STURM RUGER & CO INC
Form 10-K
February 24, 2009

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTION 13 OR 15(d) THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ___________

Commission File Number 0-4776

STURM, RUGER & COMPANY, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	06-0633559 (I.R.S. Employer Identification No.)
Lacey Place, Southport, Connecticut (Address of Principal Executive Offices)	06890 (Zip Code)

(203) 259-7843
(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES |X| NO |_|

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer |_| Accelerated filer |X| Non-accelerated filer |_|.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2008: Common Stock, $1 par value - $

The number of shares outstanding of the registrant's common stock as of February 17, 2009: Common Stock, $1 par value - 19,046,780 shares

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of the registrant's Proxy Statement relating to the 2009Annual Meeting of Stockholders to be held April 29, 2009 are incorporated by reference into Part III (Items 10 through 14) of this Report.

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In this Annual Report on Form 10-K, Sturm, Ruger & Company, Inc. (the "Company") makes forward-looking statements and projections concerning future expectations. Such statements are based on current expectations and are subject to certain qualifying risks and uncertainties, such as market demand, sales levels of firearms, anticipated castings sales and earnings, the need for external financing for operations or capital expenditures, the results of pending litigation against the Company including lawsuits filed by mayors, attorneys general and other governmental entities and membership organizations, and the impact of future firearms control and environmental legislation, any one or more of which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publish revised forward-looking statements to reflect events or circumstances after the date such forward-looking statements are made or to reflect the occurrence of subsequent unanticipated events.

PART I

ITEM 1--BUSINESS

Company Overview

Sturm, Ruger & Company, Inc. (the "Company") is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Approximately 96% of the Company's total sales for the year ended December 31, 2008 were from the firearms segment, and approximately 4% were from investment castings. Export sales represent less than 6% of firearms sales. The Company's design and manufacturing operations are located in the United States and most product content is domestic.

The Company has been in the business since 1949 and was incorporated in its present form under the laws of Delaware in 1969. The Company offers products in four industry product categories - rifles, shotguns, pistols, and revolvers. The Company's firearms are sold through a select number of independent wholesale distributors, principally to the commercial sporting market.

The Company manufactures and sells investment castings made from steel alloys for both outside customers and internal use in the firearms segment. Investment castings sold to outside customers, either directly to or through manufacturers' representatives, represented approximately 4% of the Company's total sales for the year ended December 31, 2008. In July 2006, the Company announced the cessation of the titanium castings portion of its investment casting operations. This cessation of operations was completed in 2007, at which time the Company consolidated its Arizona casting operations into its New Hampshire casting operations.

For the years ended December 31, 2008, 2007, and 2006, net sales attributable to the Company's firearms operations were approximately, $174.4 million, $144.2 million and $139.1 million or approximately 96%, 92%, and 83%, respectively, of total net sales. The balance of the Company's net sales for the aforementioned periods was attributable to its investment castings operations.

Firearms Products

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

Rifles
- Single-shot
- Autoloading
- Bolt-action
- Lever action

Shotguns
- Over and Under

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Pistols
- Rimfire autoloading
- Centerfire autoloading

Revolvers
- Single action
- Double action

Most firearms are available in several models based upon caliber, finish, barrel length, and other features. Many of the firearms introduced by the Company over the years have become "classics" which have retained their popularity for decades and are sought by collectors.

Rifles

A rifle is a long gun with spiral grooves cut into the interior of the barrel to give the bullet a stabilizing spin after it leaves the barrel. Sales of rifles by the Company accounted for approximately $69.4 million, $64.9 million, and $58.4 million, of revenues for the years 2008, 2007 and 2006, respectively.

Shotguns

A shotgun is a long gun with a smooth barrel interior which fires lead or steel pellets. Sales of shotguns by the Company accounted for approximately $1.5 million, $3.8 million, and $5.5 million of revenues for the years 2008, 2007 and 2006, respectively.

Pistols

A pistol is a handgun in which the ammunition chamber is an integral part of the barrel and which typically is fed ammunition from a magazine contained in the grip. Sales of pistols by the Company accounted for approximately $52.5 million, $33.4 million, and $31.9 million of revenues for the years 2008, 2007 and 2006, respectively.

Revolvers

A revolver is a handgun that has a cylinder that holds the ammunition in a series of chambers which are successively aligned with the barrel of the gun during each firing cycle. There are two general types of revolvers, single-action and double-action. To fire a single-action revolver, the hammer is pulled back to cock the gun and align the cylinder before the trigger is pulled. To fire a double-action revolver, a single trigger pull advances the cylinder and cocks and releases the hammer. Sales of revolvers by the Company accounted for approximately $41.0 million, $35.6 million, and $37.6 million of revenues for the years 2008, 2007, and 2006, respectively.

The Company also manufactures and sells accessories and replacement parts for its firearms. These sales accounted for approximately $9.9 million, $6.5 million, and $5.7 million of revenues for the years 2008, 2007 and 2006, respectively.

Investment Casting Products

The Company manufactures and sells investment castings made from steel alloys for both outside customers and internal use in the firearms segment. Investment castings sold to outside customers, either directly to or through manufacturers' representatives, represented approximately 4% of the Company's total sales for the year ended December 31, 2008. In July 2006, the Company announced the cessation of the titanium castings portion of its investment casting operations. This cessation of operations was completed in 2007, at which time the Company consolidated its Arizona casting operations into its New Hampshire casting operations.

Net sales attributable to the Company's investment casting operations (excluding intercompany transactions) accounted for approximately $7.1 million, $12.3 million, and $28.5 million, or approximately 4%, 8%, and 17% of the Company's total net sales for 2008, 2007, and 2006, respectively.

Manufacturing

Firearms

The Company produces one model of pistol and all of its rifles, shotguns, and revolvers at the Newport, New Hampshire facility. All other pistols are produced at the Prescott, Arizona facility.

Many of the basic metal component parts of the firearms manufactured by the Company are produced by the Company's castings facilities through a process known as precision investment casting. See "Manufacturing-Investment Castings" for a description of the investment casting process. The Company initiated the use of this process in the production of component parts for firearms in 1953. The Company believes that the investment casting process provides greater design flexibility and results in component parts which are generally close to their ultimate shape and, therefore, require less machining than processes requiring machining a solid billet of metal to obtain a part. Through the use of investment castings, the Company endeavors to produce durable and less costly component parts for its firearms.

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

Investment Castings

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

In July 2006, the Company announced the cessation of the titanium castings portion of its investment casting operations. This cessation of operations was completed in 2007, at which time the Company consolidated its Arizona casting operations into its New Hampshire casting operations. The Company only produces ferrous investment castings.

Marketing and Distribution

Firearms

The Company's firearms are primarily marketed through a network of selected Federally-licensed independent wholesale distributors who purchase the products directly from the Company. They resell to Federally-licensed retail firearms dealers who in turn resell to legally authorized end-users. All retail purchasers are subject to a point-of-sale background check by law enforcement. These end-users include sportsmen, hunters, law enforcement and other governmental organizations, and gun collectors. Each distributor carries the entire line of firearms manufactured by the Company for the commercial market. Currently, 15 distributors service the domestic commercial market, with an additional 12 distributors servicing the domestic law enforcement market and two distributors servicing the Canadian market. Six of the Company's distributors service both the domestic commercial market and the domestic law enforcement market.

One customer accounted for approximately 13%, 13%, and 13% of net firearms sales and 12%, 12%, and 11% of consolidated net sales in 2008, 2007, and 2006, respectively. A second customer accounted for approximately 12%, 12%, and 13% of net firearms sales and 11%, 11%, and 11% of consolidated net sales in 2008, 2007, and 2006, respectively. A third customer accounted for approximately 12% and 13% of the Company's net firearms sales and 11% and 10% of consolidated net sales in 2007 and 2006, respectively. A fourth customer accounted for approximately 10% and 10% of net firearms sales in 2008 and 2006, respectively.

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

The Company also exports its firearms through a network of selected commercial distributors and directly to certain foreign customers, consisting primarily of law enforcement agencies and foreign governments. Foreign sales were less than 6% of the Company's consolidated net sales for each of the past three fiscal years.

Prior to 2006, the Company received one cancelable annual order in December from each of its distributors. Effective December 1, 2006 the Company changed the manner in which distributors order firearms, and began receiving firm, non-cancelable purchase orders on a frequent basis, with most orders for immediate delivery. As of February 1, 2009, the order backlog was $87 million. As of February 1, 2008, order backlog was approximately $20 million. Shipments in 2009 will be essentially limited to units produced as finished goods inventory was largely depleted during the fourth quarter of 2008.

The Company does not consider its overall firearms business to be predictably seasonal; however, sales of many models of firearms are usually lower in the third quarter of the fiscal year.

Investment Castings

The investment casting segment's principal markets are commercial, sporting goods, and military. Sales are made directly to customers or through manufacturers' representatives. The Company produces various products for a number of customers in a variety of industries, including approximately 20 firearms and firearms component manufacturers. The investment castings segment provides castings for the Company's firearms segment.

The Company continues to evaluate the viability and profitability of the commercial castings market.

Competition

Firearms

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

Investment Castings

There are a large number of investment castings manufacturers, both domestic and foreign, with which the Company competes. Competition varies based on the type of investment castings products and the end-use of the product (commercial, sporting goods, or military). Many of these competitors are larger corporations than the Company with substantially greater financial resources than the Company, which could affect the Company's ability to compete with these competitors. The principal methods of competition in the industry are quality, price, and production lead time. The Company believes that it can compete effectively with its present domestic competitors. However, it is unknown if the Company can compete with foreign competitors in the long-term.

Employees

As of February 1, 2009, the Company employed approximately 1,150 full-time employees of which approximately 53% had at least ten years of service with the Company.

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

Research and Development

In 2008, 2007, and 2006, the Company spent approximately $1.5 million, $0.7 million, and $0.6 million, respectively, on research activities relating to the development of new products and the improvement of existing products. As of February 15, 2009, the Company had approximately 17 employees whose primary responsibilities were research and development activities.

Patents and Trademarks

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

Environmental Matters

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

Executive Officers of the Company

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

Name	Age	Position With Company
Michael O. Fifer	51	Chief Executive Officer

Thomas A. Dineen	40	Vice President, Treasurer and Chief Financial Offic
Christopher J. Killoy	50	Vice President of Sales and Marketing
Mark T. Lang	52	Group Vice President
Thomas P. Sullivan	48	Vice President of Newport Operations
Leslie M. Gasper	55	Corporate Secretary

Michael O. Fifer joined the Company as Chief Executive Officer on September 25, 2006, and was named to the Board of Directors on October 19, 2006. Prior to joining the Company, Mr. Fifer was President of the Engineered Products Division of Mueller Industries, Inc. Prior to joining Mueller Industries, Inc., Mr. Fifer was President, North American Operations, Watts Water Technologies.

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

Christopher J. Killoy rejoined the Company as Vice President of Sales and Marketing on November 27, 2006. Mr. Killoy originally joined the Company in 2003 as Executive Director of Sales and Marketing, and subsequently served as Vice President of Sales and Marketing from November 1, 2004 to January 25, 2005.

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

Thomas P. Sullivan joined the Company as Vice President of Newport Operations for the Newport, New Hampshire Firearms and Pine Tree Castings divisions on August 14, 2006. Prior to joining the Company, Mr. Sullivan was Vice President of Lean Enterprises at IMI Norgren Ltd.

Leslie M. Gasper has been Secretary of the Company since 1994. Prior to this, she was the Administrator of the Company's pension plans, a position she held for more than five years prior thereto.

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Where You Can Find More Information

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

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

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

ITEM 1A--RISK FACTORS

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

Firearms Legislation

The sale, purchase, ownership, and use of firearms are subject to thousands of federal, state and local governmental regulations. The basic federal laws are the National Firearms Act, the Federal Firearms Act, and the Gun Control Act of 1968. These laws generally prohibit the private ownership of fully automatic weapons and place certain restrictions on the interstate sale of firearms unless certain licenses are obtained. The Company does not manufacture fully automatic weapons, other than for the law enforcement market, and holds all necessary licenses under these federal laws. From time to time, congressional committees review proposed bills relating to the regulation of firearms. These proposed bills generally seek either to restrict or ban the sale and, in some cases, the ownership of various types of firearms. Several states currently have laws in effect similar to the aforementioned legislation.

Until November 30, 1998, the "Brady Law" mandated a nationwide five-day waiting period and background check prior to the purchase of a handgun. As of November 30, 1998, the National Instant Check System, which applies to both handguns and

long guns, replaced the five-day waiting period. The Company believes that the "Brady Law" and the National Instant Check System have not had a significant effect on the Company's sales of firearms, nor does it anticipate any impact on sales in the future. On September 13, 1994, the "Crime Bill" banned so-called "assault weapons." All the Company's then-manufactured commercially-sold long guns were exempted by name as "legitimate sporting firearms." This ban expired by operation of law on September 13, 2004. The Company remains strongly opposed to laws which would restrict the rights of law-abiding citizens to lawfully acquire firearms. The Company believes that the lawful private ownership of firearms is guaranteed by the Second Amendment to the United States Constitution and that the widespread private ownership of firearms in the United States will continue. However, there can be no assurance that the regulation of firearms will not become more restrictive in the future and that any such restriction would not have a material adverse effect on the business of the Company.

Firearms Litigation

(The following disclosures within "Firearms Litigation" are identical to the disclosures within Note 6 of the notes to the financial statements-Contingent Liabilities.)

As of December 31, 2008, the Company was a defendant in approximately 6 lawsuits involving its products and is aware of certain other such claims. These lawsuits and claims fall into one of the two following categories:

(i) Those that claim damages from the Company related to allegedly defective product design which stem from a specific incident. Pending lawsuits and claims are based principally on the theory of "strict liability" but also may be based on negligence, breach of warranty, and other legal theories.

(ii) Those brought by cities or other governmental entities, and individuals against firearms manufacturers, distributors and retailers seeking to recover damages allegedly arising out of the misuse of firearms by third-parties in the commission of homicides, suicides and other shootings involving juveniles and adults. The complaints by municipalities seek damages, among other things, for the costs of medical care, police and emergency services, public health services, and the maintenance of courts, prisons, and other services. In certain instances, the plaintiffs seek to recover for decreases in property values and loss of business within the city due to criminal violence. In addition, nuisance abatement and/or injunctive relief is sought to change the design, manufacture, marketing and distribution practices of the various defendants. These suits allege, among other claims, strict liability or negligence in the design of products, public nuisance, negligent entrustment, negligent distribution, deceptive or fraudulent advertising, violation of consumer protection statutes and conspiracy or concert of action theories. Most of these cases do not allege a specific injury to a specific individual as a result of the misuse or use of any of the Company's products.

The Company has expended significant amounts of financial resources and management time in connection with product liability litigation. Management believes that, in every case involving firearms, the allegations are unfounded, and that the shootings and any results from the shootings were due to negligence or misuse of the firearms by third-parties or the claimant, and that there should be no recovery against the Company. Defenses to the suits brought by governmental entities further exist based on, among other things, the Protection of Lawful Commerce in Arms Act, established state law precluding recovery for essential government services, the remoteness of the claims, the types of damages sought to be recovered, and limitations on the extraterritorial authority which may be exerted by a city, municipality, county or state under state and federal law, including State and Federal Constitutions.

The only case against the Company alleging liability for criminal shootings by third-parties to ever be permitted to go before a constitutional jury, Hamilton, et al. v. Accu-tek, et al., resulted in a defense verdict in favor of the Company on February 11, 1999. In that case, numerous firearms manufacturers and distributors had been sued, alleging damages as a result of alleged negligent sales practices and "industry-wide" liability. The Company and its marketing and distribution practices were exonerated from any claims of negligence in each of the seven cases decided by the jury. In subsequent proceedings involving other defendants, the New York Court of Appeals as a matter of law confirmed that 1) no legal duty existed under the circumstances to prevent or investigate criminal misuses of a manufacturer's lawfully made products; and 2) liability of firearms manufacturers could not be apportioned under a market share theory. More recently, the New York Court of Appeals on October 21, 2003 declined to hear the appeal from the decision of the New York Supreme Court, Appellate Division, affirming the dismissal of New York Attorney General Eliot Spitzer's public nuisance suit against the Company and other manufacturers and distributors of firearms. In its decision, the Appellate Division relied heavily on Hamilton in concluding that it was "legally inappropriate," "impractical," "unrealistic" and "unfair" to attempt to hold firearms manufacturers responsible under theories of public nuisance for the criminal acts of others.

Of the lawsuits brought by municipalities, counties or a state Attorney General, twenty have been concluded: Atlanta - dismissal by intermediate Appellate Court, no further appeal; Bridgeport - dismissal affirmed by Connecticut Supreme Court; County of Camden - dismissal affirmed by U.S. Third Circuit Court of Appeals; Miami - dismissal affirmed by intermediate appellate court, Florida Supreme Court declined review; New Orleans - dismissed by Louisiana Supreme Court, United States Supreme Court declined review; Philadelphia - U.S. Third Circuit Court of Appeals affirmed dismissal, no further appeal; Wilmington - dismissed by trial court, no appeal; Boston - voluntary dismissal with prejudice by the City at the close of fact discovery; Cincinnati - voluntarily withdrawn after a unanimous vote of the city council; Detroit - dismissed by Michigan Court of Appeals, no appeal; Wayne County - dismissed by Michigan Court of Appeals, no appeal; New York State - Court of Appeals denied plaintiff's petition for leave to appeal the Intermediate Appellate Court's dismissal, no further appeal; Newark - Superior Court of New Jersey Law Division for Essex County dismissed the case with prejudice; City of Camden - dismissed on July 7, 2003, not reopened; Jersey City - voluntarily dismissed and not re-filed; St. Louis - Missouri Supreme Court denied plaintiffs' motion to appeal Missouri Appellate Court's affirmation of dismissal; Chicago - Illinois Supreme Court affirmed trial court's dismissal; and Los Angeles City, Los Angeles County, San Francisco - Appellate Court affirmed summary judgment in favor of defendants, no further appeal; and Cleveland - dismissed on January 24, 2006 for lack of prosecution.

On April 21, 2005, the D.C. Court of Appeals, in an en banc hearing, unanimously dismissed all negligence and public nuisance claims, but let stand individual claims based upon a Washington, D.C. act imposing "strict liability" for manufacturers of "machine guns." Based on present information, none of the Company's products has been identified with any of the criminal assaults which form the basis of the individual claims. The writ of certiorari to the United States Supreme Court regarding the constitutionality of the Washington, D.C. act was denied and the case was remanded to the trial court for further proceedings. The defendants subsequently moved to dismiss the case based upon the Protection

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of Lawful Commerce in Arms Act ("PLCAA"), which motion was granted on May 22, 2006. The individual plaintiffs and the District of Columbia, which has subrogation claims in regard to the individual plaintiffs, appealed. On January 10, 2008, the District of Columbia Court of Appeals unanimously upheld the dismissal. On February 22, 2008, the District and the individual plaintiffs filed petitions for rehearing or rehearing en banc. On June 9, 2008, the court denied the petition. On October 23, 2008, the District and the individual plaintiffs filed a petition for writ of certiorari in the United States Supreme Court.

The Indiana Court of Appeals affirmed the dismissal of the Gary case by the trial court, but the Indiana Supreme Court reversed this dismissal and remanded the case for discovery proceedings on December 23, 2003. The defendants filed a motion to dismiss pursuant to the PLCAA. On November 23, 2005, the state court judge held the PLCAA unconstitutional and the defendants filed a motion with the Indiana Court of Appeals asking it to accept interlocutory appeal on the issue, which appeal was accepted on February 5, 2007. On October 29, 2007, the Indiana Appellate Court affirmed, holding that the PLCAA does not apply to the City's claims. A petition for rehearing was filed in the Appellate Court and denied on January 9, 2008. On February 8, 2008, a Petition to Transfer the appeal to the Supreme Court of Indiana was filed. The petition was denied on January 13, 2009 and the case was remanded to the trial court.

In the previously reported New York City municipal case, the defendants moved to dismiss the suit pursuant to the PLCAA. The trial judge found the PLCAA to be constitutional, but denied the defendants' motion to dismiss the case, on the basis that the Act was not applicable to the suit. The defendants were given leave to appeal to the U.S. Court of Appeals for the Second Circuit. The Second Circuit affirmed the constitutionality of the PLCAA and reversed on applicability, holding that the PLCAA did apply. The case was remanded for dismissal. On June 16, 2008, the City filed a petition for rehearing or rehearing en banc. On August 20, 2008, the City's petition was denied by the Second Circuit. On October 20, 2008, the City filed a petition for writ of certiorari in the United States Supreme Court.

In the NAACP case, on May 14, 2003, an advisory jury returned a verdict rejecting the NAACP's claims. On July 21, 2003, Judge Jack B. Weinstein entered an order dismissing the NAACP lawsuit, but this order contained lengthy dicta which defendants believe are contrary to law and fact. Appeals by both sides were filed, but plaintiffs withdrew their appeal. On August 3, 2004, the United States Court of Appeals for the Second Circuit granted the NAACP's motion to dismiss the defendants' appeal of Judge Weinstein's order denying defendants' motion to strike his dicta made in his order dismissing the NAACP's case, and the defendants' motion for summary disposition was denied as moot. The ruling of the Second Circuit effectively confirmed the decision in favor of defendants and brought this matter to a conclusion.

Legislation has been passed in approximately 34 states precluding suits of the type brought by the municipalities mentioned above. On the Federal level, the "Protection of Lawful Commerce in Arms Act" was signed by President Bush on October 26, 2005. The Act requires dismissal of suits against manufacturers arising out of the lawful sale of their products for harm resulting from the criminal or unlawful misuse of a firearm by a third party. The Company is pursuing dismissal of each action involving such claims, including the municipal cases described above.

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

10, 2000, coverage is provided on an annual basis for losses exceeding $5 million per claim, or an aggregate maximum loss of $10 million annually, except for certain new claims, which might be brought by governments or municipalities after July 10, 2000, which are excluded from coverage.

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

Provision is made for product liability claims based upon many factors related to the severity of the alleged injury and potential liability exposure, based upon prior claim experience. Because our experience in defending these lawsuits and claims is that unfavorable outcomes are typically not probable or estimable, only in rare cases is an accrual established for such costs. In most cases, an accrual is established only for estimated legal defense costs. Product liability accruals are periodically reviewed to reflect then-current estimates of possible liabilities and expenses incurred to date and reasonably anticipated in the future. Threatened product liability claims are reflected in our product liability accrual on the same basis as actual claims; i.e., an accrual is made for reasonably anticipated possible liability and claims-handling expenses on an ongoing basis.

A range of reasonably possible loss relating to unfavorable outcomes cannot be made. However, in product liability cases in which a dollar amount of damages is claimed, the amount of damages claimed, which totaled $12.2 million and $5.0 at December 31, 2008 and 2007, respectively, are set forth as an indication of possible maximum liability that the Company might be required to incur in these cases (regardless of the likelihood or reasonable probability of any or all of this amount being awarded to claimants) as a result of adverse judgments that are sustained on appeal.

