Company's consolidated financial statements, the audit of internal controls over financial reporting per Section 404 of the Sarbanes-Oxley Act and the review of interim consolidated financial statements included in quarterly reports.

*Audit - Related Fees*

Consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees." These services include audits of the Company's employee benefit and compensation plans.

*Tax Fees*

Consist of fees billed for professional services for tax assistance, including pre-filing reviews of original and amended tax returns for the Company and tax audit assistance.

*All Other Fees*

Consist of fees billed for services rendered by McGladrey & Pullen, LLP related to miscellaneous matters including financial due diligence and internal audit assistance.

**Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors**

It is the policy of the Audit Committee to meet and review and approve in advance, on a case-by-case basis, all engagements by the Company of permissible non-audit services or audit, review or attest services for the Company to be provided by the independent auditors, with exceptions provided for de minimus amounts under certain circumstances as prescribed by the Exchange Act. The Audit Committee may, at some later date, establish a more detailed pre-approval policy pursuant to which such engagements may be pre-approved without a meeting of the Audit Committee. Any request to perform any such services must be submitted to the Audit Committee by the independent auditor and management of the Company and must include their views on the consistency of such request with the SEC's rules on auditor independence.

All of the services of McGladrey & Pullen, LLP related to the Audit-Related Fees, Tax Fees and All Other Fees described above were approved by the Audit Committee in accordance with its policy on permissible non-audit services or audit, review or attest services for the Company to be provided by its independent auditors, and no such approval was given through a waiver of such policy for de minimus amounts or under any of the other circumstances as prescribed by the Exchange Act.



Representatives of McGladrey & Pullen, LLP will be present at the Meeting, will have the opportunity to make a statement if they so desire, and will be available to respond to appropriate questions.

### **Board of Director Recommendation**

The Board of Directors recommends a vote “**FOR**” the ratification of McGladrey & Pullen, LLP as the Company’s independent auditors.

## **PROPOSAL NO. 3 – ADVISORY VOTE ON COMPENSATION OF NAMED EXECUTIVE OFFICERS**

The recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, enables stockholders to vote to approve, on an advisory (nonbinding) basis, the compensation of the Company’s executive officers as disclosed in this Proxy Statement in accordance with applicable SEC rules. This vote, commonly known as a “say-on-pay” vote, provides stockholders with the opportunity to express their views on our executive officers’ compensation. The vote is not intended to address any specific item of our executive compensation, but rather the overall compensation of the Company’s executive officers and the philosophy, policies and practices described in this Proxy Statement.

As described in the section of this Proxy Statement entitled “Compensation Discussion and Analysis”, our executive compensation program is designed to attract, retain, and motivate talented individuals with the executive experience and leadership skills necessary for us to increase stockholder value by driving long-term growth in revenue and profitability. We seek to provide executive compensation that is competitive with companies that are similar to the Company. We also seek to provide near-term and long-term financial incentives that reward well-performing executives when strategic corporate objectives designed to increase long-term stockholder value are achieved. We believe that executive compensation should include base salary, cash incentives and equity awards. We also believe that our executive officers’ base salaries should be set at competitive levels relative to comparable companies, and cash and equity incentives should generally be set at levels that give executives the opportunity to achieve above-average total compensation reflecting above-average company performance. In particular, our executive compensation philosophy is to promote long-term value creation for our shareholders by rewarding improvement in selected financial metrics, and by using equity incentives. Please see our “Compensation Discussion and Analysis” and related compensation tables for detailed information about our executive compensation programs, including information about the fiscal 2011 compensation of our executive officers.

Text of Resolution:

“RESOLVED, that the Company’s stockholders approve, on an advisory basis, the compensation of the Named Executive Officers, as disclosed in the Company’s Proxy Statement for the 2012 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2011 Summary Compensation Table and the other related tables and disclosure.”

The say-on-pay vote is advisory, and therefore not binding on the Company, our Board of Directors, or the Compensation Committee of the Board of Directors. Our Board of Directors and Compensation Committee value the opinions of our stockholders and to the extent there is any significant vote against the executive officer compensation as disclosed in this Proxy Statement, we will consider our stockholders’ concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

### **Board of Directors Recommendation**

The Board of Directors recommends a vote “**FOR**” approval of the pay-for-performance compensation policies and practices employed by the Compensation Committee, as described in the Compensation Discussion and Analysis and the tabular disclosure regarding Named Executive Officer compensation in this Proxy Statement.



## COMPENSATION DISCUSSION AND ANALYSIS

### **What is the Company's Philosophy Regarding Compensation and what are the Compensation Program Objectives and Rewards?**

The Company's executive compensation program is designed to reward both corporate and individual performance in an environment that reflects commitment, responsibility and adherence to the highest standards of ethics and integrity. Recognition of both individual contributions as well as overall business results permits an ongoing evaluation of the relationship between the size and scope of the Company's operations, its performance and its executive compensation.

The program's objectives are to attract, retain and motivate a workforce that helps to ensure our future success, to support a lean and flexible business model culture, and to help achieve overall business objectives in order to provide our stockholders with a superior rate of return.

### **What are the Company's Governance Practices Regarding Compensation?**

#### **Stockholders:**

The 2007 Stock Incentive Plan, which was approved by the stockholders at the Company's 2007 Annual Meeting, replaced all previous stock incentive plans. The Company does not have any stock plans that are not stockholder-approved.

#### **Board and Compensation Committee and Nominating and Corporate Governance Committee:**

The Compensation Committee and the Board determine the compensation of the Company's executive officers, including the individuals whose compensation is detailed in this Proxy Statement. The Compensation Committee, which is composed entirely of independent, non-management Directors, establishes and administers compensation programs and philosophies. The Compensation Committee ensures that stockholder-approved plans are administered in accordance with good governance practices and stockholder intent. The Compensation Committee is responsible for the recommendation of salaries, bonuses and long-term incentive compensation paid to executive officers, bonus pools for non-executive employees, retirement formulas for executive officers, deferred compensation plans, and any employment and change-in-control agreements. In addition, the performance of each executive officer is evaluated by the Nominating and Corporate Governance Committee and reported to the full Board. The full Board reviews the Compensation Committee and Nominating and Corporate Governance Committee reports and acts on recommendations of the Compensation Committee.

#### **Management:**

The Chief Executive Officer's views regarding the performance and recommended compensation levels for the Company's executive officers are discussed with all of the non-management Directors.

### **What are the Company's Governance Practices Regarding Stock Awards?**

The use of equity compensation is a significant component of the Company's overall compensation philosophy and is one that the Company plans to continue. The Company's philosophy is built on the principles that equity compensation should seek to align participants' actions and behaviors with stockholders' interests, be market-competitive, and be able to attract, motivate and retain the best employees, independent contractors and Directors.

The Board has established the following practices and policies regarding stock options and grants:

- The Company's policy for setting the timing of stock option grants does not allow executives to have any role in choosing the price of their options or other stock awards;
- The Company has never "back dated" or re-priced options or other stock awards, and the 2007 Stock Incentive Plan states that re-pricing of options is not allowed under the plan;
- The Company began utilizing Restricted Stock Units ("RSUs"), rather than stock options, for substantially all equity awards effective in April, 2009.

- Equity awards for employees shall be issued only on the fourth business day following the public quarterly filing of the Company's Forms 10-K or 10-Q in order to allow the investment markets adequate time to assimilate the current financial information, and will be valued at the mean between the highest and lowest sales prices of the Company's common stock on the NYSE on the date of issue;
- Annual performance-based equity awards for executive officers and certain employees shall generally be approved at the first Board meeting of each year and shall be issued on the fourth business day following the public filing of the Company's Forms 10-K.

The Compensation Committee and the Board consider recommendations from the Chief Executive Officer in establishing appropriate equity awards for officers and employees. All equity awards for the Named Executive Officers have been and will continue to be subject to the approval of the Compensation Committee and ratification by the full Board. The Company's Corporate Secretary is responsible for issuing equity awards upon their approval and maintaining records of all equity awards issued, exercised or terminated in accordance with the terms of the applicable stock incentive plan. As of December 31, 2011, all equity awards issued under the 1998 Stock Incentive Plans have been exercised or terminated in accordance with the terms of that plan.