As of December 31, 2008 and 2007, the Company was a defendant in 6 and 5 lawsuits, respectively, involving its products and is aware of other such claims. During the year ended December 31, 2008 and 2007, respectively, 1 and 2 claims were filed against the Company, 0 and 1 claims were dismissed, and 0 and 0 claims were settled.

During the years ended December 31, 2008 and 2007, the Company incurred product liability expense of $0.9 million and $1.7 million, respectively, which includes the cost of outside legal fees, insurance, and other expenses incurred in the management and defense of product liability matters.

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

The Company has reported all cases instituted against it through September 27, 2008 and the results of those cases, where terminated, to the S.E.C. on its previous Form 10-K and 10-Q reports to which reference is hereby made.

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A roll-forward of the product liability reserve and detail of product liability expense for the three years ended December 31, 2008 follows:

Balance Sheet Roll-forward for Product Liability Reserve
(Dollars in thousands)

Cash Payments

	Balance Beginning of Year (a)	Accrued Legal Expense (b)	Legal Fees (c)	Settlements (d)	Insurance Premiums
2006	$2,196	$688	$(1,000)	$(143)	N/A
2007	1,741	639	(447)	-	N/A
2008	1,933	176	(358)	(7)	N/A

Income Statement Detail for Product Liability Expense
(Dollars in thousands)

	Accrued Legal Expense (b)	Insurance Premium Expense (e)	Admin. Expense (f)	Total Product Liability Expense
2006	$688	$1,141	$691	$2,520
2007	639	748	299	1,686
2008	176	739	-	915

Notes

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

(b) The expense accrued in the liability is for legal fees only.

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

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

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

(f) Administrative expense represents personnel related and travel expenses of Company employees and firearm experts related to the management and monitoring of product liability matters.

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

Environmental

The Company is subject to numerous federal, state and local laws and governmental regulations and related state laws. These laws generally relate to potential obligations to remove or mitigate the environmental effects of the disposal or release of certain pollutants at the Company's manufacturing facilities and at third-party or formerly owned sites at which contaminants generated by the Company may be located. This requires the Company to make capital and other expenses.

The Company is committed to achieving high standards of environmental quality and product safety, and strives to provide a safe and healthy workplace for its employees and others in the communities in which it operates. In an effort to comply with federal and state laws and regulations, the Company has programs in place that monitor compliance with various environmental regulations. However, in the normal course of its operations, the Company is subject to occasional governmental proceedings and orders pertaining to waste disposal, air emissions, and water discharges into the environment.

The Company believes that it is generally in compliance with applicable environmental regulations. However, the Company cannot assure that the outcome of any environmental proceedings and orders will not have a material adverse effect on the business.

Reliance on Two Facilities

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

Availability of Raw Materials

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

ITEM 1B--UNRESOLVED STAFF COMMENTS

None

ITEM 2--PROPERTIES

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

	Approximate Aggregate Usable Square Feet	Status	Segment
Newport, New Hampshire	350,000	Owned	Firearms/Castings
Prescott, Arizona	230,000	Leased	Firearms

Each facility contains enclosed ranges for testing firearms and also contains modern tool room facilities. The lease of the Prescott facility provides for rental payments, which are approximately equivalent to estimated rates for real property taxes. The Company consolidated its casting operations in its Newport, New Hampshire foundry in 2007.

The Company has three other facilities that were not used in its manufacturing operations in 2008:

	Approximate Aggregate Usable Square Feet	Status	Segment
Southport, Connecticut (Station Street property)	5,000	Owned	Not Utilized
Southport, Connecticut (Lacey Place property)	25,000	Owned	Corporate
Newport, New Hampshire (Dorr Woolen Building)	300,000	Owned	Firearms (a)

(a) In 2005, the Company relocated its firearms shipping department into a portion of the Dorr Woolen Building. In 2006, certain of the Company's sales department personnel were moved into the same facility.

There are no mortgages or any other major encumbrance on any of the real estate owned by the Company. The Company sold some of its non-manufacturing real property assets in 2007. The three non-manufacturing facilities identified above are listed for sale.

The Company's principal executive offices are located in Southport, Connecticut. The Company believes that its existing facilities are suitable and adequate for its present purposes.

ITEM 3--LEGAL PROCEEDINGS

The nature of the legal proceedings against the Company is discussed at Note 6 to this Form 10-K report, which is incorporated herein by reference.

The Company has reported all cases instituted against it through September 27, 2008, and the results of those cases, where terminated, to the S.E.C. on its previous Form 10-Q and 10-K reports, to which reference is hereby made.

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One case was formally instituted against the Company during the three months ending December 31, 2008:

Chan v. Company, et al (CA) in the Superior Court of the State of California for the County of Los Angeles - Central District. The complaint, which was received on October 14, 2008, alleges that the plaintiff was exposed to chemical products, including aluminum parts provided by the Company, resulting in chronic hepatitis. Compensatory damages and costs are demanded.

During the three months ending December 31, 2008, no previously reported cases were settled.

On February 11, 2009, the previously reported Pearce v. Company, et al (MA) case was settled. The settlement amount was within the limits of the Company's self-insurance coverage and self-insurance retention.

For a description of all pending lawsuits against the Company through September

28, 2008, reference is made to the discussion under the caption "Item 1. LEGAL PROCEEDINGS" of the Company's Quarterly Reports on Form 10-Q for the quarters ended September 30, 1999, March 31 and September 30, 2000, and June 30, 2007.

ITEM 4--SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

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

The Company's Common Stock is traded on the New York Stock Exchange under the symbol "RGR." At February 1, 2009, the Company had 1,818 stockholders of record.

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

	High	Low	Dividends Per Share
2007:			
First Quarter	$13.27	$ 8.91	-
Second Quarter	15.49	11.77	-
Third Quarter	20.94	13.86	-
Fourth Quarter	18.35	7.22	-
2008:			
First Quarter	$ 9.32	$ 7.32	-
Second Quarter	8.88	6.95	-
Third Quarter	7.84	5.60	-
Fourth Quarter	7.44	4.36	-

Issuer Repurchase of Equity Securities

Dates	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased Under the Program	Approximate Dolla Value of Shares that may yet be Purchased Under th Program
October 2008	364,000	$6.87	364,000	$
November 2008	-	-	-	$
December 2008	47,000	$5.98	47,000	$ 4.7 millio
Total	411,000	$8.02	411,000	$ 4.7 millio

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

Comparison of Five-Year Cumulative Total Return *
Sturm, Ruger & Company, Inc., Standard & Poor's 500 and
Value Line Recreation Index
(Performance Results through 12/31/08)

[GRAPHIC OMMITED]

Assumes $100 invested at the close of trading December 31, 2003 in Sturm, Ruger & Company, Inc. Common Stock, Standard & Poor's 500 and Value Line Recreation Index.

* Cumulative total return assumes reinvestment of dividends.

Source: Value Line, Inc.

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

	2003	2004	2005	2006	2007
Sturm, Ruger & Company, Inc.	100.00	83.75	67.36	92.24	79.56
Standard & Poor's 500	100.00	108.99	112.26	127.55	132.06
Value Line Recreation Index	100.00	135.42	126.33	142.41	127.12

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information regarding compensation plans under which equity securities of the Company are authorized for issuance as of December 31, 2008:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securit remaining availabl future issuance u equity compensat plans (excludin securities reflect column (a)) (c)
Equity compensation plans approved by security holders			

1998 Stock Incentive Plan	600,000	$7.77 per share	-
2001 Stock Option Plan for Non-Employee Directors	180,000	$8.75 per share	-
2007 Stock Incentive Plan	640,250	$10.26 per share	1,909,750
Equity compensation plans not approved by security holders			
None.			
Total	1,420,250	$9.02 per share	1,909,750

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ITEM 6--SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)

	December 31,			
	2008	2007	2006	
Net firearms sales	$ 174,416	$ 144,222	$ 139,110	$
Net castings sales	7,067	12,263	28,510	
Total net sales	181,483	156,485	167,620	
Cost of products sold	138,730	117,186	139,610	
Gross profit	42,753	39,299	28,010	
Income before income taxes	13,978	16,659	1,843	
Income taxes	5,312	6,330	739	
Net income	$ 8,666	$ 10,329	$ 1,104	$
Basic and diluted earnings per share	0.43	0.46	0.04	
Cash dividends per share	$ 0.00	$ 0.00	$ 0.00	$

	December 31,			
	2008	2007	2006	
Working capital	$ 46,250	$ 53,264	$ 60,522	$
Total assets	112,760	101,882	117,066	
Total stockholders' equity	65,603	76,069	87,326	
Book value per share	$ 3.44	$ 3.57	$ 3.86	$
Return on stockholders' equity	12.2%	12.6%	1.3%	
Current ratio	2.6 to 1	3.6 to 1	3.8 to 1	
Common shares outstanding	19,047,300	20,571,800	22,638,700	26
Number of stockholders of record	1,841	1,769	1,851	
Number of employees	1,145	1,154	1,108	

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

Company Overview

Sturm, Ruger & Company, Inc. (the "Company") is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Approximately 96% of the Company's total sales for the year ended December 31, 2008 were from the firearms segment, and approximately 4% were from investment castings. Export sales represent approximately 6% of firearms sales. The Company's design and manufacturing operations are located in the United States and most product content is domestic. The Company's firearms are sold through a select number of independent wholesale distributors principally to the commercial sporting market.

The Company manufactures and sells investment castings made from steel alloys for both outside customers and internal use in the firearms segment. Investment castings sold to outside customers, either directly to or through manufacturers' representatives, represented approximately 4% of the Company's total sales for the year ended December 31, 2008. In July 2006, the Company announced the cessation of the titanium castings portion of its investment casting operations. This cessation of operations was completed in 2007, at which time the Company consolidated its Arizona casting operations into its New Hampshire casting operations.

Because most of the Company's competitors are not subject to public filing requirements and industry-wide data is generally not available in a timely manner, the Company is unable to compare its performance to other companies or specific current industry trends. Instead, the Company measures itself against its own historical results.

The Company does not consider its overall firearms business to be predictably seasonal; however, sales of many models of firearms are usually lower in the third quarter of the year.

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Results of Operations

Annual Summary Unit Data

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

	2008	2007	2006	2005
Units Ordered	776,400	485,000	(1)	(1)
Units Produced	600,600	464,900	419,800	414,600
Units Shipped	626,500	481,800	475,900	460,200
Average Sales Price	$278	$299	$292	$289
Units on Backorder	175,900	36,500	(1)	(1)

Units - Company Inventory	12,400	38,300	55,200	111,246
Units - Distributor Inventory (2)	57,500	62,000	57,100	70,498
Castings Setups	144,600	156,100	169,100	174,443

Orders Received and Ending Backlog

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

	2008	2007
Orders Received	$233.8	$156.4
Average Sales Price of Orders Received (Note 3)	$301	$322
Ending Backlog (Note 3)	$47.8	$17.9
Average Sales Price of Ending Backlog (Note 3)	$269	$444

(1) Prior to 2006, the Company received one cancelable annual firearms order in December from each of its distributors. Effective December 1, 2006, the Company changed the manner in which distributors order firearms, and began receiving firm, non-cancelable purchase orders on a frequent basis, with most orders for immediate delivery. Because of this change, comparable data for orders received and units on backorder for prior periods is not meaningful.

(2) Distributor ending inventory as provided by the Company's distributors.

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

The increase in orders received in 2008 is attributable to the following:

1. Increased demand for firearms during the fourth quarter,
2. New products introduced in 2008, and
3. Increased production and order fulfillment in 2008.

The product mix of orders received in 2008 shows an increase in demand for firearms related to self defense, including the LCP pistol, which was introduced in the first quarter of 2008.

The decrease in the average sales price of the units in backlog in 2008 is due to the large quantity of new products in the backlog with lower unit sales prices and a reduction in backlog for certain rifle products where production has increased to meet demand.

Orders for certain discontinued models totaling $3.7 million at the end of 2007 were cancelled and have been eliminated from the 2008 backlog information. These orders were included in the backlog for 2007, and their elimination had a significant impact on the change in average sales price of the ending backlog from 2007 to 2008.

The increase in the order backlog is due to the strong incoming order rate for new products and the increase in overall demand that occurred in the fourth quarter. Shipments in 2009 will be essentially limited to units produced as finished goods inventory was largely depleted during the fourth quarter of 2008.

Production

Production rates, which started to increase late in 2007, have continued to improve throughout 2008. This allowed for a 29% increase in unit production from 2007 to 2008.

The Company continues to work on the transition from large-scale batch production to lean manufacturing, with an emphasis on setting up manufacturing cells that facilitate flow production and pull systems. The focus now is on establishing single-piece flow cells for small parts manufacturing, refining existing cells, developing pull systems, managing vendors, and increasing capacity for the products with the greatest unmet demand. There is also considerable, on-going engineering work in process to re-engineer existing product designs for improved manufacturability.

Inventories

The Company's finished goods unit inventory levels decreased in 2008, ending at a recent historic low. Finished goods inventories are anticipated to increase during the later half of 2009 as safety stock levels are rebuilt when the current, unusually high level of demand subsides.

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Quarterly Summary Unit Data

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

	2008			
	Q4	Q3	Q2	Q1
Units Ordered	270,400	125,700	120,300	260,100
Units Produced	167,100	158,900	150,600	124,000
Units Shipped	208,100	146,000	136,700	135,700
Average Sales Price	$275	$276	$270	$296
Units on Backorder	175,900	115,300	137,700	157,100
Units - Company Inventory	12,400	52,600	40,200	24,900
Units - Distributor Inventory (1)	57,500	65,800	62,900	61,800

	2007			
	Q4	Q3	Q2	Q1
Units Ordered	113,100	80,900	115,300	175,700

Units Produced	104,900	100,800	132,000	127,200
Units Shipped	111,900	98,600	129,600	141,700
Average Sales Price	$283	$297	$306	$308
Units on Backorder	36,500	35,700	53,400	68,300
Units - Company Inventory	38,300	45,300	43,100	40,700
Units - Distributor Inventory (1)	62,000	70,500	78,800	60,000

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

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

	2008			
	Q4	Q3	Q2	Q1
Orders Received	$86.1	$33.5	$37.0	$73.8
Average Sales Price of Orders Received	$287	$267	$275	$257
Ending Backlog	$47.8	$27.9	$33.7	$40.7
Average Sales Price of Ending Backlog	$269	$242	$245	$234

	2007			
	Q4	Q3	Q2	Q1
Orders Received	$32.8	$25.4	$39.1	$58.9
Average Sales Price of Orders Received	$262	$284	$307	$303
Ending Backlog	$17.9	$16.2	$23.3	$27.9
Average Sales Price of Ending Backlog	$444	$411	$395	$370

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

Year ended December 31, 2008, as compared to year ended December 31, 2007:

Sales

Consolidated net sales were $181.5 million in 2008. This represents an increase of $25.0 million or 16.0% from 2007 consolidated net sales of $156.5 million.

Firearms segment net sales were $174.4 million in 2008. This represents an increase of $30.2 million or 20.9% from 2007 firearm net sales of $144.2 million. Firearms unit shipments increased 30.0% in 2008 due to increased shipments of pistols, rifles and revolvers. This increase is attributable to the introduction of new products in 2008, increased production of mature products, and increased overall industry demand. A shift in product mix toward firearms with lower unit sales prices, including some new products, resulted in the greater percentage increase in unit shipments than sales.

Casting segment net sales were $7.1 million in 2008. This represents a decrease of $5.2 million or 42.4% from 2007 casting sales of $12.3 million.

The casting sales decrease in 2008 primarily reflects the cessation of titanium casting operations, as previously announced by the Company in July 2006. In 2007, titanium casting sales were $3.2 million of total casting sales. In 2007, the Company significantly increased prices to certain external customers, seeking to improve margins and free up available capacity for additional internal use. Certain customers accepted the price increases while others moved their business away from the Company as anticipated.

Cost of Products Sold and Gross Margin

Consolidated cost of products sold was $138.7 million in 2008. This represents an increase of $21.5 million or 18.4% from 2007 consolidated cost of products sold of $117.2 million.

The gross margin as a percent of sales was 23.6% in 2008. This represents a decrease from the 2007 gross margin of 25.1% as illustrated below:

	December 31,		
	2008		2007
Net sales	$181,483	100.0%	$156,485
Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability and product recall	136,172	75.0%	123,170
LIFO expense (income)	781	0.4%	(9,074)
Overhead rate adjustments to inventory	(1,389)	(0.7)%	1,404
Labor rate adjustments to inventory	(1,251)	(0.7)%	-
Product liability	915	0.5%	1,686
Product recalls	3,502	1.9%	-
Total cost of products sold	138,730	76.4%	117,186
Gross margin	$ 42,753	23.6%	$ 39,299

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Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall-- In 2008, cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall decreased as a percentage of sales by 3.7% compared to the comparable 2007. The decrease was primarily related to increased comparable period sales and production while holding fixed-overhead expenses fairly stable and decreases in non-personnel variable-overhead spending.

Excess and Obsolete Inventory--The excess and obsolete inventory reserve balances as of December 31, 2008 and December 31, 2007 were $3.6 million and $4.1 million, respectively. The reduction was principally attributable to continued reduction in work-in-process inventory.

LIFO--In 2008, gross inventories were reduced by $4.5 million compared to a decrease in gross inventories of $23.1 million in 2007. In 2008 the Company recognized a LIFO charge resulting in increased cost of products sold of $0.8 million compared to LIFO income and decreased cost of products sold of $9.1 million in 2007.

Overhead Rate Change--In the first half of 2008, increased expenses incurred related to expanding manufacturing capacity resulted in an increase in overhead absorbed into inventory of $1.5 million and a corresponding reduction in cost of sales. In the latter half of 2008, the change in inventory value resulting from the change in the overhead rates used to absorb overhead expenses into inventory was a decrease in inventory of $0.1 million.

The net impact in 2008 from the change in the overhead rates used to absorb overhead expenses into inventory was an increase to inventory of $1.4 million. This increase in inventory value resulted in a decrease to cost of sales in 2008.

In 2007, the change in inventory value resulting from the change in the overhead rate used to absorb overhead expenses into inventory was a decrease of $1.4 million. This reduction in inventory value resulted in an increase to cost of products sold.

Labor Rate Adjustments--Effective April 1, 2008, the Company changed its methodology for estimating standard direct labor rates for its firearms. This change in estimation resulted in an increase to gross inventories of $1.9 million and a corresponding reduction in cost of sales. For the remainder of 2008, the change in inventory value resulting from the change in the labor rates used to absorb labor expenses into inventory was a decrease in inventory of $0.6 million, reflecting continued improvement of labor efficiency.

The net impact in 2008 from the change in the labor rates used to absorb labor expenses into inventory was an increase to inventory of $1.3 million. This increase in inventory value resulted in a decrease to cost of sales in 2008.

Product Liability--During the years ended December 31, 2008 and 2007, the Company incurred product liability expense of $0.9 million and $1.7 million, respectively, which includes the cost of outside legal fees, insurance, and other expenses incurred in the management and defense of product liability matters. See Note 6 to the notes to the financial statements "Contingent Liabilities" for further discussion of the Company's product liability.

Product Recalls-In 2008, the Company received a small number of reports from the field that its SR9 pistols, and later, its LCP pistols, could discharge if dropped onto a hard surface. The Company began recalling SR9 pistols in April 2008 and LCP pistols in October 2008 to offer free safety retrofits. The estimated cost of these safety retrofit programs of approximately $3.5 million was recorded in 2008. At December 31, 2008, an accrual of $1.5 million remains.

Gross Margin--Gross margin was $42.8 million or 23.6% of sales in 2008. This is an increase of $3.5 million or 8.7% from 2007 gross margin of $39.3 million or 25.1% of sales.

Selling, General and Administrative

Selling, general and administrative expenses were $30.1 million in 2008. This represents an increase of $1.3 million or 4.5% from 2007 selling, general and administrative expenses of $28.8 million. The increase reflects increased advertising and sales promotion expenses, many of which related to new products, and greater personnel-related expenses.

Pension Curtailment Charge

In 2007, the Company amended its hourly and salaried defined benefit pension plans which resulted in a $1.2 million pension curtailment charge. No such charge was incurred in 2008.

Other Operating Expenses (Income), net

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

Year ended December 31,	2008	2007
Gain on sale of operating assets (a)	$ (95)	$(472)
Impairment of operating assets (b)	-	489
Gain on sale of real estate (c)	-	(1,521)
Impairment of real estate held for sale (d)	-	1,775
Frozen defined benefit pension plan income	(745)	-
Total other operating expenses (income), net	$ (840)	$ 271

(a) The gain on sale of operating assets was generated primarily from the sale of used machinery and equipment. The used equipment sold in 2008 was previously used in firearms manufacturing. Most of the used machinery and equipment sold in 2007 was related to titanium investment casting.

(b) In 2007, the Company recognized an impairment charge of $0.5 million related to machinery and equipment previously in the Company's Arizona investment casting operations.

(c) In 2007, the Company sold a facility in Arizona for $5.0 million. This facility had not been used in the Company's operations for several years. The Company realized a gain of approximately $1.5 million from this sale. The Company has three additional non-manufacturing properties listed for sale, two in Connecticut and one in New Hampshire. The Company does not, however, expect to sell them anytime soon due to the currently depressed real estate market.

(d) In the fourth quarter of 2007, the Company recognized an asset impairment charge of $1.8 million related to the Dorr Building, a non-manufacturing property in New Hampshire that has been for sale for an extended period of time without any meaningful market interest.

Operating Income--Operating Income was $13.5 million or 7.5% of sales in 2008. This is a 48.5% increase of $4.4 million from 2007 operating income of $9.1 million or 5.8% of sales.

Gain on Sale of Real Estate--In 2007, the $5.2 million gain on sale of real estate reflects the sale of largely undeveloped non-manufacturing real property held for investment.

Interest income

Interest income was $0.4 million in 2008. This represents a decrease of $2.0 million from 2007 interest income of $2.4 million. The decrease is attributable primarily to reduced interest rates in 2008 and secondarily to reduced principal invested.

Income Taxes and Net Income

The effective income tax rate in 2008 was 38.0%, which is consistent with the 2007 effective income tax rate of 38.0%.

As a result of the foregoing factors, consolidated net income was $8.7 million in 2008. This represents a decrease of $1.6 million from 2007 consolidated net income of $10.3 million.

Results of Operations

Year ended December 31, 2007, as compared to year ended December 31, 2006:

Summary Unit Data

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

	2007	2006	2005
Units Ordered	485,000	(1)	(1)
Units Produced	464,900	419,800	414,600
Units Shipped	481,800	475,900	460,200
Average Sales Price	$299	$292	$289
Units on Backorder	36,500	(1)	(1)
Units - Company Inventory	38,300	55,200	111,246
Units, Distributor Inventory (2)	62,000	57,100	70,498

Castings Setups	156,100	169,100	174,443

(1) Prior to 2006, the Company received one cancelable annual firearms order in December from each of its distributors. Effective December 1, 2006, the Company changed the manner in which distributors order firearms, and began receiving firm, non-cancelable purchase orders on a frequent basis, with most orders for immediate delivery. Because of this change, comparable data for orders received and units on backorder for prior periods is not meaningful.

(2) Distributor ending inventory as provided by the Company's distributors.

Orders Received

The Company saw unusually high bookings during the 1st quarter of 2007 and then unusually low bookings during the 3rd quarter of 2007. Bookings picked up again during the 4th quarter, gaining strength during the quarter. The Company's distributors indicated anecdotally that this order pattern was in line with what the overall industry experienced during 2007. This order pattern in 2007 was more volatile than the modest seasonality typically encountered in other years. Certain product lines were on backorder throughout the year, including new product introductions and low-volume products that were not in regular production throughout the year. The Company initiated sales promotions during the 3rd and 4th quarters of the year to encourage demand for those product lines where manufacturing capacity exceeded current demand.

Production

Throughout 2007, the Company continued to work on the transition from large-scale batch production to lean manufacturing, with an emphasis on setting up manufacturing cells that facilitate flow production and pull systems. At the end of 2007, the Company had converted over 70% of its batch manufacturing processes to single-piece or small-batch flow cells.

In the first half of 2007, unit shipments exceeded production and there was a significant reduction in finished goods inventory. There was also a significant reduction in work-in-process inventory in the first half of 2007 as available work-in-process inventory allowed the Company to produce more units than its staffing and manufacturing processes would have otherwise allowed.

As a result of reducing gross inventory by $28.3 million in the second half of 2006 and by $26.6 million in the first half of 2007, including significant reductions in work-in-process inventory, many issues with design for manufacturability, poor machinery and tool reliability, weak manufacturing processes, long machine changeover times, and vendor supply were identified. The Company has made partial progress in addressing these issues with careful re-engineering of both our product and component designs and manufacturing processes as problems were identified, with the net result for certain product lines of significantly reduced factory throughput time, improved quality, and modestly improved productivity. The rate of product returns (from firearms in service less than 1 year) dropped by approximately 30% from the first quarter of 2007 to the fourth quarter of 2007. The Company was also able to increase unit production by approximately 10% from 2006 to 2007.

During the 2nd half of 2007, the Company slowed its rapid, wide-spread draw down of inventory and increased the foundry output to replenish component part shortages. Gross inventory was relatively unchanged during the 2nd half of 2007. Production rates started to increase late in 2007 as a result of the months of effort spent addressing manufacturing process and design-for-manufacturability issues and as a result of the increased availability of investment cast component parts.

Sales

Consolidated net sales were $156.5 million in 2007. This represents a decrease of $11.1 million or 6.6% from 2006 consolidated net sales of $167.6 million.

Firearms segment net sales were $144.2 million in 2007. This represents an increase of $5.1 million or 3.7% from 2006 firearm net sales of $139.1 million. Firearms unit shipments increased 1% in 2007 due to increased shipments of rifles and pistols, offset by a decline in shipments of revolvers and shotguns. A modest price increase and a shift in product mix toward firearms with greater unit sales prices resulted in the greater percentage increase in sales than unit shipments.

Casting segment net sales were $12.3 million in 2007. This represents a decrease of $16.2 million or 57.0% from 2006 casting sales of $28.5 million.

The casting sales decrease in 2007 primarily reflects the cessation of titanium casting operations, as previously announced by the Company in July 2006. In 2007, titanium casting sales were $3.2 million or 26% of total casting sales compared to $16.2 million or 56% in 2006. In addition, the Company significantly increased prices to most external customers in the second half of the 2007, seeking to improve margins and free up available capacity for additional internal use. Certain customers accepted the price increases while others moved their business away from the Company as anticipated.

Cost of Products Sold and Gross Margin

Consolidated cost of products sold was $117.2 million in 2007. This represents a decrease of $22.4 million or 16.1% from 2006 consolidated cost of products sold of $139.6 million.

The gross margin as a percent of sales was 25.1% in 2007. This represents an increase from the 2006 gross margin of 16.7% as illustrated below:

	December 31,			
	2007		2006	
Net sales	$156,485	100.0%	$167,620	100.0%
Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, and product liability	123,170	78.7%	135,881	81.1%
LIFO income	(9,074)	(5.8)%	(1,233)	(0.7)%
Overhead rate adjustments to inventory	1,404	0.9%	2,681	1.5%
Labor rate adjustments to inventory	-	-	-	-

Product liability	1,686	1.1%	2,281	1.4%
Total cost of products sold	117,186	74.9%	139,610	83.3%
Gross margin	$ 39,299	25.1%	$ 28,010	16.7%

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Excess and Obsolete Inventory--Prior to 2006, the Company adjusted production schedules to consume on-hand raw material and WIP inventories, regardless of customer demand for the finished goods so produced. This practice led to increased investment in inventory, and an unbalanced finished goods inventory.

Consistent with the change in the manner in which distributors order from the Company, the Company significantly changed its production scheduling philosophy from an annual production cycle to a customer-demand pull system in the fourth quarter of 2006. Under the Company's new system, production is driven solely by customer demand.

As a result of this new production philosophy, it became apparent that the Company had inventory in excess of its needs over the foreseeable future. Therefore, in 2006, the Company evaluated the adequacy of the excess and obsolescence inventory reserve and concluded that additional reserves were required to reflect the estimated recoverable value of excess inventories below LIFO carrying cost. The required reserve was estimated at $5.5 million as of December 31, 2006.

The Company employed the same methodology and parameters in 2007, which resulted in a reserve balance as of December 31, 2007 of $4.1 million. This reduction was principally caused by the increased impact of LIFO in 2007 as evidenced by the LIFO reserve representing 73% of gross inventories at December 31, 2007, compared to 66% at December 31, 2006.

LIFO--In 2007, gross inventories were reduced by $23.1 million compared to decreases in gross inventories of $24.0 million in 2006. The 2007 inventory reduction resulted in LIFO income and decreased cost of products sold of $9.1 million compared to LIFO income and decreased cost of products sold of $1.2 million in 2006.

Overhead Rate Change-- For the first three quarters of 2007, the change in inventory value resulting from the change in the labor rates used to absorb labor expenses into inventory was a decrease in inventory of $5.0 million, reflecting continued improvement of labor efficiency. Effective December 31, 2007, the Company changed its methodology for absorbing overhead rates for its firearms. This change in estimation resulted in an increase to gross inventories of $3.6 million and a corresponding reduction in cost of sales in the fourth quarter of 2007.

The net impact in 2007 from the change in the overhead rates used to absorb overhead expenses into inventory was a decrease in inventory of $1.4 million. This decrease in inventory value resulted in an increase to cost of sales in 2007.

In 2006, the change in inventory value resulting from the change in the overhead rate used to absorb overhead expenses into inventory was a decrease of $2.7

million. This reduction in inventory value resulted in an increase to cost of products sold.

Product Liability--During the years ended December 31, 2007 and 2006, the Company incurred product liability expense of $1.7 million and $2.3 million, respectively, which includes the cost of outside legal fees, insurance, and other expenses incurred in the management and defense of product liability matters. See note 6 to the notes to the financial statements "Contingent Liabilities" for further discussion of the Company's product liability.

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Gross Margin--Gross margin was $39.3 million or 25.1% of sales in 2007. This is an increase of $11.3 million or 40.3% from 2006 gross margin of $28.0 million or 16.7% of sales.

Selling, General and Administrative

Selling, general and administrative expenses were $28.8 million in 2007. This represents an increase of $0.9 million or 3.0% from 2006 selling, general and administrative expenses of $27.9 million. The increase reflects greater personnel-related expenses including equity-based compensation expense such as stock-option expense and performance-stock-option expense, partially offset by a reduction in advertising and sales promotion expenses.

Pension Curtailment Charge

In 2007, the Company amended its hourly and salaried defined benefit pension plans so that employees will no longer accrue benefits under these plans effective December 31, 2007. This action "froze" the benefits for all employees and prevented future hires from joining the plans, effective December 31, 2007. In 2008, the Company provided supplemental discretionary contributions to substantially all employees' individual 401(k) accounts.

These amendments resulted in a $1.2 million pension curtailment charge that was recognized in 2007.

Other Operating Expenses (Income), net

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

Year ended December 31,	2007	2006
Gain on sale of operating assets (a)	$ (472)	$(929)
Impairment of operating assets (b)	489	494
Gain on sale of real estate (c)	(1,521)	(397)
Impairment of real estate held for sale (d)	1,775	-
Total other operating expenses (income), net	$ 271	$(832)

(a) The gain on sale of operating assets was generated primarily from the sale of used machinery and equipment. Most of the used machinery and equipment sold in 2007 and 2006 was related to titanium investment casting.

(b) In 2007, the Company recognized an impairment charge of $0.5 million related to machinery and equipment previously in the Company's

Arizona investment casting operations. In 2006, the Company recognized an impairment charge of $0.5 million related to building improvements at the Dorr Building. The Company had planned to establish a titanium investment castings foundry at Dorr, but that plan was aborted in 2006.

(c) On April 16, 2007, the Company sold a facility in Arizona for $5.0 million. This facility had not been used in the Company's operations for several years. The Company realized a gain of approximately $1.5 million from this sale. In 2006, the $0.4 million gain on sale of real estate reflects the sale of non-manufacturing real property.

(d) In the fourth quarter of 2007, the Company recognized an asset impairment charge of $1.8 million related to the Dorr Building, a non-manufacturing property in New Hampshire that had been for sale for an extended period of time without any meaningful market interest.

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Operating Income--Operating Income was $9.1 million or 5.8% of sales in 2007. This is an increase of $8.2 million from 2006 operating income of $0.9 million or 0.6% of sales.

Gain on Sale of Real Estate

In 2007, the $5.2 million gain on sale of real estate reflects the sale of largely undeveloped non-manufacturing real property held for investment.

Interest income

Interest income was $2.4 million in 2007. This represents an increase of $1.3 million from 2006 interest income of $1.1 million. The increase is attributable to increased principal invested in 2007 compared to 2006.

Income Taxes and Net Income

The effective income tax rate in 2007 was 38.0%. This compares favorably to the 2006 effective income tax rate of 40.1%. The reduction in 2007 results from an increase in the domestic production activities deduction.

As a result of the foregoing factors, consolidated net income was $10.3 million in 2007. This represents an increase of $9.2 million from 2006 consolidated net income of $1.1 million.

Financial Condition

Operations

At December 31, 2008, the Company had cash, cash equivalents and short-term investments of $28.2 million. The Company's pre-LIFO working capital of $90.6 million, less the LIFO reserve of $44.3 million, resulted in working capital of $46.3 million and a current ratio of 2.6 to 1.

Cash provided by operating activities was $11.2 million, $19.3 million, and $30.2 million in 2008, 2007, and 2006, respectively. The decrease in cash provided in 2008 compared to 2007 is principally attributable to a lesser reduction in gross inventory in 2008 compared to 2007 and an increase in accounts receivable in 2008 due to strong fourth quarter sales in 2008. The decrease in cash provided in 2007 compared to 2006 is principally a result of a lesser reduction in gross inventories in 2007 compared to 2006.

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

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Investing and Financing

Capital expenditures were $9.5 million, $4.5 million, and $3.9 million in 2008, 2007, and 2006, respectively. In 2009, the Company expects to spend approximately $12 million on capital expenditures to purchase tooling for new product introductions and to upgrade and modernize manufacturing equipment, and to increase capacity of certain products in strong demand. The Company finances, and intends to continue to finance, all of these activities with funds provided by operations and current cash and short-term investments.

In 2008, the Company repurchased 1,535,000 shares of its common stock, representing 7.5% of the outstanding shares, in the open market at an average price of $6.57 per share. In 2007, the Company repurchased 2,216,000 shares of its common stock, representing 9.7% of the then outstanding shares, in the open market at an average price of $8.99 per share. On September 26, 2006, the Company repurchased 4,272,000 shares of its common stock, representing 15.9% of the then outstanding shares, from entities controlled by members of the Ruger family at a price of $5.90 per share. All of these purchases were made with cash held by the Company and no debt was incurred.

There were no dividends paid in 2008, 2007 or 2006. The payment of future dividends depends on many factors, including internal estimates of future performance, then-current cash and short-term investments, and the Company's need for funds. The Company does not expect to pay dividends in the near term.

Based on its unencumbered assets, the Company believes it has the ability to raise substantial amounts of cash through issuance of short-term or long-term debt. In the fourth quarter of 2007, the Company established an unsecured $25 million credit facility. At December 31, 2008, $1.0 million was drawn from this credit facility.

On March 8, 2007, the Company sold 42 parcels of non-manufacturing real property for $7.3 million to William B. Ruger, Jr., the Company's former Chief Executive Officer and Chairman of the Board. The sale included substantially all of the Company's raw land real property assets in New Hampshire. The sales price was based upon an independent appraisal, and the Company recognized a gain of $5.2 million on the sale.

On April 16, 2007, the Company sold a non-manufacturing facility in Arizona for $5.0 million. This facility had not been used in the Company's operations for several years. The Company realized a gain of approximately $1.5 million from this sale.

In 2007, the Company amended its hourly and salaried defined benefit pension plans so that employees will no longer accrue benefits under them effective December 31, 2007. This action "froze" the benefits for all employees and prevented future hires from joining the plans, effective December 31, 2007. In 2008, the Company provided supplemental discretionary contributions to substantially all employees' individual 401(k) accounts.

In late 2007, after authorizing the "freeze" amendment to its hourly and salaried defined benefit pension plans, the Company contributed an additional $5 million to the plans. The intent of this discretionary contribution is to reduce the amount of time that the Company will be required to continue to operate the frozen plans. The ongoing cost of running the plans (even if frozen) is approximately $200,000 per year, which includes PBGC premiums, actuary and audit fees, and other expenses.

In 2009 and future years, the Company may be required to make cash contributions to the two defined benefit pension plans according to the new rules of the Pension Protection Act of 2006. The annual contributions will be based on the amount of the unfunded plan liabilities derived from the frozen benefits and will not include liabilities for any future accrued benefits for any new or existing participants. The total amount of these future cash contributions will be dependent on the investment returns generated by the plans' assets and the then-applicable discount rates used to calculate the plans' liabilities. There is no minimum required cash contribution for the defined benefit plans for 2009, but there may be such a requirement in future years because of recent market volatility which has adversely affected investment returns for the plans' assets. The 2009 cash contribution for the defined benefit plans is expected to be approximately $2 million.

In the fourth quarter of 2008, the Company settled $2.3 million of pension liabilities through the purchases of group annuities. This transaction resulted in an insignificant actuarial gain.

In February 2008, the Company made lump sum benefit payments to two participants in its only non-qualified defined benefit plan, the Supplemental Executive Retirement Plan (SERP). These payments, which totaled $2.1 million, represented the actuarial present value of the participants' accrued benefit as of the date of payment. Only one, retired participant remains in this plan.

Contractual Obligations

The table below summarizes the Company's significant contractual obligations at December 31, 2008, and the effect such obligations are expected to have on the Company's liquidity and cash flows in future periods. This table excludes amounts already recorded on the Company's balance sheet as current liabilities at December 31, 2008.

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

	Payment due by period (in thousands)				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More t
Long-Term Debt Obligations	-	-	-	-	
Capital Lease Obligations	-	-	-	-	
Operating Lease Obligations	-	-	-	-	
Purchase Obligations	$29,700	$29,700	-	-	
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	-	-	-	-	
Total	$29,700	$29,700	-	-	

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

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," on January 1, 2007. Upon the adoption of FIN 48, the Company commenced a review of all open tax years in all jurisdictions. The Company does not believe it has included any "uncertain tax positions" in its Federal income tax return or any of the state income tax returns it is currently filing. The Company has made an evaluation of the potential impact of additional state taxes being assessed by jurisdictions in which the Company does not currently consider itself liable. The Company does not anticipate that such additional taxes, if any, would result in a material change to its financial position. However, the Company anticipates that it is more likely than not that additional state tax liabilities in the range of $0.4 to $0.7 million exist. The Company had previously recorded $0.4 million relating to these additional state income taxes, including approximately $0.2 million for the payment of interest and penalties. This amount is included in income taxes payable at December 31, 2008 and 2007. In connection with the adoption of FIN 48, the Company will include interest and penalties related to uncertain tax positions as a component of its provision for taxes.

Firearms Legislation and Litigation

See Item 1A - Risk Factors for discussion of firearms legislation and litigation.

Other Operational Matters

In the normal course of its manufacturing operations, the Company is subject to occasional governmental proceedings and orders pertaining to waste disposal, air emissions and water discharges into the environment. The Company believes that it is generally in compliance with applicable environmental regulations and the outcome of such proceedings and orders will not have a material adverse effect on the financial position or results of operations of the Company.

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

The valuation of the future defined-benefit pension obligations at December 31, 2008 and 2007 indicated that these plans were underfunded by $16.9 million and $4.8 million, respectively, and resulted in a cumulative other comprehensive loss of $23.0 million and $13.4 million on the Company's balance sheet at December 31, 2008 and 2007, respectively.

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

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses recognized and incurred during the reporting period then ended. The Company bases estimates on prior experience, facts and circumstances, and other assumptions, including those reviewed with actuarial consultants and independent counsel, when applicable, that are believed to be reasonable. However, actual results may differ from these estimates.

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

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

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

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

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

Projected Year Of Consumption	Required Reserve %
2009	2%
2010	10%
2011	35%
2012 and thereafter	90%

Recent Accounting Pronouncements

In September 2006, FASB issued FAS No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS 157 were effective for the fiscal year beginning January 1, 2008. The implementation of FAS 157 for certain non-financial assets and liabilities will be effective for fiscal years beginning January 1, 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("FAS 141R"). FAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. FAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. FAS 141R is effective for the fiscal year beginning January 1, 2009, and will be adopted by the Company in the first quarter of 2009. The adoption of FAS 141R is not expected to have a material impact on the Company's financial position, results of operations and cash flows.

Forward-Looking Statements and Projections

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

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

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

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

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

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ITEM 8--FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

Sturm, Ruger & Company, Inc. Financial Statements

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Sturm, Ruger & Company, Inc.

We have audited Sturm, Ruger & Company, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Sturm, Ruger & Company, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Sturm, Ruger & Company, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Sturm, Ruger & Company, Inc. as of December 31, 2008 and 2007, and the related statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2008, and our report dated February 20, 2009 expressed an unqualified opinion.

/s/McGladrey & Pullen, LLP
Stamford, Connecticut
February 20, 2009

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Sturm, Ruger & Company, Inc.

We have audited the accompanying balance sheets of Sturm, Ruger & Company, Inc. as of December 31, 2008 and 2007, and the related statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule of Sturm, Ruger & Company, Inc. listed in Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sturm, Ruger & Company, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sturm, Ruger & Company, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 20, 2009 expressed an unqualified opinion on the effectiveness of Sturm, Ruger & Company, Inc.'s internal control over financial reporting.

/s/McGladrey & Pullen, LLP
Stamford, Connecticut
February 20, 2009

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Balance Sheets
(Dollars in thousands, except per share data)

December 31,	2008	2007
Assets		
Current Assets		

Cash and cash equivalents	$ 9,688	$ 5,106
Short-term investments	18,558	30,504
Trade receivables, net	25,809	15,636
Gross inventories:	59,846	64,330
Less LIFO reserve	(44,338)	(46,890)
Less excess and obsolescence reserve	(3,569)	(4,143)
Net inventories	11,939	13,297
Deferred income taxes	6,400	5,878
Prepaid expenses and other current assets	3,374	3,091
Total Current Assets	75,768	73,512
Property, Plant, and Equipment	125,026	126,496
Less allowances for depreciation	(98,807)	(104,418)
Net property, plant and equipment	26,219	22,078
Deferred income taxes	7,743	3,626
Other assets	3,030	2,666
Total Assets	$ 112,760	$ 101,882

See accompanying notes to financial statements.

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December 31,	2008	2007
Liabilities and Stockholders' Equity		
Current Liabilities		
Trade accounts payable and accrued expenses	$ 10,235	$ 8,102
Product liability	1,051	1,208
Employee compensation and benefits	7,994	4,860
Workers' compensation	5,067	5,667
Income taxes payable	4,171	411
Line of credit	1,000	--
Total Current Liabilities	29,518	20,248
Accrued pension liability	16,946	4,840
Product liability	693	725
Contingent liabilities (Note 6)	--	--
Stockholders' Equity		
Common stock, non-voting, par value $1:		
Authorized shares - 50,000; none issued		
Common stock, par value $1:		
Authorized shares - 40,000,000		
2008-22,798,732 issued,		
19,047,323 outstanding		
2007-22,787,812 issued,		

20,571,817 outstanding	22,799	22,788
Additional paid-in capital	2,442	1,836
Retained earnings	93,500	84,834
Less: Treasury stock - at cost		
2008 - 3,751,419 shares		
2007 - 2,215,995 shares	(30,153)	(20,000)
Accumulated other comprehensive loss	(22,985)	(13,389)
Total Stockholders' Equity	65,603	76,069
Total Liabilities and Stockholders' Equity	$ 112,760	$ 101,882

See accompanying notes to financial statements.

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Statements of Income
(In thousands, except per share data)

Year ended December 31,	2008	2007	2006
Net firearms sales	$ 174,416	$ 144,222	$ 139,110
Net castings sales	7,067	12,263	28,510
Total net sales	181,483	156,485	167,620
Cost of products sold	138,730	117,186	139,610
Gross profit	42,753	39,299	28,010
Operating Expenses:			
Selling	17,189	15,092	15,810
General and administrative	12,867	13,678	12,110
Pension plan curtailment charges	--	1,143	--
Other operating (income) expenses, net	(840)	271	(832)
Total operating expenses	29,216	30,184	27,088
Operating income	13,537	9,115	922
Other income:			
Gain on sale of real estate	--	5,168	--
Interest income	405	2,368	1,062
Other income (expense), net	36	8	(141)
Total other income, net	441	7,544	921
Income before income taxes	13,978	16,659	1,843
Income taxes	5,312	6,330	739

Net income	$ 8,666	$ 10,329	$ 1,104
Basic and Diluted Earnings Per Share	$ 0.43	$ 0.46	$ 0.04
Cash Dividends Per Share	$ 0.00	$ 0.00	$ 0.00

See accompanying notes to financial statements.