### **What are the Elements of Compensation?**

The key elements of the Company's executive compensation consist of:

**Cash Compensation:** Base salary, bonuses and profit sharing.

**Equity Compensation:** Pursuant to the Company's 2007 Stock Incentive Plan approved by the Company's stockholders on April 24, 2007, which replaced all prior stock incentive plans, the Company may make grants of stock options, restricted stock, deferred stock and stock appreciation rights ("SARS"), any of which may or may not require the satisfaction of performance objectives.

**Retirement Benefits:** The Company offers its employees the opportunity to save money for retirement under a 401(k) plan. Additionally, the Company offers a Safe Harbor match to eligible participants in the 401(k) plan and supplemental discretionary contributions to the individual 401(k) Plan accounts of substantially all employees.

Until December 31, 2007, the Company offered a tax-qualified defined-benefit Salaried Employee's Retirement Income Plan (the "Pension Plan") to all salaried employees and a non-qualified defined-benefit Supplemental Executive Retirement Plan (the "SERP") to one employee and two retired employees. In 2007, the Company's Pension Plan was amended so that employees will no longer accrue benefits under it after December 31, 2007. This action "froze" the benefits for all employees and prevented future hires from joining the plan, effective December 31, 2007. In 2007, the Company's SERP was amended effective December 31, 2007 so that lump-sum payments of the benefits accrued were paid to the one employee and one of the two retiree participants. There are no current employees participating in the SERP. For further discussion, see "PENSION PLANS" below.

**Health, Welfare and Other Insurance Benefits:** The Company offers the same health and welfare benefits to all salaried employees. These benefits include medical benefits, dental benefits, vision benefits, life insurance, salary continuation for short-term disability, long-term disability insurance, accidental death and dismemberment insurance and other similar benefits. Because these benefits are offered to a broad class of employees, the cost is not required by SEC rules to be included in the "SUMMARY COMPENSATION TABLE" below. Officers are covered under the Company's business travel accident insurance policy for ten times their base salary to a maximum of \$5,000,000 while traveling at any time. Officers are also covered under the Company's director and officer liability insurance policies for claims alleged in connection with their service.

**Severance Agreements:** The Company has a Severance Policy that covers all employees. In addition, the officers of the Company are offered specific severance agreements that provide severance benefits to them when their employment terminates as a result of a change in control or by the Company without cause. For further discussion, see "Potential Payments Upon Termination or Change in Control" below.

## **Why Does the Company Choose to Pay Each Element?**

The Company's compensation and benefits programs are designed to fulfill the Company's need to attract, retain and motivate the highly talented individuals who will engage in the behaviors necessary to enable the Company to achieve its business objectives while upholding our values in a highly competitive marketplace. The reasons for each of the elements of compensation are:

- Base salaries and retirement and welfare benefits are designed to attract and retain employees over time;
- Performance-based incentive bonuses and profit sharing, which are paid in cash or a combination of cash and deferred stock, are designed to focus executives and employees on important Company-wide performance goals;
- Performance-based equity incentive awards, including performance-based incentive awards of non-qualified stock options or restricted stock unit awards are designed to focus executives and employees on important Company-wide performance goals;
- Time-based equity incentive awards, including non-qualified stock options and restricted stock unit awards are designed to retain executives and employees over time and to focus them on the long-term success of the Company, as reflected in increases to the Company's stock prices over a period of several years, growth in its earnings per share and other measurements of corporate performance; and
- Severance Agreements, which are designed to facilitate the Company's ability to attract and retain talented executives and encourage them to remain focused on the Company's business during times of corporate change.

As a result of the Company's equity and non-equity incentive plan awards, a significant portion of the Company's executive compensation is linked directly to corporate performance. The Compensation Committee intends to continue the policy of linking executive compensation to corporate and individual performance, recognizing that the ups and downs of the business cycle from time to time may result in an imbalance for a particular period.

## **How Does the Company Determine the Amount/Formula for Each Element?**

Generally, each element of compensation, including base salaries and performance-based bonus and equity incentive opportunities, is evaluated independently to determine whether it is competitive within the market as a whole, and then the aggregate compensation is evaluated using publicly available data to determine whether it is competitive and reasonable within the market as a whole, as further described below.

In 2011 and 2012, the Compensation Committee also utilized benchmarking reports prepared by Towers Watson, an independent consulting group, to analyze the compensation of the Company's Named Executive Officers. The reports discussed how the Company's executive compensation program compared with those of peer companies on base salary, target bonus, long-term incentives and total direct compensation. Peers included other publicly held companies in the firearms industry and companies with revenue between \$100 million to \$500 million. As a result of these analyses, the Compensation Committee concluded that the total direct compensation of its executives is competitive and reflects the individual and joint accomplishments of its executives on behalf of the Company.

## **How are Salaries Determined?**

Salaries for executive officers are determined by considering historical salaries paid by the Company to officers having certain duties and responsibilities, by comparing those salaries to required market rates for compensation of new executives being recruited to the Company, by comparing those salaries to recruiting offers made to the Company's executives by competitors, and then evaluating the current responsibilities of the officer's position, the scope and performance of the operations under their management and the experience and performance of the individual.

In making its salary decisions, the Compensation Committee places its emphasis on the particular executive's experience, responsibilities and performance. No specific formula is applied to determine the weight of each factor. The Compensation Committee has historically followed a policy of using performance-based incentive bonus awards rather than base salary to reward outstanding performance, and base salaries are not typically adjusted each year.

## **How are Bonuses and Profit Sharing Determined?**

The Company offers profit sharing to all of its employees. The amount of profit sharing is formula-based and is determined by the operating results of the Company. All employees participate in it pro-rata based on their actual base salary or hourly wage compensation. The amount of earnings that is paid quarterly as profit-sharing is authorized by the Board of Directors, but is typically 15% of Adjusted Operating Profit (“AOP”) after accrual for all bonuses and profit sharing. AOP is a non-GAAP measure of operating profit adjusted to eliminate the impact of LIFO income or expense, overhead and direct labor rate changes, excess and obsolete inventory reserve changes, and other income or expenses that we believe are related to longer periods of time, such as frozen defined benefit plan expense or product recalls.

The Company offers an annual performance-based incentive bonus to all but its most junior level of employees. The amount of annual performance-based incentive bonus is determined by the operating results of the Company and the nominal bonus opportunity authorized for each employee, expressed as a percentage of that employee’s base salary or hourly wage compensation. Individual bonus opportunities range from between 2.5% to 95% of each employee’s annual base salary or hourly wage compensation, and are based on the employee’s level of responsibility. The annual performance-based incentive bonus program and its annual performance goals are authorized by the Board of Directors. In 2011, all Company employees had the same performance goal.

The Board of Directors authorizes the CEO to make discretionary bonus awards to individual non-executive employees, with the aggregate of all such awards not to exceed 10% of the amount of the annual performance-based bonus program. The CEO typically uses the results of the semi-annual bell-curve performance review program to determine the eligibility of recipients of the annual CEO discretionary awards.

The Board of Directors also authorizes discretionary awards from time to time for executive officers in recognition of special performance. No discretionary awards were made to the Named Executive Officers for 2011.

## **How are Equity Compensation Awards Determined?**

Equity compensation awards are given to key employees and officers of the Company to align their long-term interests with those of the shareholders. In 2006 the Company adopted a practice whereby key new executives hired by the Company would receive an award of stock options with time-based vesting, and thereafter new Vice Presidents were granted 100,000 such options and the new Chief Executive Officer was granted 400,000 such options upon hire.

The Company offers annual performance-based equity incentive awards to officers and certain other senior or high-potential junior employees. From 2007 through the first quarter of 2009, these awards were in the form of stock options that would vest only upon achievement of certain operating performance goals. Subsequent to the first quarter of 2009, these awards were in the form of restricted stock units that would vest only upon achievement of certain operating performance goals. The amounts of these awards are based on a target compensation value for each individual and are authorized by the Board of Directors. The awards, and the performance goals, are authorized annually and in 2011 were awarded in quarterly increments each quarter after the public filing of the 10-K or 10-Q. In February 2011, the Board of Directors added a second trigger, a 3-year time-based vesting requirement, in addition to the performance-based trigger for vesting for annual performance-based equity awards granted in 2011 and beyond.

In 2011, the Board of Directors authorized the issuance of long-term retention awards to certain key officers of the Company to align their long-term interests with those of the shareholders, and to mitigate recruiting efforts by competitors. These awards were in the form of restricted stock units that would cliff vest on December 31, 2015.