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Statements of Stockholders' Equity
(Dollars in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance at December 31, 2005	$ 26,911	$ 2,508	$ 94,334	--
Net income			1,104	
Pension liability, net of deferred taxes of $172				
Stock-based compensation, net of tax		107		
Comprehensive income				
Repurchase of 4,272,000 shares of common stock	(4,272)		(20,933)	
Balance at December 31, 2006	22,639	2,615	74,505	--
Net income			10,329	
Pension liability, net of deferred taxes of $637				
Stock-based compensation, net of tax	30	1,017		
Comprehensive income				
Exercise of options	119	(1,796)		
Repurchase of 2,216,000 shares of common stock				$(20,000)
Balance at December 31, 2007	22,788	1,836	84,834	(20,000)
Net income			8,666	
Pension liability, net of deferred taxes of $5,882				
Stock-based compensation, net of tax	11	606		
Comprehensive loss				
Repurchase of 1,535,400 shares of				

common stock				(10,153)
Balance at December 31, 2008	$ 22,799	$ 2,442	$ 93,500	$(30,153)

See accompanying notes to financial statements.

Statements of Cash Flows
(In thousands)

Year ended December 31,	2008	2007
Operating Activities		
Net income	$ 8,666	$ 10,329
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	5,365	4,372
Impairment of assets	--	2,264
Pension plan curtailment charge	--	1,143
Gain on sale of assets	(95)	(7,161
Deferred income taxes	(4,639)	2,473
Changes in operating assets and liabilities:		
Trade receivables	(10,173)	2,371
Inventories	1,358	11,109
Trade accounts payable and other Liabilities	5,134	(1,001
Product liability	(189)	192
Prepaid expenses and other assets	1,995	(6,128
Income taxes	3,760	(643
Cash provided by operating activities	11,182	19,320
Investing Activities		
Property, plant, and equipment additions	(9,488)	(4,468
Purchases of short-term investments	(45,363)	(51,328
Proceeds from sales or maturities of short-term investments	57,309	42,850
Net proceeds from sale of assets	95	12,542
Cash provided by (used for) investing activities	2,553	(40
Financing Activities		
Cashless exercise of stock options	--	(1,126
Repurchase of common stock	(10,153)	(20,000
Increase in line of credit	1,000	--
Cash used for financing activities	(9,153)	(21,126
Increase (Decrease) in cash and cash equivalents	4,582	(2,210
Cash and cash equivalents at beginning of year	5,106	7,316
Cash and cash equivalents at end of year	$ 9,688	$ 5,106

See accompanying notes to financial statements.

Notes to Financial Statements

1. Significant Accounting Policies

Organization

Sturm, Ruger & Company, Inc. (the "Company") is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Approximately 96% of the Company's total sales for the year ended December 31, 2008 were from the firearms segment. Export sales represent less than 6% of firearms sales. The Company's design and manufacturing operations are located in the United States and most product content is domestic. The Company's firearms are sold through a select number of independent wholesale distributors principally to the commercial sporting market.

The Company manufactures and sells investment castings made from steel alloys for both outside customers and internal use in the firearms segment. Investment castings sold to outside customers, either directly to or through manufacturers' representatives, were approximately 4% of the Company's total sales for the year ended December 31, 2008.

Use of Estimates

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

Revenue Recognition

Revenue is recognized, net of any estimated discounts, sales incentives, or rebates, when product is shipped and the customer takes ownership and assumes risk of loss.

Cash Equivalents

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

Short-term Investments

Short-term investments are recorded at cost plus accrued interest, which approximates market, and are principally United States Treasury instruments, all maturing within one year. The income from short-term investments is included in other income - net. The Company intends to hold these investments until maturity.

Accounts Receivable

Accounts receivable balances for significant customers follow:

As of December 31, (in thousands)	2008	2007

Customer 1	$3,914	$1,593
Customer 2	$3,895	$2,931
Customer 3	$3,382	$ 893
Customer 4	$3,047	$1,625
Customer 5	$1,961	$2,513

The allowance for doubtful accounts and discounts was $0.1 million in both 2008 and 2007.

The Company establishes an allowance for doubtful accounts based on the credit worthiness of its customers and historical experience. Bad debt expense has been immaterial during each of the last three years.

Inventories

Inventories are stated at the lower of cost, principally determined by the last-in, first-out (LIFO) method, or market. If inventories had been valued using the first-in, first-out method, inventory values would have been higher by approximately $44.3 million and $46.9 million at December 31, 2008 and 2007, respectively. During 2008 and 2007, inventory quantities were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the current cost of purchases, the effect of which decreased costs of products sold by approximately $3.7 million and $12.1 million in 2008 and 2007, respectively.

Inventories consist of the following:

As of December 31, (in thousands)	2008	2007
Finished products	$ 592	$ 1,859
Materials and products in process	11,347	11,438
Net inventories	$11,939	$13,297

Property, Plant, and Equipment

Property, plant, and equipment are stated on the basis of cost. Depreciation is computed using the straight-line and declining balance methods predominately over 15, 10, and 3 years for buildings, machinery and equipment, and tools and dies, respectively.

Property, plant and equipment consist of the following at cost:

As of December 31, (in thousands)	2008	2007
Land and improvements	$ 1,194	$ 1,194
Buildings and improvements	24,488	23,953
Machinery and equipment	80,046	83,173
Dies and tools	19,298	18,176
	$125,026	$126,496

Long-lived Assets

Long-lived assets are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with

Statement of Financial Accounting Standards ("SFAS") No. 144. In performing this review, the carrying value of the assets is compared to the projected undiscounted cash flows to be generated from the assets. If the sum of the undiscounted expected future cash flows is less than the carrying value of the assets, the assets are considered to be impaired. Impairment losses are measured as the amount by which the carrying value of the assets exceeds the fair value of the assets. When fair value estimates are not available, the Company estimates fair value using the estimated future cash flows discounted at a rate commensurate with the risks associated with the recovery of the assets.

Income Taxes

Income taxes are accounted for using the asset and liability method in accordance with SFAS No. 109. Under this method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory rates applicable to future years to temporary differences between the financial statement carrying amounts and the tax basis of the Company's assets and liabilities.

Product Liability

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

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expenses for the years ended December 31, 2008, 2007, and 2006, were $2.3 million, $2.6 million, and $2.3 million, respectively.

Shipping Costs

Costs incurred related to the shipment of products are included in selling expense. Such costs totaled $2.6 million, $2.3 million, and $1.9 million in 2008, 2007, and 2006, respectively.

Research and Development

In 2008, 2007, and 2006, the Company spent approximately $1.5 million, $0.7 million, and $0.6 million, respectively, on research activities relating to the development of new products and the improvement of existing products. Research and development expense is expensed as incurred.

Stock Options

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement 123(R), Share-Based Payment, utilizing the modified prospective approach. Prior to the adoption of SFAS 123(R) the Company accounted for stock option grants in accordance with APB Opinion 25, Accounting for Stock Issued to Employees, (the intrinsic value method), and accordingly, recognized no compensation expense for stock option grants.

Under the modified prospective approach, the provisions of SFAS 123(R) apply to new awards and to awards that were outstanding on January 1, 2006 that are subsequently modified, repurchased or cancelled. Under the modified prospective approach, compensation cost recognized includes compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Prior periods were not restated to reflect the impact of adopting the new standard.

Earnings Per Share

Basic earnings per share is based upon the weighted-average number of shares of Common Stock outstanding during the year, which was 20,069,200 in 2008, 22,441,700 in 2007 and 25,775,400 in 2006. Diluted earnings per share reflect the impact of options outstanding using the treasury stock method. This results in diluted weighted-average shares outstanding of 20,084,600 in 2008, 22,757,500 in 2007 and 25,787,600 in 2006.

Reclassifications

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

Recent Accounting Pronouncements

In September 2006, FASB issued FAS No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS 157 were effective for the fiscal year beginning January 1, 2008. The implementation of FAS 157 for certain non-financial assets and liabilities will be effective for fiscal years beginning January 1, 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("FAS 141R"). FAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. FAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. FAS 141R is effective for the fiscal year beginning January 1, 2009, and will be adopted by the Company in the first quarter of 2009. The adoption of FAS 141R is not expected to have a material impact on the Company's financial position, results of operations and cash flows.

2. Income Taxes

The Federal and state income tax provision consisted of the following (in thousands):

Year ended December 31,	2008		2007		2006	
	Current	Deferred	Current	Deferred	Current	Defer
Federal	$3,298	$1,057	$3,782	$1,516	$2,587	$(1,9
State	721	236	687	345	739	(6
	$4,019	$1,293	$4,469	$1,861	$3,326	$(2,5

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Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

December 31,	2008	2007
Deferred tax assets:		
Product liability	$ 663	$ 734
Employee compensation and benefits	3,285	3,376
Allowances for doubtful accounts and discounts	458	143
Depreciation	201	--
Inventories	1,458	1,675
Additional minimum pension liability	14,087	8,205
Asset impairment charges	913	1,605
Product safety modification charges	601	--
Other	391	425
Total deferred tax assets	22,057	16,163
Deferred tax liabilities:		
Depreciation	--	796
Pension plans	7,721	5,665
Other	193	198
Total deferred tax liabilities	7,914	6,659
Net deferred tax assets	$14,143	$ 9,504

In accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pension Plan Costs," changes in deferred tax assets relating to the additional minimum pension liability are not charged to expense and are therefore not included in the deferred tax provision; instead they are charged to other comprehensive income.

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

Year ended December 31,	2008	2007	2006
Statutory Federal income tax rate	35.0%	35.0%	34.0%
State income taxes, net of Federal tax benefit	4.5	4.3	4.2
Domestic production activities deduction	(2.1)	(1.7)	0.2
Other items	0.6	0.4	1.7
Effective income tax rate	38.0%	38.0%	40.1%

The Company made income tax payments of approximately $0.0 million, $4.9 million, and $0.2 million, during 2008, 2007, and 2006, respectively. The Company expects to realize its deferred tax assets through tax deductions against future taxable income or carry back against taxes previously paid.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2004. In the third quarter of 2007, the Internal Revenue Service (IRS) completed an examination of the Company's Federal income tax return for 2005. The IRS did not propose any adjustments as a result of this examination and has accepted the Company's return as filed. In the fourth quarter of 2008, the IRS completed examinations of the Company's 2006 and 2007 income tax returns. Proposed adjustments were de minimus.

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The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") on January 1, 2007. Upon the adoption of FIN 48, the Company commenced a review of all open tax years in all jurisdictions. The Company does not believe it has included any "uncertain tax positions" in its Federal income tax return or any of the state income tax returns it is currently filing. The Company has made an evaluation of the potential impact of additional state taxes being assessed by jurisdictions in which the Company does not currently consider itself liable. The Company does not anticipate that such additional taxes, if any, would result in a material change to its financial position. However, the Company anticipates that it is more likely than not that additional state tax liabilities in the range of $0.4 to $0.7 million exist. The Company had recorded $0.4 million relating to these additional state income taxes in previous years, including approximately $0.2 million for the payment of interest and penalties. These amounts are included in income taxes payable at December 31, 2008 and 2007. In connection with the adoption of FIN 48, the Company has included interest and penalties related to uncertain tax positions as a component of its provision for taxes.

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3. Pension Plans

The Company sponsors two qualified defined benefit pension plans that cover substantially all employees. As discussed below, benefits from these plans are frozen. A third defined benefit pension plan is non-qualified and covers certain executive officers of the Company. The Company also sponsors a defined contribution 401(k) plan that covers substantially all employees.

The cost of the defined benefit plans and the balances of plan assets and obligations are as follows (in thousands):

Change in Benefit Obligation	2008	2007
Benefit obligation at January 1	$ 68,674	$ 64,167
Service cost	--	1,590
Interest cost	3,768	3,672
Actuarial loss (gain)	(3,727)	4,090
Benefits paid	(8,389)	(2,609)
Curtailments	--	(2,236)
Benefit obligation at December 31	60,326	68,674
Change in Plan Assets		
Fair value of plan assets at January 1	63,834	56,527

Actual return on plan assets	(15,002)	3,057
Employer contributions	2,936	6,859
Benefits paid	(8,389)	(2,609)
Fair value of plan assets at December 31	43,379	63,834

Funded Status		
Funded status	(16,947)	(4,840)
Unrecognized net actuarial loss	37,066	21,575
Unrecognized prior service cost	7	20
Unrecognized transition obligation (asset)	--	--
Net amount recognized	$ 20,126	$ 16,755

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Weighted Average Assumptions for the years ended December 31,	2008	2007
Discount rate	6.25%	5.75%
Expected long-term return on plan assets	8.00%	8.00%
Rate of compensation increases	N/A	5.00%

Components of Net Periodic Pension Cost		
Service cost	$ --	$ 1,590
Interest cost	3,768	3,672
Expected return on assets	(4,999)	(4,488)
Recognized gains	581	1,108
Prior service cost recognized	13	161
Net periodic pension cost	$ (637)	$ 2,043
Pension plan curtailment charge	--	1,143
Total net periodic pension cost	$ (637)	$ 3,186

Amounts Recognized on the Balance Sheet	2008	2007
Accrued benefit liability	$(16,946)	$ (4,839)
Accumulated other comprehensive income, net of tax	22,985	13,389
Deferred tax asset	14,087	8,205
	$ 20,126	$ 16,755

Weighted Average Assumptions as of December 31,	2008	2007

Discount rate	6.25%	5.75%
Rate of compensation increases	N/A	5.00%

Information for Pension Plans with an Accumulated Benefit Obligation in excess of plan assets	2008	2007
Projected benefit obligation	$ 60,326	$ 68,674
Accumulated benefit obligation	$ 60,326	$ 68,708
Fair value of plan assets	$ 43,379	$ 63,834

Pension Weighted Average Asset Allocations as of December 31,	2008	2007
Debt securities	35%	40%
Equity securities	58%	53%
Real estate	4%	4%
Money market funds	3%	3%
	100%	100%

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The estimated future benefit payments for the defined benefit plans for each of the next five years and the total amount for years six through ten, are as follows: 2009-$3.0 million, 2010-$3.1 million, 2011-$3.3 million, 2012-$3.5 million, 2013-$3.8 million, and for the five year period ending 2018-$21.5 million.

The accumulated benefit obligation for all the defined benefit pension plans was $60.3 million and $68.7 million as of December 31, 2008 and 2007, respectively.

The measurement dates of the assets and liabilities of all plans presented for 2008 and 2007 were December 31, 2008 and December 31, 2007, respectively.

The current investment objective is to produce income and long-term appreciation through a target asset allocation of 35% debt securities and other fixed income investments including cash and short-term instruments, and 65% equity investments, to provide for the current and future benefit payments of the plans. The pension plans are not invested in the common stock of the Company.

The Company determines the expected return on plan assets based on the target asset allocations. In addition, the historical returns of the plan assets are also considered in arriving at the expected rate of return.

In accordance with SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" and its predecessor, SFAS No. 87, "Employers' Accounting for Pension Costs", the Company recorded an additional minimum pension liability, net of tax, which decreased comprehensive income by $0.5 million, $0.5 million, and $0.3 million, in 2008, 2007, and 2006, respectively.

In 2007, the Company amended its hourly and salaried defined benefit pension plans so that employees will no longer accrue benefits under them effective December 31, 2007. This action "froze" the benefits for all employees and prevented future hires from joining the plans, effective December 31, 2007. In 2008 the Company provided supplemental discretionary contributions to substantially all employees' individual 401(k) accounts.

In late 2007, after authorizing the "freeze" amendment to its hourly and salaried defined benefit pension plans, the Company contributed an additional $5 million to the plans. The intent of this discretionary contribution was to reduce the amount of time that the Company will be required to continue to operate the frozen plans. The ongoing cost of running the plans (even if frozen) is approximately $200,000 per year, which includes PBGC premiums, actuary and audit fees, and other expenses.

In 2009 and future years, the Company may be required to make cash contributions to the two defined benefit pension plans according to the new rules of the Pension Protection Act of 2006. The annual contributions will be based on the amount of the unfunded plan liabilities derived from the frozen benefits and will not include liabilities for any future accrued benefits for any new or existing participants. The total amount of these future cash contributions will be dependent on the investment returns generated by the plans' assets and the then-applicable discount rates used to calculate the plans' liabilities. There is no minimum required cash contribution for the defined benefit plans for 2009, but there may be such a requirement in future years because of recent market volatility which has adversely

affected investment returns for the plans' assets. The 2009 cash contribution for the defined benefit plans is expected to be approximately $2 million.

In the fourth quarter of 2008, the Company settled $2.3 million of pension liabilities through the purchases of group annuities. This transaction resulted in an insignificant actuarial gain.

In the first quarter of 2008, the Company made lump sum benefit payments to two participants in the non-qualified defined benefit plan, the Supplemental Executive Retirement Plan. These payments, which totaled $2.1 million, represented the actuarially determined present value of the participants' accrued benefit as of the date of payment. Only one participant, who is retired, remains in this plan.

Prior to 2007, the Company also sponsored two qualified defined contribution plans that covered substantially all of its hourly and salaried employees and a non-qualified defined contribution plan which covered certain of its salaried employees. Expenses related to these defined contribution plans were $1.1 million in 2006.

Effective January 1, 2007, all qualified and non-qualified defined contribution plans were merged into a single 401(k) plan. Under the terms of the 401(k) plan, the Company matches a certain portion of employee contributions. Expenses related to matching employee contributions to the 401(k) plan were $1.3 million and $0.8 million in 2008 and 2007, respectively.

Additionally, in 2008 the Company provided supplemental discretionary contributions to the individual 401(k) accounts of substantially all employees. Each employee received a supplemental contribution to their account based on a uniform percentage of qualifying base compensation established annually. The cost of this supplemental contribution totaled $1.4 million in 2008.

FAS No. 158 requires an employer to measure the funded status of a plan as of its year-end date and was first effective for fiscal 2006 for the Company. Upon adoption of this standard in 2006, the Company recorded a charge of $1.6 million, net of tax, to other comprehensive income and a $2.6 million credit to accrued pension liability.

4. Line of Credit

In December 2007, the Company established an unsecured $25 million revolving line of credit with a bank. This facility is renewable annually and now terminates on December 13, 2009. The balance outstanding on this credit facility was $1.0 million and $0.0 million at December 31, 2008 and 2007, respectively. Borrowings under this facility bear interest at LIBOR plus 200 basis points (2.42% at December 31, 2008) and the Company is charged 50 basis points per year on the unused portion. At December 31, 2008 and 2007, the Company was in compliance with the terms and covenants of the agreement.

5. Share Based Payments

In 1998, the Company adopted, and in May 1999 the shareholders approved, the 1998 Stock Incentive Plan (the "1998 Plan") under which employees were granted options to purchase shares of the Company's Common Stock and stock appreciation rights. The Company reserved 2,000,000 shares for issuance under the 1998 Plan. These options have an exercise price equal to the fair market value of the shares of the Company at the date of grant, become vested ratably over five years, and expire ten years from the date of grant. In April 2007, all reserved shares for which a stock option had not been granted under the 1998 Plan were deregistered. No further stock options or stock will be granted under the 1998 Plan.

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On December 18, 2000, the Company adopted, and in May 2001 the shareholders approved, the 2001 Stock Option Plan for Non-Employee Directors (the "2001 Plan") under which non-employee directors were granted options to purchase shares of the Company's authorized but unissued stock. The Company reserved 200,000 shares for issuance under the 2001 Plan. Options granted under the 2001 Plan have an exercise price equal to the fair market value of the shares of the Company at the date of grant and expire ten years from the date of grant. Twenty-five percent of the options vest immediately upon grant and the remaining options vest ratably over three years. In April 2007, all reserved shares for which a stock option had not been granted under the 2001 Plan were deregistered. No further stock options or stock will be granted under the 2001 Plan.

In April 2007, the Company adopted and the shareholders approved the 2007 Stock Incentive Plan (2007 SIP) under which employees, independent contractors, and non-employee directors may be granted stock options, restricted stock, deferred stock awards, and stock appreciation rights, any of which may or may not require the satisfaction of performance objectives. Vesting requirements will be determined by the Compensation Committee or the Board of Directors. The Company has reserved 2,550,000 shares for issuance under the 2007 SIP.

In 2007, a total of 10,920 deferred stock awards were issued to non-employee directors, which vested in April 2008. In 2008, a total of 18,222 deferred stock awards were issued to non-employee directors, which will vest in April 2009. Compensation expense related to these awards is amortized ratably over the vesting period. The total compensation expense related to these awards is $0.1 million. The impact on the 2009 results will be immaterial.

In 2007, a total of 29,500 shares of stock were awarded to employees. All compensation expense related to these awards, which totaled $0.4 million, was recognized in 2007.

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

	Shares	Weighted Avg Exercise Price	Weighted Da Fair
Outstanding at December 31, 2005	1,020,000	$ 11.50	$
Granted	660,000	8.51	
Exercised	--	--	
Canceled	(355,000)	11.90	
Outstanding at December 31, 2006	1,325,000	9.46	
Granted	311,250	13.06	
Exercised	(495,000)	11.77	
Canceled	(50,000)	9.59	
Outstanding at December 31, 2007	1,091,250	9.44	
Granted	359,000	8.10	
Exercised	--	--	
Canceled	(30,000)	13.39	
Outstanding at December 31, 2008	1,420,250	9.02	
Exercisable Options Outstanding at December 31, 2008	433,000	8.54	
Non-Vested Options Outstanding at December 31, 2008	987,250	$ 9.22	$

At December 31, 2008, an aggregate of 1,909,750 shares remain available for grant under the Plans.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based awards with the following weighted average assumptions:

	2008	2007	2006
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	47.6%	33.9%	44.3%
Risk free rate of return	4.0%	4.0%	4.0%
Expected lives	7.5 years	7.5 years	5 years

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

At December 31, 2008, there was $1.4 million of unrecognized compensation cost related to share-based payments that is expected to be recognized over a weighted-average period of 2.3 years.

At December 31, 2008 the aggregate intrinsic value of all options, including exercisable options, was $0.1 million.

6. Contingent Liabilities

As of December 31, 2008, the Company was a defendant in approximately 6 lawsuits involving its products and is aware of certain other such claims. These lawsuits and claims fall into one of the two following categories:

(i) Those that claim damages from the Company related to allegedly defective product design which stem from a specific incident. Pending lawsuits and claims are based principally on the theory of "strict liability" but also may be based on negligence, breach of warranty, and other legal theories.

(ii) Those brought by cities or other governmental entities, and individuals against firearms manufacturers, distributors and retailers seeking to recover damages allegedly arising out of the misuse of firearms by third-parties in the commission of homicides, suicides and other shootings involving juveniles and adults. The complaints by municipalities seek damages, among other things, for the costs of medical care, police and emergency services, public health services, and the maintenance of courts, prisons, and other services. In certain instances, the plaintiffs seek to recover for decreases in property values and loss of business within the city due to criminal violence. In addition, nuisance abatement and/or injunctive relief is sought to change the design, manufacture, marketing and distribution practices of the various defendants. These suits allege, among other claims, strict liability or negligence in the design of products, public nuisance, negligent entrustment, negligent distribution, deceptive or fraudulent advertising, violation of consumer protection statutes and conspiracy or concert of action theories. Most of these cases do not allege a specific injury to a specific individual as a result of the misuse or use of any of the Company's products.