## **What are the Company’s Ongoing Plans for Plan-Based Equity Compensation?**

The Company intends to consider annually the grant of performance-based equity awards for officers and certain other employees as described above. The performance goals will likely vary from year to year and will be based on the perceived needs of the business at the time of the award.

## **How is the Chief Executive Officer's Performance Evaluated and Compensation Determined?**

The Nominating and Corporate Governance Committee, the Compensation Committees and the Board as a whole annually evaluate the performance and review the compensation of the Chief Executive Officer utilizing a variety of criteria. The job objectives established for the Chief Executive Officer are:

- To promote and require the highest ethical conduct by all Company employees and demonstrate personal integrity consistent with the Company's Corporate Governance Guidelines.
- To establish, articulate and support the vision for the Company that will serve as a guide for expansion.
- To align physical, human, financial and organizational resources with strategies.
- To communicate strategies and alignment in a clear manner so that every employee understands their personal role in the Company's success.
- To establish a succession planning process in order to select, coordinate, evaluate and promote the best management team.
- To keep the Board informed on strategic and business issues.

Evaluation of the Chief Executive Officer's performance with regard to these job objectives is rated on the following business skills and performance achievement:

- **Leadership:** his ability to lead the Company with a sense of direction and purpose that is well understood, widely supported, consistently applied and effectively implemented.
- **Strategic Planning:** his development of a long-term strategy, establishment of objectives to meet the expectations of stockholders, customers, employees and all Company stakeholders, consistent and timely progress toward strategic objectives and obtainment and allocation of resources consistent with strategic objectives.
- **Financial Goals and Systems:** his establishment of appropriate and longer-term financial objectives, ability to consistently achieve these goals and ensuring that appropriate systems are maintained to protect assets and control operations.
- **Financial Results:** his ability to meet or exceed the financial expectations of stockholders, including improvement in operating revenue, cash flow, net income, capital expenditures, earnings per share and share price.
- **Succession Planning:** his development, recruitment, retention, motivation and supervision of an effective senior management team capable of achieving objectives.
- **Human Resources:** his ensuring development of effective recruitment, training, retention and personnel communication plans and programs to provide and motivate the necessary human resources to achieve objectives.
- **Communication:** his ability to serve as the Company's chief spokesperson and communicate effectively with stockholders and all stakeholders.
- **Industry Relations:** his ensuring that the Company and its operating units contribute appropriately to the well-being of their communities and industries, and representation of the Company in community and industry affairs.
- **Board Relations:** his ability to work closely with the Board to keep them fully informed on all important aspects of the status and development of the Company, his implementation of Board policies, and his recommendation of policies for Board consideration.



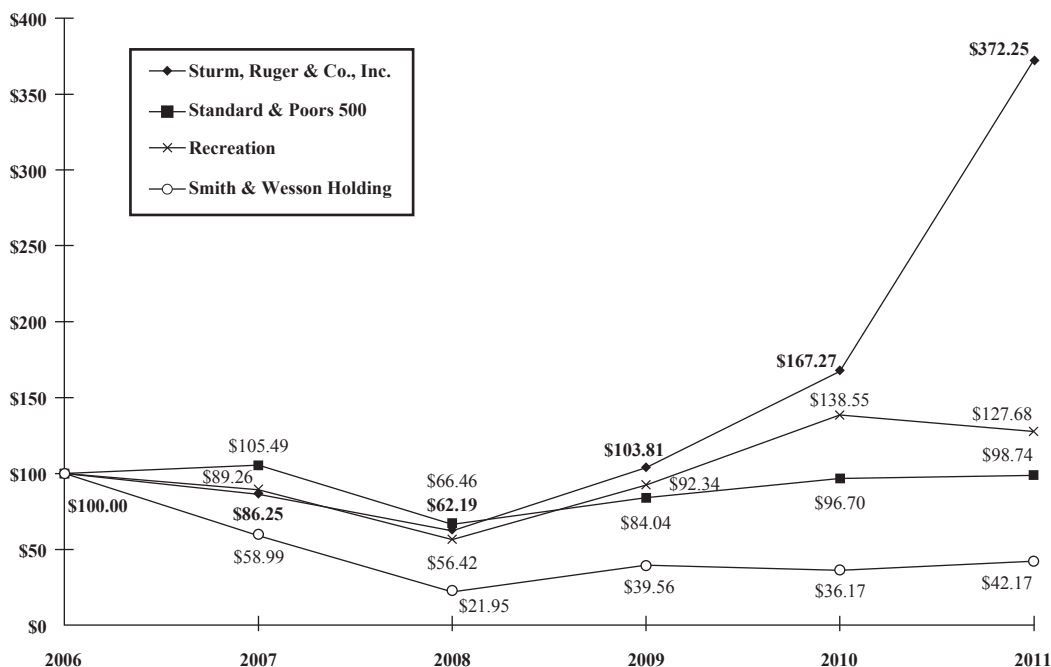
The Chief Executive Officer’s compensation levels are determined after performance evaluations based on published and commissioned compensation studies, the Chief Executive Officer’s demonstrated abilities and contributions to the success of the Company, and the overall results of Company operations.

### What is the Chief Executive Officer’s Compensation?

Prior to March 1, 2011, Mr. Fifer’s target annual compensation was a base salary of \$425,000, a performance-based bonus of \$403,750, a profit sharing target of \$34,480, a performance-based equity award in the form of restricted stock units valued at \$212,500 at the time of grant, and other “fringe benefit” compensation of \$17,150. Mr. Fifer’s total target annual compensation was \$1,092,880, and Mr. Fifer’s actual compensation for 2010 was \$1,292,040. Effective March 1, 2011, the Board of Directors increased Mr. Fifer’s target annual compensation to a base salary of \$500,000, a performance-based bonus of \$475,000, a profit sharing target of \$51,000, a performance-and-time-based equity award in the form of restricted stock units valued at \$375,000 at the time of grant, and other compensation of \$17,150. Mr. Fifer’s current total target annual compensation is \$1,418,150. In addition, the Board of Directors awarded Mr. Fifer a long-term retention grant of 150,000 restricted stock units, with a grant date fair value of \$2,712,000, that cliff-vest on December 31, 2015. In 2012, the Board of Directors awarded Mr. Fifer a long-term retention grant of 50,000 restricted stock units, with a grant date fair value of \$2,158,500, that cliff-vest on December 31, 2016. For 2011, Mr. Fifer’s actual compensation was \$4,522,102, and was 23 times the average compensation of the Company’s full-time employees excluding Mr. Fifer.

The Board of Directors increased Mr. Fifer’s compensation based on analysis of competitive compensation at other publicly reporting companies, including competitors Smith & Wesson Holding Corporation and Freedom Group, Inc. and the achievement of superior returns for the Company’s shareholders since he joined the Company on September 25, 2006. The graph below shows the Company’s total return since December 31, 2006 as compared to total returns for the S&P 500 Index and Smith & Wesson.

**COMPARISON OF CUMULATIVE TOTAL RETURN\***  
**Sturm, Ruger & Company, Inc., Standard & Poors 500 Index, and Smith & Wesson Holding Corporation**  
**(Performance Results from December 31, 2006 through December 31, 2011)**



Assumes \$100 invested at the close of trading December 31, 2006 in Sturm, Ruger & Company, Inc. Common Stock, Standard & Poors 500, Value Line Recreation Index and Smith & Wesson Holding Corporation.

\*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.

## **Does the Company Pay for Perquisites?**

The Company believes in limited perquisites for its Directors and executive officers. Perquisites generally include discounts on Company products, which are available to all Company employees and Directors. The Company has a Relocation Policy covering all employees based on their grade level that provides various levels of temporary living and relocation expense reimbursements, payment of related taxes, and the use of Company vehicles for business purposes. Temporary living and relocation reimbursements and related tax payments for the Named Executive Officers are disclosed in the “SUMMARY COMPENSATION TABLE” below.