The Company has expended significant amounts of financial resources and management time in connection with product liability litigation. Management believes that, in every case involving firearms, the allegations are unfounded, and that the shootings and any results from the shootings were due to negligence or misuse of the firearms by third-parties or the claimant, and that there should be no recovery against the Company. Defenses to the suits brought by governmental entities further exist based on, among other things, the Protection of Lawful Commerce in Arms Act, established state law precluding recovery for essential government services, the remoteness of the claims, the types of damages sought to be recovered, and limitations on the extraterritorial authority which may be exerted by a city, municipality, county or state under state and federal law, including State and Federal Constitutions.

The only case against the Company alleging liability for criminal shootings by third-parties to ever be permitted to go before a constitutional jury, Hamilton, et al. v. Accu-tek, et al., resulted in a defense verdict in favor of the Company on February 11, 1999. In that case, numerous firearms manufacturers and distributors had been sued, alleging damages as a result of alleged negligent sales practices and "industry-wide" liability. The Company and its marketing and distribution practices were exonerated from any claims of negligence in each of the seven cases decided by the jury. In subsequent proceedings involving other defendants, the New York Court of Appeals as a matter of law confirmed that 1) no legal duty existed under the circumstances to prevent or investigate criminal misuses of a manufacturer's lawfully made products; and 2) liability of firearms manufacturers could not be apportioned under a market share theory. More recently, the New York Court of Appeals on October 21, 2003 declined to hear the

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appeal from the decision of the New York Supreme Court, Appellate Division, affirming the dismissal of New York Attorney General Eliot Spitzer's public nuisance suit against the Company and other manufacturers and distributors of firearms. In its decision, the Appellate Division relied heavily on Hamilton in concluding that it was "legally inappropriate," "impractical," "unrealistic" and "unfair" to attempt to hold firearms manufacturers responsible under theories of public nuisance for the criminal acts of others.

Of the lawsuits brought by municipalities, counties or a state Attorney General, twenty have been concluded: Atlanta - dismissal by intermediate Appellate Court, no further appeal; Bridgeport - dismissal affirmed by Connecticut Supreme Court; County of Camden - dismissal affirmed by U.S. Third Circuit Court of Appeals; Miami - dismissal affirmed by intermediate appellate court, Florida Supreme Court declined review; New Orleans - dismissed by Louisiana Supreme Court, United States Supreme Court declined review; Philadelphia - U.S. Third Circuit Court of Appeals affirmed dismissal, no further appeal; Wilmington - dismissed by trial court, no appeal; Boston - voluntary dismissal with prejudice by the City at the close of fact discovery; Cincinnati - voluntarily withdrawn after a unanimous vote of the city council; Detroit - dismissed by Michigan Court of Appeals, no appeal; Wayne County - dismissed by Michigan Court of Appeals, no appeal; New York State - Court of Appeals denied plaintiff's petition for leave to appeal the Intermediate Appellate Court's dismissal, no further appeal; Newark - Superior Court of New Jersey Law Division for Essex County dismissed the case with prejudice; City of Camden - dismissed on July 7, 2003, not reopened; Jersey City - voluntarily dismissed and not re-filed; St. Louis - Missouri Supreme Court denied plaintiffs' motion to appeal Missouri Appellate Court's affirmation of dismissal; Chicago - Illinois Supreme Court affirmed trial court's dismissal; and Los Angeles City, Los Angeles County, San Francisco - Appellate Court affirmed summary judgment in favor of defendants, no further appeal; and Cleveland - dismissed on January 24, 2006 for lack of prosecution.

On April 21, 2005, the D.C. Court of Appeals, in an en banc hearing, unanimously dismissed all negligence and public nuisance claims, but let stand individual claims based upon a Washington, D.C. act imposing "strict liability" for manufacturers of "machine guns." Based on present information, none of the Company's products has been identified with any of the criminal assaults which form the basis of the individual claims. The writ of certiorari to the United States Supreme Court regarding the constitutionality of the Washington, D.C. act was denied and the case was remanded to the trial court for further proceedings. The defendants subsequently moved to dismiss the case based upon the Protection of Lawful Commerce in Arms Act ("PLCAA"), which motion was granted on May 22, 2006. The individual plaintiffs and the District of Columbia, which has subrogation claims in regard to the individual plaintiffs, appealed. On January 10, 2008, the District of Columbia Court of Appeals unanimously upheld the dismissal. On February 22, 2008, the District and the individual plaintiffs filed petitions for rehearing or rehearing en banc. On June 9, 2008, the court denied the petition. On October 23, 2008, the District and the individual plaintiffs filed a petition for writ of certiorari in the United States Supreme Court.

The Indiana Court of Appeals affirmed the dismissal of the Gary case by the trial court, but the Indiana Supreme Court reversed this dismissal and remanded the case for discovery proceedings on December 23, 2003. The defendants filed a motion to dismiss pursuant to the PLCAA. On November 23, 2005, the state court judge held the PLCAA unconstitutional and the defendants filed a motion with the Indiana Court of Appeals asking it to accept interlocutory appeal on the issue, which appeal was accepted on February 5, 2007. On October 29, 2007, the Indiana Appellate Court affirmed, holding that the PLCAA does not apply to the City's claims. A petition for rehearing was filed in the Appellate Court and denied on January 9, 2008. On February 8, 2008, a Petition to Transfer the appeal to the Supreme Court of Indiana was filed. The petition was denied on January 13, 2009 and the case was remanded to the trial court.

In the previously reported New York City municipal case, the defendants moved to dismiss the suit pursuant to the PLCAA. The trial judge found the PLCAA to be constitutional, but denied the defendants' motion to dismiss the case, on the basis that the Act was not applicable to the suit. The defendants were given leave to appeal to the U.S. Court of Appeals for the Second Circuit. The Second Circuit affirmed the constitutionality of the PLCAA and reversed on applicability, holding that the PLCAA did apply. The case was remanded for dismissal. On June 16, 2008, the City filed a petition for rehearing or rehearing en banc. On August 20, 2008, the City's petition was denied by the Second Circuit. On October 20, 2008, the City filed a petition for writ of certiorari in the United States Supreme Court.

In the NAACP case, on May 14, 2003, an advisory jury returned a verdict rejecting the NAACP's claims. On July 21, 2003, Judge Jack B. Weinstein entered an order dismissing the NAACP lawsuit, but this order contained lengthy dicta which defendants believe are contrary to law and fact. Appeals by both sides were filed, but plaintiffs withdrew their appeal. On August 3, 2004, the United States Court of Appeals for the Second Circuit granted the NAACP's motion to dismiss the defendants' appeal of Judge Weinstein's order denying defendants' motion to strike his dicta made in his order dismissing the NAACP's case, and the defendants' motion for summary disposition was denied as moot. The ruling of the Second Circuit effectively confirmed the decision in favor of defendants and brought this matter to a conclusion.

Legislation has been passed in approximately 34 states precluding suits of the type brought by the municipalities mentioned above. On the Federal level, the "Protection of Lawful Commerce in Arms Act" was signed by President Bush on October 26, 2005. The Act requires dismissal of suits against manufacturers arising out of the lawful sale of their products for harm resulting from the criminal or unlawful misuse of a firearm by a third party. The Company is pursuing dismissal of each action involving such claims, including the municipal cases described above.

Punitive damages, as well as compensatory damages, are demanded in certain of the lawsuits and claims. Aggregate claimed amounts presently exceed product liability accruals and applicable insurance coverage. For claims made after July 10, 2000, coverage is provided on an annual basis for losses exceeding $5 million per claim, or an aggregate maximum loss of $10 million annually, except for certain new claims, which might be brought by governments or municipalities after July 10, 2000, which are excluded from coverage.

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

Provision is made for product liability claims based upon many factors related to the severity of the alleged injury and potential liability exposure, based upon prior claim experience. Because our experience in defending these lawsuits and claims is that unfavorable outcomes are typically not probable or estimable, only in rare cases is an accrual established for such costs. In most cases, an accrual is established only for estimated legal defense costs. Product liability accruals are periodically reviewed to reflect then-current estimates of possible

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

A range of reasonably possible loss relating to unfavorable outcomes cannot be made. However, in product liability cases in which a dollar amount of damages is claimed, the amount of damages claimed, which totaled $12.2 million and $5.0 at December 31, 2008 and 2007, respectively, are set forth as an indication of possible maximum liability that the Company might be required to incur in these cases (regardless of the likelihood or reasonable probability of any or all of this amount being awarded to claimants) as a result of adverse judgments that are sustained on appeal.

As of December 31, 2008 and 2007, the Company was a defendant in 6 and 5 lawsuits, respectively, involving its products and is aware of other such claims. During the year ended December 31, 2008 and 2007, respectively, 1 and 2 claims were filed against the Company, 0 and 1 claims were dismissed, and 0 and 0 claims were settled.

During the years ended December 31, 2008 and 2007, the Company incurred product liability expense of $0.9 million and $1.7 million, respectively, which includes the cost of outside legal fees, insurance, and other expenses incurred in the management and defense of product liability matters.

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

The Company has reported all cases instituted against it through September 27, 2008 and the results of those cases, where terminated, to the S.E.C. on its previous Form 10-K and 10-Q reports to which reference is hereby made.

A roll-forward of the product liability reserve and detail of product liability expense for the three years ended December 31, 2008 follows:

Balance Sheet Roll-forward for Product Liability Reserve

(Dollars in thousands)

	Balance Beginning of Year (a)	Accrued Legal Expense (b)	Cash Payments: Legal Fees (c)	Cash Payments: Settlements (d)	Insurance Premiums
2006	$2,196	$688	$(1,000)	$(143)	N/A
2007	1,741	639	(447)	-	N/A
2008	1,933	176	(358)	(7)	N/A

Income Statement Detail for Product Liability Expense
(Dollars in thousands)

	Accrued Legal Expense (b)	Insurance Premium Expense (e)	Admin. Expense (f)	Total Product Liability Expense
2006	$688	$1,141	$691	$2,520
2007	639	748	299	1,686
2008	176	739	-	915

Notes

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

(b) The expense accrued in the liability is for legal fees only.

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

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

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

(f) Administrative expense represents personnel related and travel expenses of Company employees and firearm experts related to the management and monitoring of product liability matters.

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

7. Asset Impairment Charges

In 2007 and 2006 the Company recognized asset impairment charges of $2.3 million and $0.5 million, respectively, related to certain assets in the corporate and investment castings segments. The Company was required to reduce the carrying value of these assets to fair value and recognized asset impairment charges because the carrying value of the affected assets exceeded their projected future undiscounted cash flows.

8. Stock Repurchases

In 2008, the Company repurchased 1,535,000 shares of its common stock, representing 7.5% of the outstanding shares, in the open market at an average price of $6.57 per share. In 2007, the Company repurchased 2,216,000 shares of its common stock, representing 9.7% of the then outstanding shares, in the open market at an average price of $8.99 per share. On September 26, 2006, the Company repurchased 4,272,000 shares of its common stock, representing 15.9% of the then outstanding shares, from entities controlled by members of the Ruger family at a price of $5.90 per share. All of these purchases were made with cash held by the Company and no debt was incurred.

At December 31, 2008, $4.7 million remains available under a $5 million stock repurchase program approved by the Board of Directors in November 2008.

9. Related Party Transactions

In the first quarter of 2008, the Company made lump sum pension benefit payments to William B. Ruger, Jr., the former Chairman and Chief Executive Officer of the Company, and Stephen L. Sanetti, the former President of the Company. These payments totaled $2.1 million, which represented the actuarially determined present value of the accrued benefits payable to these individuals under the Supplementary Executive Retirement Plan as of the date of payment.

In March 2007 the Company sold 42 parcels of non-manufacturing real property held for investment for $7.3 million to William B. Ruger, the Company's former Chief Executive Officer and Chairman of the Board. The sales price was based upon an independent appraisal. The sale included substantially all of the Company's raw land non-manufacturing real property assets in New Hampshire. The Company recognized a gain of $5.2 million on the sale. Also in March 2007, the Company sold several pieces of artwork to members of the Ruger family for $0.1 million and recognized insignificant gains from these sales.

10. Operating Segment Information

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

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

The Company evaluates performance and allocates resources, in part, based on profit and loss before taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies (see Note 1). Intersegment sales are recorded at the Company's cost plus a fixed profit percentage.

The Company's assets are located entirely in the United States and domestic sales represent at least 95% of total sales in 2008, 2007, and 2006.

Revenues from significant customers in 2008, 2007, and 2006 were as follows:

Year ended December 31, (in thousands)	2008	2007	2006
Customer 1	$ 22,600	$ 18,500	$ 18,600
Customer 2	20,400	16,900	18,100
Customer 3	18,000	12,300	13,900
Customer 4	16,000	13,700	12,300
Customer 5	15,400	17,200	17,400

Year ended December 31, (in thousands)	2008	2007	2006
Net Sales			
Firearms	$ 174,416	$ 144,222	$ 139,110
Castings			
Unaffiliated	7,067	12,263	28,510
Intersegment	10,135	9,165	11,818
	17,202	21,428	40,328
Eliminations	(10,135)	(9,165)	(11,818)
	$ 181,483	$ 156,485	$ 167,620
Income (Loss) Before Income Taxes			
Firearms	$ 18,614	$ 11,400	$ 1,387
Castings	(2,836)	(2,806)	(1,178)
Corporate	(1,800)	8,065	1,634
	$ 13,978	$ 16,659	$ 1,843
Identifiable Assets			
Firearms	$ 63,042	$ 47,870	$ 53,525
Castings	4,842	6,165	17,154
Corporate	44,876	47,847	46,387
	$ 112,760	$ 101,882	$ 117,066
Depreciation			
Firearms	$ 4,515	$ 3,563	$ 2,475
Castings	850	809	1,377
	$ 5,365	$ 4,372	$ 3,852
Capital Expenditures			
Firearms	$ 8,972	$ 3,950	$ 3,486
Castings	516	518	420
	$ 9,488	$ 4,468	$ 3,906

11. Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 2008 (in thousands, except per share data):

	Three Months Ended			
	3/31/08	6/30/08	9/30/08	12/31/08
Net Sales	$42,506	$38,664	$41,822	$58,491
Gross profit	10,655	8,495	6,858	16,745
Net income	1,452	1,082	372	5,760
Basic earnings per share	0.07	0.05	0.02	0.28
Diluted earnings per share	0.07	0.05	0.02	0.28

	Three Months Ended			
	3/31/07	6/30/07	9/30/07	12/31/07
Net Sales	$48,456	$42,107	$31,863	$34,058
Gross profit	15,563	13,128	5,595	5,012
Net income (loss)	8,060	5,131	(617)	(2,245)
Basic earnings (loss) per share	0.36	0.23	(0.03)	(0.10)
Diluted earnings (loss) per share	0.36	0.22	(0.03)	(0.10)

In the fourth quarter of 2007, the Company recorded an asset impairment charge of $1.8 million related to the Dorr Building, a non-manufacturing property in New Hampshire that has been for sale for an extended period of time without any meaningful market interest.

13. Other Operating Expenses (Income), net

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

Year ended December 31,	2008	2007	2006
Gain on sale of operating assets (a)	$ (95)	$ (472)	$ (929)
Impairment of operating assets (b)	-	489	494
Gain on sale of real estate (c)	-	(1,521)	(397)
Impairment of real estate held for sale (d)	-	1,775	-
Frozen defined-benefit pension plan income	(745)	-	-
Total other operating expenses (income), net	$(840)	$ 271	$ (832)

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(a) The gain on sale of operating assets was generated primarily from the sale of used machinery and equipment. Most of the used machinery and equipment sold in 2007 and 2006 was related to titanium investment casting.

(b) In 2007, the Company recognized an impairment charge of $0.5 million related to machinery and equipment previously in the Company's Arizona investment casting operations. In 2006, the Company recognized an impairment charge of $0.5 million related to building improvements at the Dorr Building. The Company had planned to establish a titanium investment castings foundry at Dorr, but that plan was aborted in 2006.

(c) On April 16, 2007, the Company sold a non-manufacturing facility in Arizona for $5.0 million. This facility had not been used in the Company's operations for several years. The Company realized a gain of approximately $1.5 million from this sale. In 2006, the $0.4 million gain on sale of real estate reflects the sale of non-manufacturing real property. The Company has three additional non-manufacturing properties listed for sale, two in Connecticut and one in New Hampshire.

(d) In late 2007, the Company recognized an asset impairment charge of $1.8 million related to the Dorr Building, a non-manufacturing property in New Hampshire that has been for sale for an extended period of time without any meaningful market interest.

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

None.

ITEM 9A--CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company conducted an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of December 31, 2008. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2008, the Company's controls and procedures over financial reporting were effective.

Management's Report on Internal Control over Financial Reporting

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

The Company conducted an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its internal control over financial reporting as of December 31, 2008. This evaluation was performed based on the criteria established in "Internal Control -- Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2008, based on criteria established in "Internal Control -- Integrated Framework" issued by the COSO.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008 has been audited by McGladrey & Pullen, LLP, an independent registered public accounting firm, as stated in their report which is included in this Form 10-K.

Changes in Internal Control over Financial Reporting

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

New York Stock Exchange Certification

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

ITEM 9B--OTHER INFORMATION

None.

PART III

ITEM 10--DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning the Company's directors, including the Company's separately designated standing audit committee, and on the Company's code of business conduct and ethics required by this Item is incorporated by reference from the Company's Proxy Statement relating to the 2009 Annual Meeting of Stockholders scheduled to be held April 29, 2009.

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

Information concerning beneficial ownership reporting compliance required by this Item is incorporated by reference from the Company's Proxy Statement relating to 2009 Annual Meeting of Stockholders scheduled to be held April 29, 2009.

ITEM 11--EXECUTIVE COMPENSATION

Information concerning director and executive compensation required by this Item is incorporated by reference from the Company's Proxy Statement relating to the 2009 Annual Meeting of Stockholders scheduled to be held April 29, 2009.

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

Information concerning the security ownership of certain beneficial owners and management and related stockholder matters required by this Item is incorporated by reference from the Company's Proxy Statement relating to 2009 Annual Meeting of Stockholders scheduled to be held April 29, 2009.

ITEM 13--CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information concerning certain relationships and related transactions required by this Item is incorporated by reference from the Company's Proxy Statement relating to the 2009 Annual Meeting of Stockholders scheduled to be held April 29, 2009.

ITEM 14--PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning the Company's principal accountant fees and services and the pre-approval policies and procedures of the audit committee of the board of directors required by this Item is incorporated by reference from the Company's Proxy Statement relating to 2009 Annual Meeting of Stockholders scheduled to be held April 29, 2009.

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PART IV

ITEM 15--EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits and Financial Statement Schedules

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

(2) Schedules can be found on Page 84 of this Form 10-K

(3) Listing of Exhibits:

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

Exhibit 3.7	Amendment to Article 5, Section 1 of Bylaws (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on February 6, 2009).
Exhibit 10.1	Sturm, Ruger & Company, Inc. 1986 Stock Bonus Plan (Incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988, as amended by Form 8 filed March 27, 1990, SEC File No. 1-10435).
Exhibit 10.2	Amendment to Sturm, Ruger & Company, Inc. 1986 Stock Bonus Plan (Incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991, SEC File No. 1-10435).

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

Exhibit 10.10	Sale and Purchase Agreement, dated as of September 26, 2006, by and between Sturm, Ruger & Company, Inc. and Ruger Business Holdings, L.P. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2006, SEC File No. 1-10435).
Exhibit 10.11	Severance Agreement, dated as of September 21, 2006, by and between Sturm, Ruger & Company, Inc. and Stephen L. Sanetti (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 27, 2006, SEC File No. 1-10435).
Exhibit 10.12	Severance Agreement, dated as of September 21, 2006, by and between Sturm, Ruger & Company, Inc. and Thomas A. Dineen (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on September 27, 2006, SEC File No. 1-10435).

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

	December 4, 2007, by and between Sturm, Ruger & Company, Inc. and Robert R. Stutler.
Exhibit 10.19	Credit Agreement, dated as of December 14, 2007, by and between the Company and Bank of America (Incorporated by reference to Exhibit 10.18 to the Company's Current Report on Form 8-K filed with the SEC on December 20, 2007).
Exhibit 10.20	Severance Agreement, dated as of April 10, 2008, by and between the Company and Michael O. Fifer (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008).
Exhibit 10.21	Severance Agreement, dated as of April 10, 2008, by and between the Company and Thomas A. Dineen (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008).
Exhibit 10.22	Severance Agreement, dated as of April 10, 2008, by and between the Company and Mark T. Lang (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008).

Exhibit 10.23	Severance Agreement, dated as of April 10, 2008, by and between the Company and Christopher J. Killoy (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008).
Exhibit 10.24	Severance Agreement, dated as of April 10, 2008, by and between the Company and Steven M. Maynard Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008).
Exhibit 10.25	Severance Agreement, dated as of April 10, 2008, by and between the Company and Thomas P. Sullivan (Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008).
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Exhibit 10.27	Agreement, dated as of April 10, 2008, by and between the Company and Stephen L. Sanetti (Incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K/A filed with the SEC on April 30, 2008).
Exhibit 10.28	Severance Agreement, dated as of May 2, 2008 by

	and between the Company and Kevin B. Reid, Sr. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 5, 2008).
Exhibit 10.29	First Amendment to Credit Agreement, dated as of December 15, 2008, by and between the Company and Bank of America (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on December 22, 2008).
Exhibit 23.1	Consent of McGladrey & Pullen, LLP
Exhibit 31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act.
Exhibit 31.2	Certification of Treasurer and Chief Financial Officer Pursuant to Rule 13a-14(a) of the Exchange Act.
Exhibit 32.1	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of the Treasurer and Chief Financial Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 99.1	Item 1 LEGAL PROCEEDINGS from the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 1999, SEC File No. 1-10435, incorporated by reference in Item 3 LEGAL PROCEEDINGS.
Exhibit 99.2	Item 1 LEGAL PROCEEDINGS from the Quarterly Report on Form 10-Q of the Company for the quarters ended March 31, and September 30, 2000, SEC File No. 1-10435, incorporated by reference in Item 3 LEGAL PROCEEDINGS.
Exhibit 99.3	Item 1 LEGAL PROCEEDINGS from the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2005, SEC File No. 1-10435, incorporated by reference in Item 3 LEGAL PROCEEDINGS.
Exhibit 99.4	Item 1 LEGAL PROCEEDINGS from the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2007, SEC File No. 1-10435, incorporated by reference in Item 3 LEGAL PROCEEDINGS.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STURM, RUGER & COMPANY, INC.
(Registrant)

/S/THOMAS A. DINEEN

Thomas A. Dineen
Vice President, Treasurer and
Chief Financial Officer
(Principal Financial Officer)

February 23, 2009

Date

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

/S/ MICHAEL O. FIFER 2/23/09

Michael O. Fifer
Chief Executive Officer, Director
(Principal Executive Officer)

/S/ JOHN M. KINGSLEY, JR.

John M. Kingsley, Jr.
Director

/S/ JAMES E. SERVICE 2/23/09

James E. Service
Director

/S/ JOHN A. CONSENTINO, JR.

John A. Cosentino, Jr.
Director

/S/ C. MICHAEL JACOBI 2/23/09

C. Michael Jacobi
Director

/S/ RONALD C. WHITAKER

Ronald C. Whitaker
Director

/S/ STEPHEN T. MERKEL 2/23/09

Stephen T. Merkel
Director

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EXHIBIT INDEX

Page No.

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

EXHIBIT INDEX (continued)

Exhibit 10.5	Sturm, Ruger & Company, Inc. Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit

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

EXHIBIT INDEX (continued)

Exhibit 10.15	Severance Agreement, dated as of December 15, 2006, by and between Sturm, Ruger & Company, Inc. and Michael

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

Exhibit 10.25	Severance Agreement, dated as of April 10, 2008, by and between the Company and Thomas P. Sullivan (Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008).
Exhibit 10.26	Severance Agreement, dated as of April 10, 2008, by and between the Company and Leslie M. Gasper (Incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed with the SEC on April 11, 2008).
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EXHIBIT INDEX (continued)

Exhibit 99.2	Item 1 LEGAL PROCEEDINGS from the Quarterly Reports on

Form 10-Q of the Company for the quarters ended March 31, and September 30, 2000, SEC File No. 1-10435, incorporated by reference in Item 3 LEGAL PROCEEDINGS.

Exhibit 99.3 Item 1 LEGAL PROCEEDINGS from the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2005, SEC File No. 1-10435, incorporated by reference in Item 3 LEGAL PROCEEDINGS.

Exhibit 99.4 Item 1 LEGAL PROCEEDINGS from the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2007, SEC File No. 1-10435, incorporated by reference in Item 3 LEGAL PROCEEDINGS.

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YEAR ENDED DECEMBER 31, 2008

STURM, RUGER & COMPANY, INC.

ITEMS 15(a)(2) AND 15(d)
FINANCIAL STATEMENT SCHEDULE

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Sturm, Ruger & Company, Inc.

Item 15(a)(2) and Item 15(d)--Financial Statement Schedule

Schedule II--Valuation and Qualifying Accounts

(In Thousands)

COL. A	COL. B	COL. C	
		ADDITIONS	
		(1)	(2)
Description	Balance at Beginning of Period	Charged (Credited)to Costs and Expenses	Charged to Other Accounts -Describe
Deductions from asset accounts:			
Allowance for doubtful accounts:			
Year ended December 31, 2008	$127		
Year ended December 31, 2007	$155		
Year ended December 31, 2006	$351	$ (81)	
Allowance for discounts:			
Year ended December 31, 2008	$233	$1,370	
Year ended December 31, 2007	$206	$ 998	
Year ended December 31, 2006	$346	$2,808	

Excess and obsolete inventory reserve:		
Year ended December 31, 2008	$4,143	$1,163
Year ended December 31, 2007	$5,516	$ 755
Year ended December 31, 2006	$3,137	$3,217

(a) Accounts written off or (subsequently recovered)
(b) Discounts taken
(c) Inventory written off

lign="bottom" bgcolor="#CCEEFF" style="background:#CCEEFF;padding:0in 0in 0in 0in;width:2.5%;">

825,610

Total

$

2,225,468

$

3,327,553

$

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Target Corporation 401(k) Plan

Notes to Financial Statements (continued)

4. Fair Value Measurements (continued)

a This is a self-managed fund which invests in the Company s common stock. The Fund s objective is to closely track the performance of the Company s common stock. The Plan can redeem this investment daily. The classification in the fair value table at December 31, 2010 has been revised to conform with the current year classification, consistent with the Level 1 measurement principles applied to the underlying investments in all periods presented.

b These commingled funds share the common goal of first growing and then later preserving principal and contain a mix of U.S. common stocks, international common stocks, U.S. issued bonds, and cash. The Plan can redeem these investments daily. There are currently no redemption restrictions on these investments.

c These categories include investments in passively managed index commingled funds with holdings in U.S. government and agency obligations and domestic and international equity securities. The Plan can redeem these investments daily.

d The Stable Value Fund is a self-managed fund designed to deliver safety and stability by preserving principal and accumulating earnings. This fund invests in a portfolio of collective trust funds and synthetic GICs. These investments are described in Note 3.

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Target Corporation 401(k) Plan

Notes to Financial Statements (continued)

4. Fair Value Measurements (continued)

The following sets forth the types of assets measured at fair value and a description of the valuation technique for each asset type:

Position Description	Valuation Technique
Cash equivalents/Commingled funds	Valued using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund minus applicable costs and liabilities and then divided by the number of shares outstanding. The fair value of the Company s common stock is based upon the unadjusted quoted price in an active market.
Stable Value Fund	Collective trust funds are valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund minus applicable costs and liabilities and then divided by the number of shares outstanding. Fair value of synthetic GICs is based on the cumulative value of the underlying investments and the fair value of the wrap contracts provided by the insurance companies. Underlying investments in fixed income securities are primarily valued using prices obtained from independent pricing services. These prices are based on matrix pricing models and quoted prices of securities with similar characteristics. Futures derivatives are initially valued at transaction price, with subsequent valuations based on observable inputs to the valuation model (e.g., underlying investments). Underlying interest rate and credit default swap derivatives are valued using models calibrated to initial trade price. Subsequent valuations are based on observable inputs to the valuation model (e.g., interest rates and credit spreads). Model inputs are only changed when corroborated by market data. A credit risk adjustment is made on each swap using observable market credit spreads. The fair value of the wrap contracts is based on the wrap contract fees provided by the insurance companies, which are observable inputs.

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Target Corporation 401(k) Plan

Notes to Financial Statements (continued)

5. Investments

At December 31, 2011, participants may allocate their investments among 19 investment funds and change their investment elections daily for both existing balances and future contributions.

The Plan s investments are held by State Street Bank, the trustee. The Plan s investments, including investments bought and sold, as well as investments held during the year, appreciated in fair value as follows:

		Net Appreciation/ (Depreciation) in Fair Value During Year (in thousands)
Year ended December 31, 2011:		
Commingled funds	**$**	**(29,763)**
Target Corporation Common Stock Fund		**(327,102)**
	$	**(356,865)**
Year ended December 31, 2010:		
Commingled funds	$	278,602
Target Corporation Common Stock Fund		455,878
	$	734,480

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Target Corporation 401(k) Plan

Notes to Financial Statements (continued)

5. Investments (continued)

The fair values of individual investments representing 5% or more of the Plan s net assets are as follows:

	At December 31, 2011	2010
	(in thousands)	
Target Corporation Common Stock Fund*	**$ 1,842,401**	$ 2,225,468
State Street Bank & Trust Co. S&P 500 Index Non-Lending Series Fund*	**394,489**	356,893
State Street Bank & Trust Co. International Index Non-Lending Series Fund*	**303,442**	286,587
State Street Bank & Trust Co. Treasury Inflation Index Fund *	**271,794**	^

* Indicates issuer is a party-in-interest to the Plan.

^ Investments did not represent 5% or more of the Plan s net assets as of this date.

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Target Corporation 401(k) Plan

Notes to Financial Statements (continued)

6. Transactions with Parties-in-Interest

During 2011 and 2010, the Plan engaged in the following exempt party-in-interest transactions related to the Company s common stock:

	2011	2010
	(in thousands)	
Number of common shares purchased	**6,582**	6,093
Cost of common shares purchased	**$ 337,267**	$ 322,089
Number of common shares sold	**7,382**	8,774
Market value of common shares sold	**$ 380,402**	$ 472,407
Cost of common shares sold	**$ 291,628**	$ 324,503
Number of common shares distributed to plan participants	**266**	238
Market value of common shares distributed to plan participants	**$ 13,703**	$ 12,822
Cost of common shares distributed to plan participants	**$ 10,402**	$ 8,815
Dividends received (net of pass-through dividends)	**$ 40,771**	$ 32,723

Certain plan investments are shares of short-term and commingled investment funds managed by State Street Bank, the trustee of the Plan. These transactions qualify as party-in-interest transactions; however, they are exempt from the prohibited transactions rules under ERISA. Investment management fees paid by the Plan are included as a reduction of the return earned on each fund.

7. Income Tax Status

The Plan has received a determination letter from the IRS dated September 12, 2001, stating that the Plan is qualified under Section 401(a) of the Code, and therefore, the related trust is exempt from taxation. Subsequent to the issuance of this determination letter, the Plan was amended and restated. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan Administrator believes that the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes the Plan, as amended and restated, is qualified and the related trust is tax-exempt.

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Target Corporation 401(k) Plan

Notes to Financial Statements (continued)

7. Income Tax Status (continued)

The Plan Administrator has analyzed the tax positions taken by the Plan and has concluded that as of December 31, 2011, there are no uncertain positions taken or expected to be taken. The Plan has recognized no interest or penalties related to uncertain tax positions. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan Administrator believes the Plan is no longer subject to income tax examinations for years prior to 2008.

8. Risks and Uncertainties

The Plan invests in securities that are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements. The Plan s exposure to credit risk on guaranteed investment contracts is limited to the fair value of the contracts with each of the counterparties.

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Target Corporation 401(k) Plan

Notes to Financial Statements (continued)

9. Reconciliation of Financial Statements to the Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

	Year Ended December 31, 2011	2010
	(in thousands)	
Net assets available for benefits per the financial statements	**$ 5,327,266**	$ 5,541,205
Amounts allocated to withdrawing participants	**(1,958)**	(1,970)
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	**49,885**	29,310
Participant contribution receivable accrual	**(9,894)**	(8,616)
Employer contribution receivable accrual	**(6,588)**	(5,762)
Net assets available for benefits per the Form 5500	**$ 5,358,711**	$ 5,554,167

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500:

	Year Ended December 31, 2011 (in thousands)
Benefits paid to participants per the financial statements	$ 405,624
Amounts allocated to withdrawing participants at December 31, 2010	(1,970)
Amounts allocated to withdrawing participants at December 31, 2011	1,958
Benefits paid to participants per the Form 5500	$ 405,612

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Target Corporation 401(k) Plan

Notes to Financial Statements (continued)

9. Reconciliation of Financial Statements to the Form 5500 (continued)

The following is a reconciliation of participant contributions available for benefits per the financial statements to the Form 5500:

	Year Ended December 31, 2011		2010
	(in thousands)		
Participant contributions available for benefits per the financial statements	**$ 11,822**	$	10,562
Participant contribution receivable accrual	**(9,894)**		(8,616)
Participant contributions available for benefits per the Form 5500	**$ 1,928**	$	1,946

The following is a reconciliation of employer contributions available for benefits per the financial statements to the Form 5500:

	Year Ended December 31, 2011		2010
	(in thousands)		
Employer contributions available for benefits per the financial statements	**$ 12,541**	$	11,693
Employer contribution receivable accrual	**(6,588)**		(5,762)
Employer contributions available for benefits per the Form 5500	**$ 5,953**	$	5,931

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Target Corporation 401(k) Plan

Notes to Financial Statements (continued)

9. Reconciliation of Financial Statements to the Form 5500 (continued)

The following is a reconciliation of additions to net assets attributed to participant contributions per the financial statements to the Form 5500:

		Year Ended December 31, 2011 (in thousands)
Additions to net assets attributed to participant contributions per the financial statements	$	295,880
Change in participant contribution receivable accrual		(1,278)
Additions to net assets attributed to participant contributions per the Form 5500	$	294,602

The following is a reconciliation of additions to net assets attributed to employer contributions per the financial statements to the Form 5500:

		Year Ended December 31, 2011 (in thousands)
Additions to net assets attributed to employer contributions per the financial statements	$	196,525
Change in employer contribution receivable accrual		(826)
Additions to net assets attributed to employer contributions per the Form 5500	$	195,699

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Target Corporation 401(k) Plan

Notes to Financial Statements (continued)

9. Reconciliation of Financial Statements to the Form 5500 (continued)

The following is a reconciliation of total additions to net assets per the financial statements to total income per the Form 5500:

		Year Ended December 31, 2011 (in thousands)
Total additions to net assets per the financial statements	$	205,093
Adjustment from contract value to fair value for fully benefit-responsive investment contracts at December 31, 2010		(29,310)
Adjustment from contract value to fair value for fully benefit-responsive investment contracts at December 31, 2011		49,885
Change in participant contribution receivable accrual		(1,278)
Change in employer contribution receivable accrual		(826)
Total income per the Form 5500	$	223,564

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Supplemental Schedule

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Target Corporation 401(k) Plan

EIN: 41-0215170 Plan Number: 002

Schedule H, Line 4i Schedule of Assets (Held at End of Year)

December 31, 2011

Face Amount or Number of Shares/Units(c)	Identity of Issue and Description of Investment(b)		Investments at Cost(d)		Investments at Current Value(e)
Cash equivalents					
18,342,834	*State Street Bank & Trust Co. Short-term Investment Fund	$	18,342,834	$	18,342,834
Commingled investment funds					
42,812,595	*Target Corporation Common Stock Fund		1,450,491,764		1,842,400,244
2,625,817	Barclays Global Investors US Real Estate Index Fund		77,758,718		77,217,398
7,477,908	Barclays Global Investors BGI S&P 500 Value		98,199,097		106,186,298
9,411,507	Barclays Global Investors BGI S&P 500 Growth		92,216,597		107,102,952
5,078,016	*State Street Bank & Trust Co. Emerging Markets Index Non-Lending Series Fund		119,421,080		117,469,753
11,558,798	*State Street Bank & Trust Co. U.S. Inflation Protected Bond Index Non-Lending Series Fund		228,974,331		271,793,584
18,238,876	*State Street Bank & Trust Co. S&P 500 Index Non-Lending Series Fund		340,194,952		394,488,659
25,238,483	*State Street Bank & Trust Co. International Index Non-Lending Series Fund		305,068,038		303,442,277
8,705,460	*State Street Bank & Trust Co. Russell 2000 Index Fund		184,699,442		196,665,050
7,078,989	Blackrock, Inc. LIFEPATH INDEX RETIREMENT FUND		91,467,700		97,760,842
5,307,570	Blackrock, Inc. LIFEPATH INDEX 2015 FUND F		71,090,927		76,322,852
6,636,046	Blackrock, Inc. LIFEPATH INDEX 2020 FUND F		91,193,381		97,748,954
6,566,856	Blackrock, Inc. LIFEPATH INDEX 2025 FUND F		91,983,223		98,962,524
6,548,267	Blackrock, Inc. LIFEPATH INDEX 2030 FUND F		93,292,366		100,253,973

6,550,829	Blackrock, Inc. LIFEPATH INDEX 2035 FUND F	94,983,641	101,996,406
6,685,546	Blackrock, Inc. LIFEPATH INDEX 2040 FUND F	98,745,816	105,564,777
6,071,305	Blackrock, Inc. LIFEPATH INDEX 2045 FUND F	91,515,673	97,323,025
6,870,557	Blackrock, Inc. LIFEPATH INDEX 2050 FUND F	107,128,449	111,509,142
	Total commingled investment funds	3,728,425,195	4,304,208,710

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Target Corporation 401(k) Plan

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Schedule H, Line 4i Schedule of Assets (Held at End of Year) (continued)

Face Amount or Number of Shares/Units(c)	Identity of Issue and Description of Investment(b)	Contract Issuer Moody s/ S&P Rating	Maturity Date(c)	Rate of Interest(c)	Investments at Cost(d)	Investments at Current Value(e)
Stable Value Fund						
Synthetic Guaranteed Investment Contracts						
Wrap contracts						
	ING Life Insurance and Annuity Co. Group Annuity Contract	A2/A	n/a	3.85%	$ n/a	$
	Pacific Mutual Life Insurance Co. Group Annuity Contract	A1/A+	n/a	3.85%	n/a	
Underlying Portfolio						
Fixed income securities						
430,000	ABB TREASURY CENTER USA SR UNSECURED 144A		6/15/2016	2.50%	427,282	432,378
200,000	ABBEY NATL TREASURY SERV BANK GUARANT		4/25/2014	2.88%	199,540	186,450
500,000	ABBEY NATL TREASURY SERV BANK GUARANT		4/27/2016	4.00%	499,800	448,577
465,000	ACCESS TO LOANS FOR LEARNING S ACCSTD 04/24 FLOATING VAR		4/25/2024	1.00%	455,700	446,781
155,000	AID EGYPT US GOVT GUAR		9/15/2015	4.45%	164,757	173,402
240,000	ALLY BANK		11/17/2014	1.40%	240,000	239,118
2,400,000	ALLY FINANCIAL INC FDIC GUARANT		10/30/2012	1.75%	2,399,784	2,430,955
200,000	ALTRIA GROUP INC COMPANY GUAR		5/5/2021	4.75%	211,542	220,208
175,000	ALTRIA GROUP INC COMPANY GUAR		11/10/2018	9.70%	233,574	235,447
640,000	AMER EXPRESS CREDIT CO SR UNSECURED		8/20/2013	7.30%	695,814	694,566
800,000	AMERICA MOVIL SAB DE CV		9/8/2016	2.38%	794,992	797,771
425,000	AMERICA MOVIL SAB DE CV		9/8/2016	2.38%	421,549	423,816
250,000	AMERICAN EXPR CENTURION		9/10/2012	2.25%	250,000	252,925
175,000	AMERICAN INTL GROUP SR UNSECURED		5/18/2017	5.45%	180,140	167,237
325,000	AMERICAN INTL GROUP SR UNSECURED		10/18/2016	5.60%	340,881	313,247
1,358,274	AMERICREDIT AUTOMOBILE RECEIVA AMCAR 2011 2 A2		9/8/2014	0.90%	1,358,181	1,357,127
380,000	AMERISOURCEBERGEN CORP		11/15/2021	3.50%	379,460	390,226
900,000	AMGEN INC SR UNSECURED		2/1/2013	0.38%	903,938	904,932
400,000	AMGEN INC SR UNSECURED		6/1/2018	6.15%	459,336	465,274
460,000	ANHEUSER BUSCH COS LLC COMPANY GUAR		3/1/2019	5.00%	505,044	518,126
375,000			1/15/2015	4.13%	374,486	404,311

	ANHEUSER BUSCH INBEV WOR COMPANY GUAR				
750,000	ANHEUSER BUSCH INBEV WOR COMPANY GUAR	1/15/2020	5.38%	882,758	879,603
900,000	ARISTOTLE HOLDING INC 144A	11/15/2016	3.50%	907,173	916,610
1,070,000	ARKLE MASTER ISSUER PLC ARKLE 2010 2A 1A1 144A	5/17/2060	1.87%	1,070,000	1,066,914
697,032	ARRAN RESIDENTIAL MORTGAGES FU ARRMF 2010 1A A1C 144A	5/16/2047	1.66%	697,032	695,722
130,000	ASIAN DEVELOPMENT BANK SR UNSECURED	7/16/2018	5.60%	144,729	158,677
550,000	AT&T INC SR UNSECURED	6/15/2016	5.63%	617,683	630,942
140,000	AT&T INC SR UNSECURED	8/15/2015	2.50%	139,572	144,966
450,000	AT&T INC SR UNSECURED	8/15/2016	2.40%	448,529	459,129
200,000	AT&T INC SR UNSECURED	8/15/2021	3.88%	205,316	211,550
735,000	AT&T INC SR UNSECURED	11/15/2013	6.70%	782,303	810,271
275,000	BAE SYSTEMS HOLDINGS INC COMPANY GUAR 144A	8/15/2015	5.20%	277,501	295,683
708,565	BANC OF AMERICA COMMERCIAL MOR BACM 2002 2 A3	7/11/2043	5.12%	707,569	712,480
642,815	BANC OF AMERICA COMMERCIAL MOR BACM 2004 1 A3	11/10/2039	4.43%	627,146	648,285
585,000	BANK OF AMERICA CORP SR UNSECURED	1/5/2021	5.88%	543,177	556,819
375,000	BANK OF AMERICA CORP SR UNSECURED	5/1/2018	5.65%	334,568	357,282
95,000	BANK OF AMERICA CORP SR UNSECURED	5/13/2021	5.00%	84,098	86,529

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Schedule H, Line 4i Schedule of Assets (Held at End of Year) (continued)

Face Amount or Number of Shares/Units(c)	Identity of Issue and Description of Investment(b)	Contract Issuer Moody s/ S&P Rating	Maturity Date(c)	Rate of Interest(c)	Investments at Cost(d)	Investments at Current Value(e)
Underlying Portfolio (continued)						
Fixed income securities (continued)						
400,000	BANK OF AMERICA CORP SR UNSECURED		5/13/2021	5.00%	$ 352,428	$ 364,334
605,000	BANK OF AMERICA CORP SR UNSECURED		7/12/2016	3.75%	587,208	560,181
600,000	BANK OF AMERICA CORP SR UNSECURED		7/1/2020	5.63%	610,343	554,240
260,000	BANK OF AMERICA CORP SR UNSECURED		10/14/2016	5.63%	240,191	249,439
240,000	BANK OF CHINA (NY) CERT OF DEPO		12/23/2013	1.10%	240,000	239,361
400,000	BANK OF SCOTLAND PLC COVERED 144A		2/21/2017	5.25%	415,494	418,875
300,000	BAPTIST HEALTH SOUTH FL NOTES		8/15/2021	4.59%	300,000	325,470
750,000	BARCLAYS BANK PLC SR UNSECURED		1/13/2014	1.25%	750,000	717,320
240,000	BARCLAYS BANK/DELAWARE		12/7/2015	1.55%	240,000	238,301
400,000	BARRICK NA FINANCE LLC COMPANY GUAR		9/15/2018	6.80%	478,088	481,270
550,000	BEAR STEARNS COS LLC SR UNSECURED		2/1/2018	7.25%	575,694	644,793
75,000	BEAR STEARNS COS LLC SR UNSECURED		10/2/2017	6.40%	82,549	83,792
580,000	BEAR STEARNS COS LLC SR UNSECURED		10/2/2017	6.40%	630,153	647,993
275,000	BECTON DICKINSON + CO		11/8/2016	1.75%	274,909	277,067
180,000	BECTON DICKINSON + CO		11/8/2021	3.13%	179,631	186,129
850,000	BERKSHIRE HATHAWAY INC SR UNSECURED 08/14 VAR		8/15/2014	1.16%	851,233	851,903
300,000	BHP BILLITON FIN USA LTD		11/21/2014	1.13%	298,935	300,704
165,000	BHP BILLITON FIN USA LTD		11/21/2016	1.88%	164,124	166,671
200,000	BLACKROCK INC SR UNSECURED		12/10/2019	5.00%	219,614	218,261
500,000	BNP PARIBAS BANK GUARANT		1/10/2014	1.29%	503,845	461,132
300,000	BOARDWALK PIPELINES LLC COMPANY GUAR		11/15/2016	5.88%	299,213	337,479
245,000	BOEING CAPITAL CORP SR UNSECURED		8/15/2016	2.13%	249,123	250,279
230,000	BOTTLING GROUP LLC COMPANY GUAR		6/15/2015	4.13%	247,250	251,769
195,000	BP CAPITAL MARKETS PLC		11/1/2016	2.25%	195,000	196,244
800,000	BP CAPITAL MARKETS PLC		11/1/2016	2.25%	811,264	805,102