## **How Does the Company Evaluate its Compensation Program Risks?**

The Compensation Committee evaluates risk deriving from compensation programs, and does not believe that our compensation program is reasonably likely to have a material adverse effect on the Company for the following reasons:

- Executive compensation is structured to consist of both fixed compensation, which provides a steady income stream regardless of stock price performance, and variable incentive compensation, which is designed to reward both short-term and long-term corporate performance. Fixed, base-salary compensation is both market-competitive and sufficient to make risk-taking to achieve a living wage unnecessary. Short-term cash incentive compensation is awarded based on achievement of operating profit goals, while significant weighting toward long-term equity incentive compensation based on multi-year operating performance targets discourages short-term risk-taking;
- Performance goals are applicable Company-wide to our executives and employees alike to encourage consistent behavior throughout the organization;
- Cash incentive awards are reviewed by the Compensation Committee if the achievement exceeds 150% of the target. In addition, approval of the Board of Directors is required prior to the payment of any incentive compensation;
- Equity guidelines discourage excessive risk taking by providing an incentive for executives to consider the Company’s long-term interests, since a portion of their personal investment portfolio consists of Company stock; and
- The Company has strict internal controls over the measurement and calculation of performance goals, and all employees are required to receive annual compliance training under our Corporate Governance Guidelines, which covers, among other things, accuracy of books and records.

## EXECUTIVE COMPENSATION

The following table summarizes the 2011 target cash and equity compensation approved by the Board of Directors for each of the executive officers named in the Summary Compensation Table.

### 2011 TARGET COMPENSATION TABLE

| <b>Named<br/>Executive<br/>Officer and<br/>Principal<br/>Position</b>                   | <b>Cash Compensation</b> |              |                           |   | <b>Equity Compensation</b> |   | <b>All Other<br/>Compensation<br/>(1)</b> | <b>Total Target<br/>Compensation</b> |
|---|--------------------------|--------------|---------------------------|---|----------------------------|---|---|--------------------------------------|
|   | <b>Salary</b>            | <b>Bonus</b> | <b>Profit<br/>Sharing</b> | <b>Performance-<br/>Based<br/>Non-Equity<br/>Compensation<br/>Opportunity</b> | <b>Option<br/>Awards</b>   | <b>Performance-<br/>Based Stock<br/>Award<br/>Opportunity</b> |   |                                      |
| <b>Michael O. Fifer</b><br><i>Chief Executive Officer and Director</i>                  | \$500,000                | \$0          | \$51,000                  | \$475,000   | \$0                        | \$375,000   | \$17,150                                  | \$1,418,150                          |
| <b>Thomas A. Dineen</b><br><i>Vice President, Treasurer and Chief Executive Officer</i> | \$250,000                | \$0          | \$25,500                  | \$152,500   | \$0                        | \$125,000   | \$17,150                                  | \$570,150                            |
| <b>Christopher J. Killoy</b><br><i>Vice President of Sales and Marketing</i>            | \$300,000                | \$0          | \$30,600                  | \$185,000   | \$0                        | \$200,000   | \$17,150                                  | \$732,750                            |
| <b>Mark T. Lang</b><br><i>Group Vice President</i>                                      | \$275,000                | \$0          | \$28,100                  | \$166,250   | \$0                        | \$180,000   | \$17,150                                  | \$666,500                            |
| <b>Thomas P. Sullivan</b><br><i>Vice President of Newport Operations</i>                | \$250,000                | \$0          | \$25,500                  | \$152,500   | \$0                        | \$125,000   | \$17,150                                  | \$570,150                            |

#### Notes to Target Compensation Table

- (1) Represents maximum employer matching contributions made under the Company's 401(k) Plan. Actual "All Other Compensation" received may include additional "fringe benefit" items as shown in the "SUMMARY ALL OTHER COMPENSATION TABLE" below.



## 2011 INCENTIVE COMPENSATION PRE-DETERMINED GOALS TABLE

The following table summarizes the pre-determined incentive compensation goals for 2011 approved by the Board of Directors for the Named Executive Officers.

|                       | Goals  |  | Achievement           |  |  |
|-----------------------|--|--|-----------------------|--|--|
|                       | <u>Performance-Based Non-Equity Compensation Opportunity (1)</u> | <u>Performance-Based Stock Award Opportunity (2)</u> | <u>Actual Results</u> | <u>Performance-Based Non-Equity Compensation Achievement</u> | <u>Performance-Based Stock Award Achievement (2)</u> |
| <b>Profit Sharing</b> |  |  |                       |  |  |
| Pro-rata share        | AOP of \$35 million  | AOP of \$45.7 million                                | AOP of \$63.8 million | 183%   | 100%   |

### Notes to Incentive Compensation Pre-Determined Goals Table

- (1) Adjusted Operating Profit “AOP” is a non-GAAP measure of operating profit adjusted to eliminate the impact of LIFO income or expense, overhead and direct labor rate changes, excess and obsolete inventory reserve changes, and other income or expenses that we believe are related to other or longer periods of time, such as frozen defined benefit plan expense or product recalls. AOP is the criteria used to determine goals and achievement under the Company’s incentive compensation program.
- (2) In 2011, the stock award opportunity included a performance-based vesting trigger of achievement of AOP of \$45.7 million and a three-year time-based vesting trigger. In 2012, the Board of Directors determined that the performance-based vesting trigger was achieved in 2011, and the three-year time-based vesting trigger will be satisfied on March 1, 2014.

## 2011 SUMMARY COMPENSATION TABLE

The following table summarizes total compensation paid or earned by the Company's Named Executive Officers during 2011.

| Named Executive Officer and Principal Position | Year | Cash Compensation |            |                         | Equity Compensation                                |  |   |                                  | All Other Compensation (6) | Total (7)   |
|--|------|-------------------|------------|-------------------------|--|--|---|----------------------------------|----------------------------|-------------|
|  |      | Salary (\$)       | Bonus (\$) | Profit Sharing (1) (\$) | Performance-Based Non-Equity Compensation (2) (\$) | Performance-Based Stock Option Awards (3) (\$) | Performance-Based Stock Awards (4) (\$) | Time-Based Stock Awards (5) (\$) |                            |             |
| <b>Michael O. Fifer</b>                        |      |                   |            |                         |  |  |   |                                  |                            |             |
| <i>President,</i>                              | 2011 | \$487,500         | \$0        | \$80,737                | \$846,592  | \$0  | \$375,000                               | \$2,712,000                      | \$20,273                   | \$4,522,102 |
| <i>Chief</i>                                   | 2010 | \$422,917         | \$0        | \$48,166                | \$588,192  | \$0  | \$212,500                               | \$0                              | \$20,265                   | \$1,292,040 |
| <i>Executive Officer and Director</i>          | 2009 | \$400,000         | \$245,480  | \$52,015                | \$484,500  | \$50,000                                       | \$278,813                               | \$0                              | \$19,193                   | \$1,530,001 |
| <b>Thomas A. Dineen</b>                        |      |                   |            |                         |  |  |   |                                  |                            |             |
| <i>Vice</i>                                    | 2011 | \$250,000         | \$0        | \$41,216                | \$278,770  | \$0  | \$125,000                               | \$882,750                        | \$28,951                   | \$1,606,687 |
| <i>President,</i>                              | 2010 | \$247,917         | \$0        | \$28,211                | \$217,770  | \$0  | \$81,250                                | \$0                              | \$26,172                   | \$601,320   |
| <i>Treasurer and Chief Financial Officer</i>   | 2009 | \$225,000         | \$87,210   | \$29,258                | \$172,125  | \$18,750                                       | \$102,012                               | \$0                              | \$24,082                   | \$658,437   |
| <b>Christopher J. Killoy</b>                   |      |                   |            |                         |  |  |   |                                  |                            |             |
| <i>Vice President of Sales and Marketing</i>   | 2011 | \$293,750         | \$0        | \$48,612                | \$332,925  | \$0  | \$200,000                               | \$1,808,000                      | \$23,940                   | \$2,707,227 |
|  | 2010 | \$248,750         | \$0        | \$28,329                | \$218,503  | \$0  | \$81,250                                | \$0                              | \$22,992                   | \$599,824   |
|  | 2009 | \$235,000         | \$91,086   | \$30,559                | \$179,775  | \$19,583                                       | \$106,552                               | \$0                              | \$23,505                   | \$686,060   |
| <b>Mark T. Lang</b>                            |      |                   |            |                         |  |  |   |                                  |                            |             |
| <i>Group Vice President</i>                    | 2011 | \$271,875         | \$0        | \$44,914                | \$298,192  | \$0  | \$180,000                               | \$904,000                        | \$17,666                   | \$1,716,647 |
|  | 2010 | \$248,750         | \$0        | \$28,329                | \$218,503  | \$0  | \$81,250                                | \$0                              | \$18,285                   | \$595,117   |
|  | 2009 | \$234,128         | \$90,748   | \$30,442                | \$179,108  | \$19,583                                       | \$106,375                               | \$0                              | \$17,426                   | \$677,810   |
| <b>Thomas P. Sullivan</b>                      |      |                   |            |                         |  |  |   |                                  |                            |             |
| <i>Vice President of Newport Operations</i>    | 2011 | \$250,000         | \$0        | \$41,216                | \$278,770  | \$0  | \$125,000                               | \$882,750                        | \$20,204                   | \$1,597,940 |
|  | 2010 | \$248,750         | \$0        | \$28,329                | \$218,503  | \$0  | \$81,250                                | \$0                              | \$20,229                   | \$597,061   |
|  | 2009 | \$235,000         | \$91,086   | \$30,559                | \$179,775  | \$19,583                                       | \$106,552                               | \$0                              | \$19,039                   | \$681,594   |