940,000	BP CAPITAL MARKETS PLC COMPANY GUAR	3/10/2012	3.13%	939,944	944,312
350,000	BP CAPITAL MARKETS PLC COMPANY GUAR	3/10/2015	3.88%	371,294	373,732
300,000	BP CAPITAL MARKETS PLC COMPANY GUAR	3/11/2016	3.20%	299,724	314,407
1,600,000	BP CAPITAL MARKETS PLC COMPANY GUAR	10/1/2015	3.13%	1,660,992	1,675,877
875,000	BP CAPITAL MARKETS PLC COMPANY GUAR	10/1/2020	4.50%	922,223	963,700
350,000	BURLINGTN NORTH SANTA FE SR UNSECURED	3/15/2018	5.75%	409,815	408,938
150,000	BURLINGTN NORTH SANTA FE SR UNSECURED	10/1/2019	4.70%	167,235	168,342
400,000	CAMPBELL SOUP CO SR UNSECURED	2/15/2019	4.50%	441,056	449,807
725,000	CANADIAN GOVERNMENT SR UNSECURED	9/10/2014	2.38%	722,393	761,344
1,000,000	CANADIAN NATL RESOURCES SR UNSECURED	2/1/2013	5.15%	999,710	1,043,143
295,000	CAPITAL ONE FINANCIAL CO SR UNSECURED	7/15/2014	4.13%	294,838	291,218
650,000	CAPITAL ONE FINANCIAL CO SR UNSECURED	7/15/2021	4.75%	646,991	668,923
400,000	CAPITAL ONE FINANCIAL CO SR UNSECURED	7/15/2021	4.75%	416,636	411,645
340,000	CAPITAL ONE FINANCIAL CO SR UNSECURED	7/15/2021	4.75%	359,455	349,898
342,330	CARMAX AUTO OWNER TRUST CARMX 2008 2 A4B	8/15/2013	1.93%	346,556	344,030
800,000	CATERPILLAR FINANCIAL SE SR UNSECURED	4/1/2014	0.66%	798,848	798,936
400,000	CATERPILLAR INC SR UNSECURED	12/15/2018	7.90%	532,592	532,521
450,000	CELLCO PART/VERI WIRELSS SR UNSECURED	11/15/2018	8.50%	603,365	607,365
475,000	CELLCO PART/VERI WIRELSS SR UNSECURED	11/15/2018	8.50%	504,516	641,108
540,000	CELLCO PART/VERI WIRELSS SR UNSECURED	11/15/2018	8.50%	638,685	728,838

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Face Amount or Number of Shares/Units(c)	Identity of Issue and Description of Investment(b)	Contract Issuer Moody s/ S&P Rating	Maturity Date(c)	Rate of Interest(c)	Investments at Cost(d)	Investments at Current Value(e)
Underlying Portfolio (continued)						
Fixed income securities (continued)						
1,000,000	CENOVUS ENERGY INC SR UNSECURED		9/15/2014	8.50%	$ 1,082,400	$ 1,077,282
245,000	CHEVRON PHILLIPS CHEM CO SR UNSECURED 144A		2/1/2021	4.50%	245,884	262,271
165,000	CHEVRON PHILLIPS CHEM CO SR UNSECURED 144A		6/15/2019	4.75%	209,920	208,885
200,000	CIE FINANCEMENT FONCIER COVERED 144A		4/22/2013	2.13%	202,424	197,852
350,000	CIGNA CORP		11/15/2016	2.75%	349,708	349,233
200,000	CIGNA CORP SR UNSECURED		3/15/2021	4.50%	198,994	205,712
445,000	CINTAS CORPORATION NO. 2 COMPANY GUAR		6/1/2016	2.85%	457,001	456,367
240,000	CIT BANK		11/16/2015	1.65%	240,000	240,214
760,000	CITIBANK OMNI MASTER TRUST COMNI 2009 A17 A17 144A		11/15/2018	4.90%	825,669	826,601
2,000,000	CITIGROUP FUNDING INC FDIC GUARANT		10/22/2012	1.88%	2,007,860	2,027,520
900,000	CITIGROUP FUNDING INC FDIC GUARANT		11/15/2012	1.88%	900,558	912,956
945,000	CITIGROUP INC SR UNSECURED		1/15/2015	6.01%	1,020,312	987,246
175,000	CITIGROUP INC SR UNSECURED		7/2/2013	5.85%	177,693	179,901
255,000	CITIGROUP INC SR UNSECURED		8/12/2014	6.38%	264,876	267,628
150,000	CITIGROUP INC SR UNSECURED		8/12/2014	6.38%	164,408	157,428
595,000	CITIGROUP INC SR UNSECURED		11/21/2017	6.13%	637,037	635,002
790,000	CITIGROUP INC SR UNSECURED		12/15/2015	4.59%	791,675	795,054
450,000	CITIGROUP INC SUBORDINATED		9/15/2014	5.00%	438,491	445,369
190,000	CITIGROUP INC SUBORDINATED		9/15/2014	5.00%	196,014	188,045
824,746	CITIGROUP/DEUTSCHE BANK COMMER CD 2005 CD1 ASB		7/15/2044	5.23%	862,762	872,544
155,000	CLOROX COMPANY SR UNSECURED		10/15/2012	5.45%	154,789	160,594
485,000	CME GROUP INDEX SERVICES COMPANY GUAR 144A		3/15/2018	4.40%	484,030	515,303
300,000	COCA COLA AMATIL LTD COMPANY GUAR 144A		11/2/2014	3.25%	311,973	314,802
410,000	COCA COLA CO/THE SR UNSECURED		9/1/2016	1.80%	409,918	417,032
50,000	COMCAST CABLE HOLDINGS COMPANY GUAR		8/1/2013	7.88%	57,732	55,024
400,000	COMCAST CORP COMPANY GUAR		1/15/2017	6.50%	472,744	470,471

550,000	COMCAST CORP COMPANY GUAR	2/15/2018	5.88%	619,011	635,947
500,000	COMCAST CORP COMPANY GUAR	3/15/2016	5.90%	572,360	572,296
155,000	COMCAST CORP COMPANY GUAR	5/15/2018	5.70%	176,866	178,368
185,000	COMMONWEALTH REIT SR UNSECURED	8/15/2016	6.25%	176,830	196,145
255,000	COMMONWEALTH REIT SR UNSECURED	11/1/2015	5.75%	254,232	266,177
1,000,000	CONS EDISON CO OF NY SR UNSECURED	12/1/2016	5.30%	1,174,020	1,166,874
9,521	COUNTRYWIDE ASSET BACKED CERTI CWL 2002 6 AV1	5/25/2033	1.15%	9,542	7,360
6,317	COUNTRYWIDE ASSET BACKED CERTI CWL 2004 12 AF4	11/25/2032	4.62%	6,248	6,203
310,000	COX COMMUNICATIONS INC SR UNSECURED	12/15/2014	5.45%	344,646	344,108
29	CREDIT SUISSE MORTGAGE CAPITAL CSMC 2006 8 3A1	10/25/2021	6.00%	27	23
275,000	CREDIT SUISSE NEW YORK SR UNSECURED	8/5/2020	4.38%	274,183	269,629
750,000	CREDIT SUISSE NEW YORK SUBORDINATED	1/14/2020	5.40%	816,938	707,374
809,113	CS FIRST BOSTON MORTGAGE SECUR CSFB 2002 CKS4 A2	11/15/2036	5.18%	792,678	818,360
1,158,755	CS FIRST BOSTON MORTGAGE SECUR CSFB 2002 CP3 A3	7/15/2035	5.60%	1,147,620	1,166,130
1,540,000	CS FIRST BOSTON MORTGAGE SECUR CSFB 2002 CP5 A2	12/15/2035	4.94%	1,541,444	1,570,956
181	CS FIRST BOSTON MORTGAGE SECUR CSFB 2003 AR9 2A2	3/25/2033	2.38%	185	152
1,000,000	CVS CAREMARK CORP SR UNSECURED	5/15/2021	4.13%	1,024,245	1,076,568
1,130,000	DAIMLER FINANCE NA LLC SER 144A	9/15/2014	1.88%	1,126,429	1,123,882
575,000	DANAHER CORP SR UNSECURED	6/23/2016	2.30%	574,080	597,648

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Face Amount or Number of Shares/Units(c)	Identity of Issue and Description of Investment(b)	Contract Issuer Moody s/ S&P Rating	Maturity Date(c)	Rate of Interest(c)	Investments at Cost(d)	Investments at Current Value(e)
Underlying Portfolio (continued)						
Fixed income securities (continued)						
1,530,000	DBUBS MORTGAGE TRUST DBUBS 2011 LC1A A2 144A		11/10/2046	4.53%	$ 1,536,227	$ 1,649,828
310,000	DCP MIDSTREAM LLC SR UNSECURED 144A		3/15/2019	9.75%	351,332	404,113
1,000,000	DELL INC SR UNSECURED		4/1/2014	2.10%	1,020,830	1,020,688
430,000	DEVON ENERGY CORPORATION SR UNSECURED		7/15/2016	2.40%	437,711	440,276
1,900,000	DIRECTV HOLDINGS/FING COMPANY GUAR		3/1/2016	3.50%	1,896,409	1,958,756
600,000	DIRECTV HOLDINGS/FING COMPANY GUAR		3/1/2016	3.50%	617,172	618,554
715,000	DISCOVERY COMMUNICATIONS COMPANY GUAR		6/1/2015	3.70%	713,935	751,995
450,000	DOMINION RESOURCES INC SR UNSECURED		6/15/2018	6.40%	497,903	543,088
745,000	DOW CHEM CO		11/15/2021	4.13%	749,912	764,161
550,000	DOW CHEMICAL CO/THE SR UNSECURED		5/15/2014	7.60%	622,930	621,950
340,000	DR PEPPER SNAPPLE GROUP COMPANY GUAR		1/15/2016	2.90%	341,804	352,621
380,000	DUKE ENERGY CAROLINAS		12/15/2016	1.75%	379,381	382,916
250,000	DUKE ENERGY CAROLINAS 1ST REF MORT		1/15/2018	5.25%	249,150	295,583
15,000	E.I. DU PONT DE NEMOURS SR UNSECURED		1/15/2013	5.00%	14,967	15,646
370,000	EATON CORP SR UNSECURED		3/20/2014	5.95%	408,798	407,270
150,000	ECOLAB INC		12/8/2014	2.38%	149,910	152,913
575,000	ECOLAB INC		12/8/2016	3.00%	575,024	594,786
265,000	ECOLAB INC		12/8/2016	3.00%	264,475	274,119
575,000	ECOLAB INC		12/8/2021	4.35%	587,088	614,036
850,000	EDISON INTERNATIONAL SR UNSECURED		9/15/2017	3.75%	835,720	874,678
650,000	EKSPORTFINANS A/S		11/17/2014	3.00%	646,984	578,739
1,000,000	EKSPORTFINANS ASA SR UNSECURED		4/5/2013	0.58%	995,940	905,505
560,000	EKSPORTFINANS ASA SR UNSECURED		5/25/2016	5.50%	537,925	516,355
175,000	EKSPORTFINANS ASA SR UNSECURED		6/26/2017	5.50%	163,924	159,230
300,000	ENBRIDGE ENERGY PARTNERS SR UNSECURED		12/15/2016	5.88%	300,108	343,560

175,000	ENDURANCE SPECIALTY HLDG SR UNSECURED	10/15/2015	6.15%	174,368	183,570
270,000	ENTERGY ARKANSAS INC 1ST MORTGAGE	2/15/2021	3.75%	269,922	281,153
295,000	ENTERGY ARKANSAS INC 1ST MORTGAGE	8/1/2013	5.40%	294,979	312,834
475,000	ERP OPER LTD PARTNERSHIP	12/15/2021	4.63%	473,190	484,383
265,000	ERP OPER LTD PARTNERSHIP	12/15/2021	4.63%	263,990	270,235
744,780	EXTENDED STAY AMERICA TRUST ESA 2010 ESHA A 144A	11/5/2027	2.95%	737,347	746,167
800,000	FANNIE MAE FRN	12/28/2016	1.00%	799,600	802,083
775,000	FANNIE MAE BONDS	5/11/2017	5.00%	918,179	919,901
2,470,000	FANNIE MAE NOTES	3/15/2016	5.00%	2,864,459	2,878,350
6,000,000	FANNIE MAE NOTES	5/17/2013	0.38%	5,996,760	6,006,144
800,000	FANNIE MAE NOTES	9/28/2016	1.00%	799,200	803,368
4,600,000	FANNIE MAE NOTES	10/26/2015	1.63%	4,722,232	4,714,117
800,000	FANNIE MAE NOTES	10/26/2016	1.00%	800,000	805,234
1,057,000	FANNIE MAE NOTES	11/15/2016	1.38%	1,056,419	1,066,335
1,000,000	FANNIE MAE NOTES	11/28/2016	1.00%	1,000,000	1,001,059
508,096	FDIC 2011 C1 A	3/25/2017	1.84%	508,096	512,890
8,728	FED HM LN PC POOL 1H2524	8/1/2035	2.47%	8,705	9,213
3,404	FED HM LN PC POOL 420045	10/1/2026	2.56%	3,444	3,461
14,511	FED HM LN PC POOL 780447	4/1/2033	2.50%	14,375	15,177
92	FED HM LN PC POOL 780967	10/1/2033	2.40%	92	97

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Face Amount or Number of Shares/Units(c)	Identity of Issue and Description of Investment(b)	Contract Issuer Moody s/ S&P Rating	Maturity Date(c)	Rate of Interest(c)	Investments at Cost(d)	Investments at Current Value(e)
Underlying Portfolio (continued)						
Fixed income securities (continued)						
5,304	FED HM LN PC POOL 781085		12/1/2033	2.36%	$ 5,225	$ 5,551
4,295	FED HM LN PC POOL 847751 84 7715		8/1/2034	2.42%	4,285	4,514
1,401	FED HM LN PC POOL 847752		2/1/2034	3.37%	1,392	1,473
27,300	FED HM LN PC POOL E93978		1/1/2013	5.00%	27,739	27,676
510,690	FEDERAL HOME LN MTG CORP PREASSIGN 00269/2395 CL FD		5/15/2029	0.88%	513,882	513,553
86,509	FEDERAL HOME LN MTG CORP PREASSIGN 00746 SER 2829 CL AK		4/15/2022	5.00%	89,050	87,398
72,577	FEDERAL HOME LN MTG CORP PREASSIGN 00885 SER 2580 CL QM		10/15/2031	5.00%	75,389	73,447
163,278	FEDERAL HOME LN MTG CORP SER 2614 CL NA		4/15/2033	3.75%	166,748	166,336
16,971	FEDERAL HOME LN MTG CORP SER 2702 CL PB		6/15/2020	5.00%	17,149	16,968
90,454	FEDERAL HOME LN MTG CORP SER 2777 CL AB		6/15/2029	4.50%	93,888	90,743
107,299	FEDERAL HOME LN MTG CORP SER 2820 CL PE		3/15/2030	5.50%	111,457	107,796
28,072	FEDERAL HOME LN MTG CORP SER 2895 CL F		6/15/2031	0.63%	28,028	28,070
61,565	FEDERAL HOME LN MTG CORP SER 3000 CL BA		7/15/2023	4.50%	63,104	61,909
52,367	FEDERAL HOME LN MTG CORP SER 3027 CL DC PREASSIGN 00724		9/15/2035	5.00%	54,232	52,683
15,262	FEDERAL HOME LN MTG CORP SER 3080 CL VU		11/15/2016	5.50%	16,130	15,256
94,310	FEDERAL HOME LN MTG CORP SER 3114 CL GC		1/15/2034	5.00%	98,893	95,774
835,992	FEDERAL HOME LN MTG CORP SER 3128 CL JF		3/15/2036	0.65%	828,677	833,235
31,689	FEDERAL HOME LN MTG CORP SER 3201 CL PD		9/15/2032	6.00%	33,338	31,679
170,791	FEDERAL HOME LN MTG CORP SER K001 CL A2		4/25/2016	5.65%	171,645	189,103
42,062	FEDERAL HOME LN MTG PC GTD SER 1641 CL 1641 FA VAR RTE		12/15/2013	1.26%	42,384	42,076
63,000	FEDERAL HOME LN MTG SER 2683 CL JA		10/15/2016	4.00%	64,762	63,230
400,000	FEDERAL HOME LOAN BANK BONDS		9/13/2019	4.50%	469,980	472,193

1,900,000	FEDERAL HOME LOAN BANK BONDS	12/14/2012	1.75%	1,908,664	1,925,766
452,598	FEDERAL HOME LOAN MTG CORP 2006 76 CL QF	8/25/2036	0.69%	431,099	451,385
36,820	FEDERAL HOME LOAN MTG CORP SERIES 2628 CL LE	6/15/2033	3.25%	37,234	38,004
275,860	FEDERAL NATIONAL MTG ASSN SER 2004 90 CL GF	11/25/2034	0.59%	272,929	275,210
291,024	FEDERAL NATIONAL MTG ASSOC FRN	7/25/2034	0.69%	288,023	291,191
163,550	FEDERAL NATL MTG ASSN 2004 83 CL AB	7/25/2030	4.50%	170,807	164,507
108,376	FEDERAL NATL MTG ASSN PREASSIGN 00533/2002 T6 CL A1	2/25/2032	3.31%	98,893	113,104
448,570	FEDERAL NATL MTG ASSN PREASSIGN 00627	3/25/2027	0.70%	432,309	444,162
713,070	FEDERAL NATL MTG ASSN PREASSIGN 00728 SER 2003 T4 1A	9/26/2033	0.51%	684,547	703,320
78,275	FEDERAL NATL MTG ASSN REMIC 2004 45 CL VL	7/25/2023	6.00%	82,825	78,479
4,662	FEDERAL NATL MTG ASSN REMIC SER 2003 128 CL DR	9/25/2020	4.50%	4,773	4,659
322,486	FEDERAL NATL MTG ASSN REMIC TR 2004 79 CL FA	8/25/2032	0.58%	317,649	321,933
3,665	FEDERAL NATL MTG ASSN SER 2003 13 CL PG PRE 00077	11/25/2032	5.00%	3,638	3,663
14,698	FEDERAL NATL MTG ASSN SER 2005 46 CL LC	8/25/2018	4.50%	14,207	14,708
421,104	FEDERAL NATL MTG ASSN SER 2006 104 CL FV	11/25/2036	0.63%	404,260	419,528
209,486	FEDERAL NATL MTG ASSN SER 2007 67 CL FA	4/25/2037	0.54%	207,391	208,440
292,879	FEDERAL NATL MTG SER 2006 93 CLASS FP	4/25/2036	0.59%	286,884	291,711
165,000	FHMS KO13 A2	1/25/2021	3.97%	166,640	181,412
179,139	FHR 2627 MY	8/15/2022	5.00%	187,200	185,702
498,576	FHR 3019 FH	8/15/2035	0.58%	497,828	498,070
55,736	FHR 3384 BH	4/15/2029	5.50%	58,035	56,160
342,186	FHR 3387 FD	11/15/2037	0.86%	341,438	343,010
64,365	FHR 3457 MA	11/15/2025	5.00%	66,568	64,929

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Schedule H, Line 4i Schedule of Assets (Held at End of Year) (continued)

Face Amount or Number of Shares/Units(c)	Identity of Issue and Description of Investment(b)	Contract Issuer Moody s/ S&P Rating	Maturity Date(c)	Rate of Interest(c)	Investments at Cost(d)	Investments at Current Value(e)
Underlying Portfolio (continued)						
Fixed income securities (continued)						
175,000	FIFTH THIRD BANCORP SR UNSECURED		1/25/2016	3.63%	$ 174,794	$ 177,554
300,000	FIFTH THIRD BANK SR UNSECURED		5/17/2013	0.58%	278,973	294,389
492,908	FNMA POOL 467288		3/1/2018	2.80%	475,310	511,001
420,000	FNMA POOL 468123		5/1/2018	3.84%	426,038	455,009
3,870,169	FNMA POOL 735028		9/1/2014	5.74%	4,070,329	4,219,548
5,488	FNMA POOL 735925		10/1/2035	5.00%	5,693	5,933
296,727	FNMA POOL FN0004		12/1/2020	3.63%	287,907	318,226
296,622	FNMA POOL FN0009		10/1/2020	3.42%	283,830	314,316
144,624	FNR 2006 37 DA		1/25/2032	5.50%	150,228	146,164
322,302	FNR 2006 60 CO SER 2006 48 CL FA		6/25/2036	0.69%	316,460	321,508
817,628	FNR 2006 72 HF		8/25/2026	0.59%	814,966	816,712
176,277	FNR 2007 14 Z REMIC TR 2007 9 CL FB		3/25/2037	0.64%	173,991	175,562
404,724	FNR 2007 14 Z SER 2006 123 CL PF		1/25/2037	0.55%	398,148	402,032
574,070	FNR 2007 14 Z SER 2007 2 CL FM		2/25/2037	0.54%	571,648	570,159
344,636	FNR 2007 22 FC		3/25/2037	0.71%	344,044	342,310
320,333	FNR 2011 3 FA		2/25/2041	0.97%	319,933	323,217
854,716	FREDDIE MAC FHR 3879 MF		9/15/2038	0.63%	856,152	852,031
973,000	FREDDIE MAC NOTES		8/25/2016	2.00%	1,009,059	1,011,790
900,000	FREDDIE MAC NOTES		9/20/2016	1.00%	900,000	900,954
5,695,000	FREDDIE MAC NOTES		9/30/2019	3.53%	5,695,000	5,735,879
900,000	FREDDIE MAC NOTES		10/30/2013	0.38%	899,433	898,880
342,000	FREDDIE MAC NOTES		11/17/2017	5.13%	411,853	411,799
3,200,000	FREDDIE MAC NOTES		12/29/2014	0.63%	3,192,893	3,197,658
400,000	FREEPORT MCMORAN C & G SR UNSECURED		4/1/2017	8.38%	425,500	425,000
240,000	GE CAPITAL FINANCIAL INC		11/17/2014	1.55%	240,000	239,721
240,000	GE CAPITAL RETAIL BANK		12/29/2016	2.10%	240,000	237,754
540,000	GENERAL DYNAMICS CORP COMPANY GUAR		7/15/2021	3.88%	588,379	583,890
400,000	GENERAL ELEC CAP CORP FDIC GUARANT		9/28/2012	2.00%	399,640	405,442
400,000	GENERAL ELEC CAP CORP FDIC GUARANT		12/21/2012	2.13%	411,868	407,441
3,500,000	GENERAL ELEC CAP CORP FDIC GUARANT		12/28/2012	2.63%	3,548,150	3,583,773
800,000	GENERAL ELEC CAP CORP SR UNSECURED		4/10/2012	0.51%	656,128	800,139
600,000			5/8/2013	0.59%	576,330	596,734