### Notes to Summary Compensation Table

- (1) See Compensation Discussion and Analysis section titled, "How are Bonuses and Profit Sharing Determined?" for an explanation of how the amount of profit sharing is determined and then allocated amongst recipients.
- (2) See "2011 TARGET COMPENSATION TABLE" and "2011 INCENTIVE COMPENSATION PRE-DETERMINED GOALS TABLE" above for further information regarding the Named Executive Officers' performance-based compensation.
- (3) This column represents the full grant date fair value of stock options awarded to the Named Executive Officers in 2009, calculated in accordance with the provisions of FASB ASC 718, and are shown at the maximum value expected upon achievement of the performance or time-based goals of the awards.
- (4) See Note 13 of the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 regarding assumptions underlying valuation of equity awards. Any estimate of forfeitures related to service-based vesting conditions are disregarded pursuant to the SEC Rules. See "OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END 2011 TABLE" below for further information regarding stock options and restricted stock units granted to each Named Executive Officer.

- (5) Time-based long-term retention awards issued in 2011 subject to continued employment until, and cliff vesting as of, December 31, 2015.
- (6) See “SUMMARY ALL OTHER COMPENSATION TABLE” below for additional information.

#### SUMMARY ALL OTHER COMPENSATION TABLE

| Named Executive Officer | Year | Change in Pension Value and Non-qualified Deferred Compensation Earnings<br>(1)<br>(\$) | Relocation and Temporary Living and Related Tax Gross-Ups and Commuting Allowance<br>(\$) | Taxable Value of Company Products Received<br>(\$) | Taxable Premiums Paid by the Company for Group Term Life Insurance<br>(\$) | Company Matching and Discretionary 401(k) Plan Contributions<br>(2)<br>(\$) | Total<br>(\$) |
|-------------------------|------|---|---|--|--|---|---------------|
| Michael O. Fifer        | 2011 | \$2,847   | \$0   | \$0  | \$276  | \$17,150  | \$20,273      |
|                         | 2010 | \$1,980   | \$0   | \$859 (3)  | \$276  | \$17,150  | \$20,265      |
|                         | 2009 | \$1,767   | \$0   | \$0  | \$276  | \$17,150  | \$19,193      |
| Thomas A. Dineen        | 2011 | \$11,681  | \$0   | \$0  | \$120  | \$17,150  | \$28,951      |
|                         | 2010 | \$8,043   | \$0   | \$859 (3)  | \$120  | \$17,150  | \$26,172      |
|                         | 2009 | \$6,812   | \$0   | \$0  | \$120  | \$17,150  | \$24,082      |
| Christopher J. Killoy   | 2011 | \$4,066   | \$2,448 (4)   | \$0  | \$276  | \$17,150  | \$23,940      |
|                         | 2010 | \$2,822   | \$1,885 (4)   | \$859 (3)  | \$276  | \$17,150  | \$22,992      |
|                         | 2009 | \$2,499   | \$3,580 (4)   | \$0  | \$276  | \$17,150  | \$23,505      |
| Mark T. Lang            | 2011 | \$0   | \$0   | \$0  | \$516  | \$17,150  | \$17,666      |
|                         | 2010 | \$0   | \$0   | \$859 (3)  | \$276  | \$17,150  | \$18,285      |
|                         | 2009 | \$0   | \$0   | \$0  | \$276  | \$17,150  | \$17,426      |
| Thomas P. Sullivan      | 2011 | \$2,778   | \$0   | \$0  | \$276  | \$17,150  | \$20,204      |
|                         | 2010 | \$1,932   | \$0   | \$859 (3)  | \$288  | \$17,150  | \$20,229      |
|                         | 2009 | \$1,709   | \$0   | \$0  | \$180  | \$17,150  | \$19,039      |

#### Notes to All Other Compensation Table

- (1) This column represents the increased change in pension value for each fiscal year for each of the named executives. Negative changes in pension value are not reportable in the above table. No named executive officer received preferential or above-market earnings on deferred compensation. The Company’s pension plans were frozen, and no further benefit service was accrued, as of January 1, 2008. For 2011, the change in pension value is calculated based on a 4.75% discount rate, participant ages as of December 31, 2011, frozen accrued benefits as of December 31, 2007 and the IRS 2011 Combined Static Mortality Table. See “PENSION PLANS” and the “PENSION BENEFITS TABLE” below for additional information.
- (2) Consists of matching contributions made under the Company’s 401(k) Plan to the Named Executive Officers who participated in the 401(k) Plan, based on their deferrals for each 401(k) Plan year. Also includes supplemental employer discretionary contributions made to all plan participants.
- (3) Represents the taxable value of Company products received by each Named Executive Officer for purposes of their product training in 2010.
- (4) Consists of the taxable value of commuting allowance for Mr. Killoy at one-half the I.R.S. approved mileage rate and not subject to gross-up for taxes.

## GRANTS OF PLAN-BASED AWARDS

The following Grants of Plan Based Awards table accompanies the Summary Compensation Table and provides additional detail regarding grants of incentive-plan based equity awards made in 2011.

| <u>Named Executive Officer</u> | <u>Grant Date</u> | <u>Performance-Based Restricted Stock Unit Awards (1) (#)</u> | <u>Time-Based Restricted Stock Unit Awards (2) (#)</u> | <u>Exercise Price of Option Awards or Base Price of Stock Awards (3) (\$/Share)</u> | <u>Grant Date Fair Value (4) (\$)</u> |
|--------------------------------|-------------------|---|--|---|---------------------------------------|
| <b>Michael O. Fifer</b>        | 3/1/11            |   | 150,000  | \$18.08   | \$2,712,000                           |
|                                | 3/1/11            | 5,185   |  | \$18.08   | \$93,750                              |
|                                | 5/2/11            | 3,983   |  | \$23.54   | \$93,750                              |
|                                | 8/2/11            | 3,387   |  | \$27.68   | \$93,750                              |
|                                | 11/8/11           | 2,838   |  | \$33.03   | \$93,750                              |
| <b>Thomas A. Dineen</b>        | 5/2/11            |   | 37,500   | \$23.54   | \$882,750                             |
|                                | 3/1/11            | 1,728   |  | \$18.08   | \$31,250                              |
|                                | 5/2/11            | 1,328   |  | \$23.54   | \$31,250                              |
|                                | 8/2/11            | 1,129   |  | \$27.68   | \$31,250                              |
|                                | 11/8/11           | 946   |  | \$33.03   | \$31,250                              |
| <b>Christopher J. Killoy</b>   | 3/1/11            |   | 100,000  | \$18.08   | \$1,808,000                           |
|                                | 3/1/11            | 2,765   |  | \$18.08   | \$50,000                              |
|                                | 5/2/11            | 2,124   |  | \$23.54   | \$50,000                              |
|                                | 8/2/11            | 1,806   |  | \$27.68   | \$50,000                              |
|                                | 11/8/11           | 1,514   |  | \$33.03   | \$50,000                              |
| <b>Mark T. Lang</b>            | 3/1/11            |   | 50,000   | \$18.08   | \$904,000                             |
|                                | 3/1/11            | 2,489   |  | \$18.08   | \$45,000                              |
|                                | 5/2/11            | 1,912   |  | \$23.54   | \$45,000                              |
|                                | 8/2/11            | 1,626   |  | \$27.68   | \$45,000                              |
|                                | 11/8/11           | 1,362   |  | \$33.03   | \$45,000                              |
| <b>Thomas P. Sullivan</b>      | 5/2/11            |   | 37,500   | \$23.54   | \$882,750                             |
|                                | 3/1/11            | 1,728   |  | \$18.08   | \$31,250                              |
|                                | 5/2/11            | 1,328   |  | \$23.54   | \$31,250                              |
|                                | 8/2/11            | 1,129   |  | \$27.68   | \$31,250                              |
|                                | 11/8/11           | 946   |  | \$33.03   | \$31,250                              |

### Notes to Grant of Plan-Based Awards Table

- (1) RSU awards made in quarterly tranches in 2011 with both performance-based and three-year cliff vesting triggers. See "2011 TARGET COMPENSATION TABLE" and "2011 INCENTIVE COMPENSATION PRE-DETERMINED GOALS TABLE" above for further information regarding the Named Executive Officers' performance-based RSU compensation.
- (2) Time-based long-term retention awards issued in 2011 subject to continued employment until, and cliff vesting as of, December 31, 2015.
- (3) The base price of the quarterly performance-based RSU awards described in footnote (1) above was the mean of the highest and lowest sales price of the Common Stock as of the date of grant.
- (4) Amounts shown represent the total grant date fair value calculated in accordance with the provisions of FASB ASC 718, and are shown at the maximum value expected upon achievement of the performance or time-based goals of the awards. See Note 13 of the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 regarding assumptions underlying valuation of equity awards. Any estimate of forfeitures related to service-based vesting conditions are disregarded pursuant to the SEC Rules.

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END 2011 TABLE

The following table reflects outstanding equity grants as of December 31, 2011 for the Named Executive Officers.

| OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END 2011 TABLE |   |   |  |                            |                                     |   |  |   |  |
|---|---|---|--|----------------------------|-------------------------------------|---|--|---|--|
| Named Executive Officer                                 | OPTION AWARDS   |   |  |                            |                                     | STOCK AWARDS  |  |   |  |
|   | Number of Securities Underlying Unexercised Options (1) Exercisable (#) | Number of Securities Underlying Unexercised Options (1) Unexercisable (#) | Equity Incentive Plan Awards: Unearned Options (#) | Option Exercise Price (\$) | Option Expiration Date              | Number of Shares or Units of Stock That Have Not Vested (2) (#) | Market Value of Shares or Units of Stock That Have Not Vested (2) (\$) | Equity Incentive Plan Awards: Number of Unearned Shares or Units That Have Not Vested (3) (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares or Units That Have Not Vested (3) (\$) |
| Michael O. Fifer  |   |   |  |                            |                                     | 15,393<br>150,000   | \$375,000<br>\$2,712,000   | 20,335<br>16,347  | \$86,900<br>\$128,820  |
| Thomas A. Dineen  |   | 13,000  |  | \$13.39                    | 4/24/2017                           | 5,131<br>37,500   | \$125,000<br>\$882,750   | 5,633<br>5,807  | \$24,073<br>\$45,765   |
| Christopher J. Killoy                                   |   |   |  |                            |                                     | 8,209<br>100,000  | \$200,000<br>\$1,808,000   | 5,855<br>6,065  | \$25,023<br>\$47,799   |
| Mark T. Lang  | 80,000<br>15,000<br>5,864   | 20,000  |  | \$7.97<br>\$8.23<br>\$8.69 | 3/03/2018<br>4/28/2018<br>3/02/2019 | 7,389<br>50,000   | \$180,000<br>\$904,000   | 4,980<br>6,043  | \$21,283<br>\$47,622   |
| Thomas P. Sullivan                                      |   |   |  |                            |                                     | 5,131<br>37,500   | \$125,000<br>\$882,750   | 5,966<br>6,065  | \$25,498<br>\$47,799   |

### Notes to Outstanding Equity Awards at Fiscal Year End Table

- (1) Amounts shown as exercisable or unexercisable reflect the vesting status of each individual's options within 60 days of March 13, 2012. Time-based options awarded to Named Executives normally vest and become exercisable in five equal annual installments of 20% of the total number of options awarded, beginning on the date of first anniversary of the date of grant and on each of the next succeeding four anniversaries thereafter and have a 10 year term. Time-based options fully vest in the event of a Change in Control as defined in the applicable Stock Incentive Plan.
- (2) Amounts shown include performance-based RSUs awarded in 2011 with both a performance trigger and a three-year time-based trigger. In 2012, the performance-based trigger was determined by the Board of Directors to have been achieved in 2011, and the awards will therefore vest on March 1, 2014. Also includes time-based long-term retention

awards subject to continued employment until, and cliff-vesting as of, December 31, 2015. Amounts shown represent the full grant date fair value of the awards calculated in accordance with the provisions of FASB ASC 718, and are shown at the maximum value expected upon achievement of the time-based goals of the awards.

- (3) Amounts shown include RSUs awarded to the Named Executive Officers in lieu of 25% of their 2008 performance-based cash bonus, and in lieu of 15% of their 2009 discretionary and performance-based cash bonus. The RSUs are subject to three year cliff-vesting. RSUs fully vest in the event of a Change in Control, disability or retirement, as defined in the 2007 stock Incentive Plan, or in the event of death. Under these awards, the Company will issue one share of Common Stock for each vested RSU at the end of the vesting period. If the Named Executive Officer terminates employment for any other reason, he will receive cash equal to (i) the number of RSUs multiplied by two-thirds, and then multiplied by the lesser of (ii) the mean sales price of a share of Common Stock on the date of grant or (iii) the mean sales price of a share of Common Stock on the date of termination. The 2008 performance-based RSUs vested and were issued on February 3, 2012. Amounts shown represent the full grant date fair value of the awards calculated in accordance with the provisions of FASB ASC 718, and are shown at the maximum value expected upon achievement of the time-based goals of the awards.

### OPTION EXERCISES AND STOCK VESTED IN 2011 TABLE

The following table sets forth the value of equity realized by the Named Executive Officers upon exercise of vested options or the vesting of deferred stock during 2011. (For further information on stock options and grants made in 2011 to the Named Executive Officers, see the “GRANTS OF PLAN-BASED AWARDS TABLE” above.)

| <u>Named Executive Officer</u> | <u>Option Awards</u>   |  | <u>Stock Awards</u>   |   |
|--------------------------------|--|--|---|---|
|                                | <u>Number of Shares Acquired on Exercise</u><br><u>(1)</u><br><u>(#)</u> | <u>Value Realized Upon Exercise</u><br><u>(2)</u><br><u>(\$)</u> | <u>Number of Shares Acquired Upon Vesting</u><br><u>(1)</u><br><u>(#)</u> | <u>Value Realized Upon Vesting</u><br><u>(2)</u><br><u>(\$)</u> |
| <b>Michael O. Fifer</b>        | 254,970  | \$4,396,009  |   |   |
| <b>Thomas A. Dineen</b>        | 87,614   | \$975,545  |   |   |
| <b>Christopher J. Killoy</b>   | 135,864  | \$1,988,444  |   |   |
| <b>Mark T. Lang</b>            | 0  | \$0  |   |   |
| <b>Thomas P. Sullivan</b>      | 125,864  | \$2,783,216  |   |   |
| <b>Total</b>                   | <b>604,312</b>   | <b>\$10,143,214</b>  | <b>0</b>  | <b>\$0</b>  |

#### Notes to Options Exercised and Stock Vested Table

- (1) The amounts shown represent the aggregate gross number of shares acquired by the Named Executive Officers upon the exercising of stock options and/or the vesting of stock awards. The Named Executive Officers may opt to make “cashless” exercises or conversions, whereby the exercise price and withholding taxes related to the exercise or issuance are paid with shares based on the closing price of the Common Stock on the exercise or issuance.
- (2) The amounts shown represent the aggregate dollar amount realized by the Named Executive Officers upon the exercising of stock options and/or the vesting of stock awards. The aggregate dollar amount realized upon the exercise of stock options is calculated by determining the difference between the closing price of the Common Stock at exercise and the exercise price of the options. The aggregate dollar amount realized upon the vesting of stock awards is calculated by multiplying the number of shares of stock vested by the closing price of the Common Stock on the vesting date.

## POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

### Payments on Change in Control

In the event of a potential change in control of the Company, it is vitally important that executives be able to continue working in the best interest of our stockholders. For that reason, the Company has entered into severance agreements with the Named Executive Officers designed to provide salary and medical benefit continuance in the event of the termination of his employment under certain circumstances. The Company's severance agreements are not employment contracts and do not specify an employment term, compensation levels or other terms or conditions of employment. There are also change-in-control provisions in both the stock option and restricted stock agreements.

### Covered Terminations and Severance Payments Pursuant to Change in Control Agreements

Each of the Named Executive Officers' severance agreements provide for the following severance benefits, if during the term of the agreement: (A) he is terminated without cause or (B) there is a Change in Control and a subsequent reduction of his salary or a diminution of his duties and thereafter he terminates his employment within 90 days. In the situation described in clause (A) above, he will receive a lump sum cash payment equal to 12 months of his annual base salary, if employed for less than five years, or 18 months of his annual base salary if employed for five or more years, and continued insurance benefits. Mr. Fifer's severance agreement provides for 18 months of his annual base salary. In the situation described in clause (B) above, the Named Executive Officer will receive a lump sum cash payment equal to 18 months of his annual base salary and 100% of his target cash bonus and continued insurance benefits. In both cases, such continued insurance benefits are to be paid to the Named Executive Officer net of employee contributions for a period equal to the number of months of severance pay.

In all cases, payment of severance benefits will be subject to the six-month deferral requirements of under the IRS Tax Code Section 409A. All of the severance agreements have a one-year term, subject to automatic renewal on each anniversary of its date unless (A) the Named Executive Officer gives notice of his intention to terminate his employment, or (B) the Company gives notice of its intention not to renew the agreement at least one year in advance. The amount of severance and benefits are generally determined based on competitive market practices for executives at this level. The Compensation Committee also takes into consideration that executives at this level generally require a longer timeframe to find comparable jobs because there are fewer jobs at this level in the market and often have a large percentage of their personal wealth dependent on the status of the Company, given the fact that a large part of their compensation is equity-based.

### Change in Control Events and Severance Benefits Not Covered by the Severance Agreements

The 2007 Stock Incentive Plan provides for accelerated vesting of stock awards that the executive has already received, not for additional payments. The 2007 Stock Incentive Plan has a single trigger change in control accelerated vesting component, which will apply unless, in the case of a merger or acquisition of the Company by another business entity, the surviving, continuing, or purchasing corporation assumes the awards previously issued under that plan.

### Change in Control Definition

Generally, under the Severance Agreements and the 2007 Stock Incentive Plan, a "Change in Control" will be deemed to have occurred:

- When any person acquires a significant percentage of the voting power of the Company (25% or more under the 2007 Stock Incentive Plan);
- If a majority of the Board members change, unless the new Directors are elected or nominated for election by at least two-thirds of the existing Board members;
- Upon the acquisition of the Company; or
- Upon the liquidation or dissolution of the Company (with approval of the stockholders).

### **Termination by Death or Disability**

In the event of death or disability, executives receive no payment other than through life insurance or disability insurance available to salaried employees generally. Under the 2007 Stock Incentive Plan, vested options are exercisable in the case of death or disability within the greater of: 30 days, or one-fourth of the length of time elapsed since the options first vested to the date of termination. In no case can options be exercised beyond the expiration date of the award. Subject to the terms of the award agreement, performance-based restricted stock unit awards that have met the performance-based trigger and retention awards will become issuable in the event of disability or death.

In the event of termination by death or disability, the executive or his or her estate will receive his or her bonus to the extent earned.

### **Termination by Retirement**

Executives were eligible to participate in the Company's Pension Plan until December 31, 2007, the effective date of the plan's "freeze." None of the Named Executive Officers was eligible for normal retirement, and none of the Named Executive Officers accrued service under the Pension Plan beyond December 31, 2007, the effective date of that plan's "freeze" by the Company. Pension benefits are described under "PENSION PLANS" below. Under the 2007 Stock Incentive Plan, vested options awarded to the Named Executive Officers are exercisable in the case of retirement within the greater of: 30 days, or one-fourth of the length of time elapsed since the options first vested to the date of retirement. In no case can options be exercised beyond the expiration date of the award. Subject to the terms of the award agreement, performance-based restricted stock unit awards that have met the performance-based trigger will become issuable in the event of retirement. Retention awards will be forfeited in the event of retirement before their vesting date.

In the event of termination by retirement, the executive will receive his or her bonus to the extent earned.

### **Voluntary and Involuntary Termination**

The severance benefits for the Named Executive Officers include base salary and medical insurance continuation in cases of termination without cause for a minimum of 12 months and a maximum of 18 months. Mr. Fifer's severance agreement provides for 18 months of his annual base salary in the event of his termination without cause. Under the 2007 Stock Incentive Plan, vested options awarded to the Named Executive Officers are exercisable in the case of voluntary termination or involuntarily without cause within the greater of: 30 days, or one-fourth of the length of time elapsed since the options first vested to the date of retirement. Options cannot be exercised beyond the expiration date of the award. In the case of termination for cause, an employee's stock options terminate immediately. Performance-based restricted stock unit awards will terminate upon the date of voluntary or involuntary termination, whether or not the award has met the performance-based trigger. In the case of involuntary termination without cause, retention awards will be issuable based on the number of days of service elapsed since the award date divided by the number of days from the award date to the full vesting date.

If any employee voluntarily or involuntarily without cause terminates his or her employment the employee, will receive his or her bonus to the extent earned. If an employee is terminated for cause, any bonus is forfeited.

### **Retention and Transition Agreements**

The Company may enter into retention or "transition" agreements from time to time with executives who retire or voluntarily terminate their employment with the Company in order to facilitate the management transition of the executives' areas of responsibility.



## POTENTIAL AND ACTUAL PAYMENTS UNDER SEVERANCE AGREEMENTS TABLE

The table below sets forth the terms and estimated potential payments and benefits provided in each termination circumstance for the Company's Named Executive Officers as of December 31, 2011. The potential amounts shown in the table do not include payments and benefits to the extent that they are provided on a non-discriminatory basis to the Company's salaried employees generally.

| <u>Named Executive Officer</u> | <u>Severance Agreement</u><br>( <u>\$</u> ) | <u>Bonus Payment</u><br>( <u>1</u> )<br>( <u>\$</u> ) | <u>Number of Equity Awards- That Vest</u> ( <u>2</u> )<br>( <u>#</u> ) | <u>Continuation of Medical Welfare Benefits</u> ( <u>3</u> )<br>( <u>\$</u> ) | <u>Aggregate Payments</u> ( <u>4</u> )<br>( <u>\$</u> ) |
|--------------------------------|---|---|--|---|---|
| <b>Michael O. Fifer</b>        |   |   |  |   |   |
| Change In Control              | \$750,000                                   | \$750,000   | 202,075  | \$27,514  | \$1,527,514   |
| Termination without Cause      | \$750,000                                   | \$0   | 0  | \$27,514  | \$777,514   |
| Retirement                     | n/a   | \$500,000   | 52,075   | \$0   | \$500,000   |
| Death or Disability            | n/a   | \$500,000   | 202,075  | \$0   | \$500,000   |
| <b>Thomas A. Dineen</b>        |   |   |  |   |   |
| Change In Control              | \$375,000                                   | \$247,500   | 67,071   | \$27,514  | \$650,014   |
| Termination without Cause      | \$375,000                                   | \$0   | 0  | \$27,514  | \$402,514   |
| Retirement                     | n/a   | \$165,000   | 16,571   | \$0   | \$165,000   |
| Death or Disability            | n/a   | \$165,000   | 67,071   | \$0   | \$165,000   |
| <b>Christopher J. Killoy</b>   |   |   |  |   |   |
| Change In Control              | \$450,000                                   | \$300,000   | 120,129  | \$27,514  | \$777,514   |
| Termination without Cause      | \$450,000                                   | \$0   | 0  | \$27,514  | \$477,514   |
| Retirement                     | n/a   | \$200,000   | 20,129   | \$0   | \$200,000   |
| Death or Disability            | n/a   | \$200,000   | 120,129  | \$0   | \$200,000   |
| <b>Mark T. Lang</b>            |   |   |  |   |   |
| Change In Control              | \$412,500                                   | \$270,000   | 108,412  | \$27,514  | \$710,014   |
| Termination without Cause      | \$412,500                                   | \$0   | 0  | \$27,514  | \$440,014   |
| Retirement                     | n/a   | \$180,000   | 18,412   | \$0   | \$180,000   |
| Death or Disability            | n/a   | \$180,000   | 108,412  | \$0   | \$180,000   |
| <b>Thomas P. Sullivan</b>      |   |   |  |   |   |
| Change In Control              | \$375,000                                   | \$247,500   | 54,662   | \$27,514  | \$650,014   |
| Termination without Cause      | \$375,000                                   | \$0   | 0  | \$27,514  | \$402,514   |
| Retirement                     | n/a   | \$165,000   | 17,162   | \$0   | \$165,000   |
| Death or Disability            | n/a   | \$165,000   | 54,662   | \$0   | \$165,000   |

### Notes to Potential and Actual Payments Under Severance Agreements Table

- (1) The Bonus payment under Retirement or Death or Disability shall be prorated to the extent earned during the partial year prior to Retirement or Death or Disability. The amount show is the nominal bonus at 100% achievement of goals for a full 12 months.
- (2) Includes number of options awarded under the Company's 2007 Stock Incentive Plans that have not yet vested. Also includes restricted stock unit awards subject to vesting.
- (3) Includes continuation of health insurance coverage assuming family coverage for potential severance recipients, net of employee contributions.
- (4) Aggregate payments exclude number of options or RSUs that vest.

## PENSION PLANS

All employees, including the individuals named in the Summary Compensation Table, are eligible to participate in the Company's 401(k) Plan, subject to IRS plan limits. The 401(k) Plan provides participation and immediate vesting upon three months of service, a safe harbor match for all participants and supplemental discretionary employer contributions for all eligible employees. The individuals named in the Summary Compensation Table are eligible to participate in the 401(k) Plan, subject to IRS plan limits.

Until January 1, 2008, all of the Company's salaried employees participated in the Sturm, Ruger & Company, Inc. Salaried Employees' Retirement Income Plan (the "Pension Plan"), a defined benefit pension plan, which generally provides annual pension benefits at age 65 in the form of a straight life annuity in an amount equal to: 1-1/3% of the participant's final average salary (highest 60-consecutive-month average annualized base pay during the last 120 months of employment) less 0.65% of the participant's Social Security covered compensation, multiplied by the participant's years of credited service up to a maximum of 25 years.

On October 1, 2007, the Pension Plan was "frozen" by the Board of Directors so that participants will no longer accrue additional service under the plan after December 31, 2007. In lieu of continued benefit accruals under the Pension Plan, as of January 1, 2008, the Company began making supplemental discretionary contributions for all eligible employees under its 401(k) Plan in addition to the safe harbor employer match contributed on behalf of eligible 401(k) Plan participants.

The Sturm, Ruger & Company, Inc. Supplemental Executive Retirement Plan (the "SERP") is a nonqualified supplemental retirement plan for certain senior executives of the Company who have achieved the rank of Vice President or above and who are selected by the Compensation Committee. No active employees participated in the SERP in 2011.

The SERP generally provides an annual benefit beginning at age 65, the normal retirement age under the SERP, based upon a participant's completed years of service with the Company as of such age. The maximum benefit under the SERP is equal to 50% of the participant's average annual compensation, including base pay, bonuses and other incentive compensation, up to \$400,000. All SERP benefits are reduced by the amount the participant is entitled to receive under the Pension Plan, and are further reduced by the amount of Social Security benefit the participant is entitled to receive commencing at age 65. The SERP benefit is payable as an annuity over the life of the participant, with 50% to continue for the life of the participant's surviving spouse after the participant's death. Pre-retirement death or disability benefits are also provided to plan participants under the SERP.

## 2011 PENSION BENEFITS TABLE

The following table sets forth the present value of pension benefits accrued by, and actual benefits paid in 2011 to the Named Executive Officers under the Pension Plan.

| <u>Named Executive Officers</u> | <u>Salaried Employees' Retirement Income Plan</u> |   |  |
|---------------------------------|---|---|--|
|                                 | <u>Credited Service (1)</u><br><u>(Years)</u>     | <u>Present Value of Accumulated Plan Benefit</u><br><u>(2)</u><br><u>(\$)</u> | <u>Payments During Last Fiscal Year</u><br><u>(\$)</u> |
| <b>Michael O. Fifer</b>         | 1.3   | \$16,514  | 0  |
| <b>Thomas A. Dineen</b>         | 10.6  | \$56,402  | 0  |
| <b>Christopher J. Killoy</b>    | 2.2   | \$22,991  | 0  |
| <b>Mark T. Lang</b>             | 0   | \$0   | 0  |
| <b>Thomas P. Sullivan</b>       | 1.4   | \$15,197  | 0  |

### Notes to Pension Benefits Table

- (1) The maximum years of credited service earned under the Pension Plan, which was frozen as of January 1, 2008.
- (2) The present value of accumulated benefits under the Pension Plan is calculated assuming a discount rate of 4.75%, the IRS 2011 Combined Static Mortality Table, the participant's age as of December 31, 2011, and frozen accrued benefits as of December 31, 2007, the date authorized by the Board for the suspension of benefits under the Pension Plan.

## **STOCKHOLDER PROPOSALS AND DIRECTOR NOMINATIONS FOR 2013**

To be considered for inclusion in the Proxy Statement distributed by the Company in connection with next year's Annual Meeting of Stockholders, stockholder proposals must be submitted in writing to the Company delivered or mailed by first class United States mail, postage prepaid, no earlier than January 2, 2013 (120 days prior to the first anniversary of this year's Annual Meeting of Stockholders), and no later than February 2, 2013 (90 days prior to the first anniversary of this year's Annual Meeting of Stockholders). Any stockholder proposal to be considered at next year's Annual Meeting of Stockholders, but not included in next year's Proxy Statement, must also be submitted in writing to the Company by February 6, 2013.

Recommendations for nominees to stand for election as Directors at next year's Annual Meeting of Stockholders must be received in writing delivered or mailed by first class United States mail, postage prepaid, no earlier than January 2, 2013 (120 days prior to the first anniversary of this year's Annual Meeting of Stockholders), and no later than February 2, 2013 (90 days prior to the first anniversary of this year's Annual Meeting of Stockholders) and include the information as required under "THE BOARD OF DIRECTORS AND ITS COMMITTEES – Nominating and Corporate Governance Committee" described above.

All stockholder proposals or Director nominations should be submitted to Leslie M. Gasper, Corporate Secretary, Sturm, Ruger & Company, Inc., Lacey Place, Southport, Connecticut 06890.

### **STOCKHOLDER AND INTERESTED PARTY COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

The Board has adopted a method by which stockholders and interested parties can send communications to the Board. Stockholders and interested parties may communicate in writing any questions or other communications to the Chairman or non-management Directors of the Board through the following methods:

- by contacting the Corporate Secretary at Sturm, Ruger & Company, Inc., 1 Lacey Place, Southport, CT 06890;
- by telephone at (203) 259-7843, extension 33224;
- by fax at (203) 256-3367; or
- by calling the Company's corporate communications telephone "hotline" at 1-800-826-6762 or via the hotline's website at [www.ruger.alertline.com](http://www.ruger.alertline.com) These hotlines are monitored 24 hours a day, 7 days a week.

Stockholders or interested parties may also communicate in writing any questions or other communications to the management Directors of the Board in the same manner.

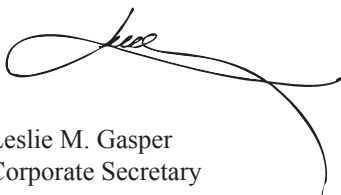
Stockholders may contact the Corporate Secretary at (203) 259-7843 or Computershare Investor Services, LLC, which is the Company's stock transfer agent, at (312) 360-5190 or [www.computershare.com](http://www.computershare.com) for questions regarding routine stockholder matters.

## OTHER MATTERS

Management of the Company does not intend to present any business at the Meeting other than as set forth in Proposal 1, 2 and 3 of the attached Notice of Annual Meeting of Stockholders, and it has no information that others will present any other business at the Meeting. If other matters requiring the vote of the stockholders properly come before the Meeting, it is the intention of the persons named in the proxy to vote the shares represented thereby in accordance with their judgment on such matters.

The Company, upon written request, will provide without charge to each person entitled to vote at the Meeting a copy of its Annual Report on Securities and Exchange Commission Form 10-K for the year ended December 31, 2011, including the financial statements and financial statement schedules. Such requests may be directed to Leslie M. Gasper, Corporate Secretary, Sturm, Ruger & Company, Inc., Lacey Place, Southport, Connecticut 06890.

**BY ORDER OF THE BOARD OF DIRECTORS**

A handwritten signature in black ink, appearing to read "Leslie M. Gasper", with a long, sweeping flourish extending to the right.

Leslie M. Gasper  
Corporate Secretary

Southport, Connecticut  
March 15, 2012

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# STURM, RUGER & COMPANY, INC.

LACEY PLACE, SOUTHPORT, CONNECTICUT 06890 U.S.A.

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