	GENERAL ELEC CAP CORP SR UNSECURED				
750,000	GENERAL ELEC CAP CORP SR UNSECURED	5/1/2018	5.63%	827,198	840,002
670,000	GENERAL ELEC CAP CORP SR UNSECURED	9/15/2014	0.81%	499,150	642,746
905,000	GENERAL ELEC CAP CORP SR UNSECURED	12/17/2013	0.68%	647,075	877,677
325,000	GENERAL ELEC CAP CORP TRANCHE TR00800	9/15/2017	5.63%	346,684	359,702
410,000	GENZYME CORP COMPANY GUAR	6/15/2015	3.63%	435,729	437,757
405,000	GILEAD SCIENCES INC	12/1/2016	3.05%	404,336	414,511
440,000	GILEAD SCIENCES INC SR UNSECURED	4/1/2021	4.50%	451,101	466,504
186,528	GNMA POOL 752842	7/15/2025	3.95%	186,761	204,279
602,479	GNR 2010 87 PF	7/20/2040	0.93%	606,527	603,651
240,000	GOLDMAN SACHS BANK USA	11/17/2014	1.50%	240,000	239,386
195,000	GOLDMAN SACHS GROUP INC	6/15/2020	6.00%	207,032	199,751
850,000	GOLDMAN SACHS GROUP INC SR UNSECURED	1/18/2018	5.95%	904,175	870,588
1,200,000	GOLDMAN SACHS GROUP INC SR UNSECURED	2/7/2016	3.63%	1,188,449	1,159,468

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Underlying Portfolio (continued)						
Fixed income securities (continued)						
270,000	GOLDMAN SACHS GROUP INC SR UNSECURED		2/15/2019	7.50%	$ 311,761	$ 298,190
615,000	GOLDMAN SACHS GROUP INC SR UNSECURED		7/27/2021	5.25%	603,744	599,957
125,000	GOLDMAN SACHS GROUP INC SR UNSECURED		7/27/2021	5.25%	124,933	121,943
340,000	GOOGLE INC SR UNSECURED		5/19/2014	1.25%	339,922	345,116
16,140	GOVERNMENT NATL MTG ASSN GTD 2003 060 REMIC PASSTHRU CTF		11/16/2029	4.75%	16,181	16,139
464,223	GOVERNMENT NATL MTG ASSN REMIC 2002 21 TR CL FV FRN		3/16/2032	0.68%	465,529	465,860
471,487	GS MORTGAGE SECURITIES CORPORA GSMS 2005 GG4 AABA		7/10/2039	4.68%	490,641	477,729
1,643	GSR MORTGAGE LOAN TRUST GSR 2004 2F 11A1		9/25/2019	7.00%	1,693	1,657
505,000	GTE CORP COMPANY GUAR		4/15/2018	6.84%	584,689	604,898
415,000	GTE CORP COMPANY GUAR		11/1/2021	8.75%	547,846	581,132
175,000	GULF SOUTH PIPELINE SR UNSECURED 144A		8/15/2017	6.30%	174,617	198,454
380,000	HARSCO CORP SR UNSECURED		10/15/2015	2.70%	379,635	391,905
600,000	HCP INC SR UNSECURED		1/30/2017	6.00%	649,500	649,198
750,000	HEWLETT PACKARD CO		9/15/2016	3.00%	770,558	755,291
1,000,000	HEWLETT PACKARD CO SR UNSECURED		3/1/2012	0.64%	982,165	999,546
255,000	HEWLETT PACKARD CO SR UNSECURED		3/1/2018	5.50%	287,688	283,424
450,000	HOME DEPOT INC SR UNSECURED		3/1/2016	5.40%	485,474	519,736
345,000	HONEYWELL INTERNATIONAL SR UNSECURED		2/15/2019	5.00%	398,991	401,542
160,000	HP ENTERPRISE SERVICES SR UNSECURED		8/1/2013	6.00%	171,110	169,612
400,000	HSBC BANK PLC		5/24/2016	3.10%	399,852	400,024
755,000	HSBC HOLDINGS PLC SR UNSECURED		1/14/2022	4.88%	764,435	797,954
350,000	HYUNDAI CAPITAL SERVICES SR UNSECURED 144A		7/27/2016	4.38%	361,025	356,951
235,000	IBERDROLA INTL BV COMPANY GUAR		6/15/2012	6.75%	260,622	240,314
265,000	IBM CORP SR UNSECURED		6/15/2013	7.50%	300,478	291,100

335,000	IBM CORP SR UNSECURED	7/22/2016	1.95%	340,698	344,769
260,000	IBM CORP SR UNSECURED	11/1/2019	8.38%	343,671	368,778
900,000	ING BANK NV COVERED 144A	1/14/2016	2.50%	894,273	883,780
1,000,000	INTEL CORP SR UNSECURED	10/1/2016	1.95%	1,014,390	1,028,017
520,000	INTEL CORP SR UNSECURED	10/1/2021	3.30%	518,762	547,783
750,000	INTL GAME TECHNOLOGY SR UNSECURED	6/15/2019	7.50%	871,805	864,209
135,000	JERSEY CENTRAL PWR & LT SR UNSECURED	2/1/2019	7.35%	134,829	169,505
325,000	JERSEY CENTRAL PWR & LT SR UNSECURED	5/1/2016	5.63%	359,164	367,260
1,000,000	JOHN DEERE CAPITAL CORP	1/13/2017	2.00%	1,015,860	1,014,953
250,000	JOHNSON CONTROLS INC	12/1/2016	2.60%	249,873	252,207
500,000	JP MORGAN CHASE BANK NA SUBORDINATED	7/5/2017	6.00%	496,095	536,502
685,000	JP MORGAN CHASE BANK NA SUBORDINATED	10/1/2017	6.00%	761,313	736,858
649,570	JP MORGAN CHASE COMMERCIAL MOR JPMCC 2002 CIB4 A3	5/12/2034	6.16%	653,630	649,878
635,000	JP MORGAN CHASE COMMERCIAL MOR JPMCC 2010 C2 A3 144A	11/15/2043	4.07%	641,348	666,366
400,000	JP MORGAN CHASE COMMERCIAL MOR JPMCC 2011 PLSD A2 144A	11/13/2044	3.37%	399,875	405,806
4,511	JP MORGAN MORTGAGE TRUST JPMMT 2005 A4 2A1	7/25/2035	2.79%	4,422	3,533
500,000	JPMORGAN CHASE & CO SR UNSECURED	1/24/2014	1.22%	504,080	492,432
80,000	JPMORGAN CHASE & CO SR UNSECURED	1/20/2015	3.70%	82,152	82,944
385,000	JPMORGAN CHASE & CO SR UNSECURED	1/15/2018	6.00%	411,182	429,536
200,000	JPMORGAN CHASE & CO SR UNSECURED	7/22/2020	4.40%	200,156	204,243
805,000	JPMORGAN CHASE & CO SR UNSECURED	8/15/2021	4.35%	808,039	812,975

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Underlying Portfolio (continued)						
Fixed income securities (continued)						
400,000	JPMORGAN CHASE & CO SR UNSECURED		8/15/2021	4.35%	$ 393,886	$ 403,963
195,000	KANSAS GAS & ELECTRIC CO 1ST MORTGAGE 144A		6/15/2019	6.70%	197,310	241,756
425,000	KEY BANK NA SUBORDINATED		3/3/2016	5.45%	460,517	457,381
355,000	KIMBERLY CLARK CORP SR UNSECURED		8/1/2017	6.13%	419,521	434,232
400,000	KINDER MORGAN ENER PART SR UNSECURED		2/1/2017	6.00%	451,620	452,710
150,000	KINDER MORGAN ENER PART SR UNSECURED		3/1/2016	3.50%	150,485	155,958
275,000	KRAFT FOODS INC SR UNSECURED		8/23/2018	6.13%	296,620	324,484
350,000	KROGER CO/THE COMPANY GUAR		4/15/2013	5.00%	367,756	366,153
525,000	LAB CORP OF AMER HLDGS SR UNSECURED		5/15/2016	3.13%	540,970	545,359
1,030,000	LB UBS COMMERCIAL MORTGAGE TRU LBUBS 2003 C7 A3		9/15/2027	4.56%	1,056,917	1,035,507
692,097	LB UBS COMMERCIAL MORTGAGE TRU LBUBS 2004 C6 A5		8/15/2029	4.83%	716,861	703,789
185,000	LOCKHEED MARTIN CORP		9/15/2016	2.13%	184,859	185,302
419,000	LOWES COMPANIES INC		11/15/2021	3.80%	419,010	439,916
210,000	LOWES COMPANIES INC		11/15/2021	3.80%	209,847	220,483
85,000	MACQUARIE BANK LTD SUB NOTES 144A		4/7/2021	6.63%	84,834	78,366
535,000	MAGELLAN MIDSTREAM PARTN SR UNSECURED		7/15/2018	3.18%	584,482	640,287
600,000	MANUF & TRADERS TRUST CO SUBORDINATED		4/1/2013	1.87%	584,250	594,031
775,000	MANULIFE FINANCIAL CORP SR UNSECURED		9/17/2015	3.40%	773,869	779,322
140,000	MARATHON PETROLEUM CORP		3/1/2016	3.50%	139,989	142,505
464,000	MASSMUTUAL GLOBAL FUNDIN SR SECURED 144A		7/16/2012	3.63%	463,638	470,961
253	MASTR ADJUSTABLE RATE MORTGAGE MARM 2002 3 B2		10/25/2032	3.18%	256	94
500,000	MELLON FUNDING CORP COMPANY GUAR		5/15/2014	0.61%	494,715	494,346

175,000	MERRILL LYNCH & CO SR UNSECURED	4/25/2018	6.88%	196,112	172,539
225,000	MERRILL LYNCH & CO SR UNSECURED	8/28/2017	6.40%	224,672	217,868
1,015,754	MERRILL LYNCH MORTGAGE TRUST MLMT 2005 CIP1 A2	7/12/2038	4.96%	1,027,975	1,024,962
200,000	MET LIFE GLOB FUNDING I SR SECURED 144A	4/10/2013	5.13%	199,852	208,927
1,000,000	MET LIFE GLOB FUNDING I SR SECURED 144A	6/10/2014	5.13%	1,044,820	1,076,728
750,000	METLIFE INC SR UNSECURED	2/8/2021	4.75%	764,124	811,345
420,000	METLIFE INC SR UNSECURED	2/8/2021	4.75%	424,535	454,353
215,000	MIDAMERICAN ENERGY CO SR UNSECURED	3/15/2018	5.30%	250,587	251,061
825,000	MIDAMERICAN ENERGY HLDGS SR UNSECURED	4/1/2018	5.75%	872,157	952,056
1,405,000	MORGAN STANLEY SR UNSECURED	1/24/2014	2.02%	1,405,000	1,293,207
100,000	MORGAN STANLEY SR UNSECURED	4/29/2016	3.80%	91,697	92,131
125,000	MORGAN STANLEY SR UNSECURED	4/29/2016	3.80%	124,847	115,164
265,000	MORGAN STANLEY SR UNSECURED	4/27/2017	5.55%	275,521	255,675
1,150,000	MORGAN STANLEY SR UNSECURED	4/1/2018	6.63%	1,232,245	1,135,559
400,000	MORGAN STANLEY SR UNSECURED	4/1/2018	6.63%	377,188	394,977
370,000	MORGAN STANLEY SR UNSECURED	7/28/2021	5.50%	344,318	342,115
350,000	MORGAN STANLEY SR UNSECURED	7/28/2021	5.50%	312,892	323,622
210,000	MORGAN STANLEY SR UNSECURED	9/23/2019	5.63%	217,724	194,477
105,000	MORGAN STANLEY SR UNSECURED	12/28/2017	5.95%	102,781	100,037
700,000	NA DEVELOPMENT BANK SR UNSECURED	2/11/2020	4.38%	695,381	786,292
600,000	NATIONAL BANK OF CANADA	10/19/2016	2.20%	599,688	604,967
355,000	NATIONAL CITY BANK SUBORDINATED	6/7/2017	5.80%	372,279	390,815
350,000	NATIONAL RURAL UTIL COOP COLLATERAL T	11/1/2018	10.38%	499,454	503,564

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Face Amount or Number of Shares/Units(c)	Identity of Issue and Description of Investment(b)	Contract Issuer Moody s/ S&P Rating	Maturity Date(c)	Rate of Interest(c)	Investments at Cost(d)	Investments at Current Value(e)
Underlying Portfolio (continued)						
Fixed income securities (continued)						
660,000	NBCUNIVERSAL MEDIA LLC		4/1/2016	2.88%	$ 664,241	$ 672,879
1,000,000	NBCUNIVERSAL MEDIA LLC SR UNSECURED		4/1/2014	2.10%	1,014,160	1,016,475
450,000	NBCUNIVERSAL MEDIA LLC SR UNSECURED		4/30/2020	5.15%	497,849	501,019
450,000	NBCUNIVERSAL MEDIA LLC SR UNSECURED		4/1/2021	4.38%	463,976	474,906
530,000	NCUA GUARANTEED NOTES NGN 2010 C1 A2		10/29/2020	2.90%	525,225	559,580
1,981,958	NCUA GUARANTEED NOTES NGN 2010 C1 APT		10/29/2020	2.65%	1,972,362	2,071,419
220,000	NCUA GUARANTEED NOTES US GOVT GUAR		6/12/2015	1.40%	219,694	222,858
635,000	NCUA GUARANTEED NOTES US GOVT GUAR		6/12/2017	2.35%	634,543	656,450
410,000	NCUA GUARANTEED NOTES US GOVT GUAR		6/12/2019	3.00%	409,565	437,232
1,120,000	NCUA GUARANTEED NOTES US GOVT GUAR		6/12/2021	3.45%	1,115,968	1,206,430
630,000	NELNET STUDENT LOAN TRUST NSLT 2008 3 A4		11/25/2024	2.16%	653,625	644,483
200,000	NEVADA POWER CO GENL REF MOR		8/1/2018	6.50%	234,570	241,178
200,000	NEWS AMERICA INC COMPANY GUAR		2/15/2021	4.50%	206,990	209,702
310,000	ONCOR ELECTRIC DELIVERY SR SECURED		9/30/2017	5.00%	332,822	342,656
400,000	ONEOK PARTNERS LP COMPANY GUAR		3/1/2019	8.63%	509,688	513,475
620,000	ONTARIO (PROVINCE OF) SR UNSECURED		5/10/2016	2.30%	619,370	638,478
485,000	ORACLE CORP SR UNSECURED		4/15/2018	5.75%	582,069	588,540
100,000	PACIFICORP 1ST MORTGAGE		7/15/2018	5.65%	118,660	119,382
115,000	PEPSICO INC SR UNSECURED		11/1/2018	7.90%	153,568	155,258
200,000	PETRO CANADA SR UNSECURED		5/15/2018	6.05%	233,306	235,434
400,000	PFIZER INC SR UNSECURED		3/15/2019	6.20%	489,496	493,563
811,000	PHILIP MORRIS INTL INC SR UNSECURED		5/16/2016	2.50%	832,569	838,602
495,000	PHILIP MORRIS INTL INC SR UNSECURED		5/16/2018	5.65%	560,406	585,497
250,000	PNC BANK NA SUBORDINATED		4/1/2018	6.88%	248,055	283,531

205,000	PNC FUNDING CORP BANK GUARANT	2/1/2017	5.63%	224,197	223,219
90,000	PNC FUNDING CORP BANK GUARANT	11/15/2015	5.25%	96,587	97,888
485,000	PROGRESS ENERGY CAROLINA 1ST MORTGAGE	1/15/2019	5.30%	566,079	567,860
725,000	PROGRESS ENERGY INC SR UNSECURED	1/15/2016	5.63%	809,571	828,154
450,000	PROGRESS ENERGY INC SR UNSECURED	3/15/2019	7.05%	511,533	556,546
625,000	PROGRESS ENERGY INC SR UNSECURED	3/15/2019	7.05%	688,606	772,981
300,000	PROVINCE OF QUEBEC UNSECURED	7/29/2020	3.50%	298,821	321,261
600,000	PRUDENTIAL FINANCIAL INC SR UNSECURED	1/14/2015	3.88%	599,136	621,458
250,000	PRUDENTIAL FINANCIAL INC SR UNSECURED	5/12/2016	3.00%	251,735	249,104
300,000	PRUDENTIAL FINANCIAL INC SR UNSECURED	6/15/2012	5.80%	299,286	304,243
350,000	PRUDENTIAL FINANCIAL INC SR UNSECURED	6/15/2017	6.10%	376,842	384,248
275,000	PRUDENTIAL FINANCIAL INC SR UNSECURED	11/15/2020	4.50%	272,905	276,525
95,000	PSEG POWER LLC	9/15/2016	2.75%	94,759	95,465
1,005,000	PSEG POWER LLC COMPANY GUAR	4/15/2013	2.50%	1,003,884	1,020,887
205,000	PUBLIC SERVICE COLORADO 1ST MORTGAGE	6/1/2019	5.13%	242,755	242,352
270,000	QUEST DIAGNOSTIC INC COMPANY GUAR	7/1/2017	6.40%	319,121	319,340
250,000	REINSURANCE GRP OF AMER SR UNSECURED	3/15/2017	5.63%	247,718	272,081
195,000	REPUBLIC SERVICES INC COMPANY GUAR	5/15/2018	3.80%	204,239	201,990
490,000	RIO TINTO FIN USA LTD	9/20/2021	3.75%	488,746	513,452
335,000	ROCHE HLDGS INC COMPANY GUAR 144A	3/1/2014	5.00%	368,879	362,404
750,000	ROYAL BANK OF CANADA FRN	10/30/2014	1.13%	752,243	747,848

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Schedule H, Line 4i Schedule of Assets (Held at End of Year) (continued)

Face Amount or Number of Shares/Units(c)	Identity of Issue and Description of Investment(b)	Contract Issuer Moody s/ S&P Rating	Maturity Date(c)	Rate of Interest(c)	Investments at Cost(d)	Investments at Current Value(e)
Underlying Portfolio (continued)						
Fixed income securities (continued)						
700,000	ROYAL BANK OF CANADA SENIOR NOTES		7/20/2016	2.30%	$ 712,719	$ 711,581
315,000	SAFEWAY INC SR UNSECURED		8/15/2017	6.35%	363,334	357,156
240,000	SALLIE MAE BK MURRAY UT		12/1/2014	1.40%	240,000	239,044
575,000	SAN DIEGO G & E 1ST MORTGAGE		8/15/2021	3.00%	572,050	591,331
1,000,000	SAN DIEGO GAS & ELECTRIC 1ST MORTGAGE		11/15/2015	5.30%	1,151,790	1,145,848
1,140,000	SANTANDER DRIVE AUTO RECEIVABL SDART 2011 3 A3		4/15/2015	1.23%	1,139,873	1,136,528
1,035,000	SANTANDER DRIVE AUTO RECEIVABL SDART 2011 4 A2		3/16/2015	1.37%	1,034,979	1,034,342
475,000	SANTANDER HOLDINGS USA SR UNSECURED		4/19/2016	4.63%	456,223	456,147
388,079	SBA POOL 508109 SBA		4/25/2019	3.58%	417,185	414,768
362,204	SBA POOL 508346 SBA		4/25/2019	2.58%	376,240	376,392
452,202	SBA POOL 508349 SBA		12/25/2019	3.58%	486,258	480,974
710,771	SBA POOL 508413 SBA		11/25/2019	3.55%	765,856	755,985
966,666	SBA POOL 508531 SBA		2/25/2019	4.33%	1,053,062	1,042,453
1,183,452	SBA POOL 508947 SBA		8/25/2022	1.00%	1,265,554	1,267,779
225,000	SCHLUMBERGER INVESTMENT SER 144A		9/14/2021	3.30%	224,738	231,151
759,581	SCHOLAR FUNDING TRUST SCHOL 2011 A A 144A		10/28/2043	1.32%	744,589	738,038
550,000	SCRIPPS NETWORKS INTERAC		12/15/2016	2.70%	547,003	550,292
180,000	SEARIVER MARITIME INC COMPANY GUAR		9/1/2012	0.01%	175,770	178,718
231	SEQUOIA MORTGAGE TRUST SEMT 2004 7 A1		8/20/2034	1.75%	235	208
190,000	SHELL INTERNATIONAL FIN COMPANY GUAR		6/28/2015	3.10%	194,237	203,707
1,000,000	SHERWIN WILLIAMS CO SR UNSECURED		12/15/2014	3.13%	1,058,360	1,053,727
525,000	SIMON PROPERTY GROUP LP		12/1/2021	4.13%	538,163	548,976
350,000	SIMON PROPERTY GROUP LP SR UNSECURED		2/1/2020	5.65%	348,674	401,120
276,450	SLM STUDENT LN TR SER 2003 10 144A CL A 1E		12/15/2016	0.01%	276,364	276,364
50,000	SLM STUDENT LOAN TRUST SLMA 2003 10A A1C 144A		12/15/2016	0.01%	49,992	49,984
50,000	SLM STUDENT LOAN TRUST SLMA 2003 10A A1D 144A		12/15/2016	5.65%	50,000	49,984

810,000	SLM STUDENT LOAN TRUST SLMA 2008 5 A4	7/25/2023	2.12%	810,000	831,282
2,043,662	SLM STUDENT LOAN TRUST SLMA 2010 1 A	3/25/2025	0.69%	2,043,662	2,024,060
80,101	SMALL BUSINESS ADMINISTRATION SBAP 1998 20F 1	6/1/2018	6.30%	80,446	87,525
207,094	SMALL BUSINESS ADMINISTRATION SBIC 2004 P10B 1	8/10/2014	4.75%	207,094	219,149
800,000	SOUTHERN CO SR UNSECURED	9/1/2016	1.95%	798,784	807,550
485,000	STATOIL ASA COMPANY GUAR	4/15/2019	5.25%	538,507	561,264
580,000	STHRN CALIFORNIA ST PUBLIC PWR STNPWR	5/15/2017	6.93%	708,186	732,650
300,000	STRIP PRINC	5/15/2021	0.10%	174,837	251,779
400,000	SUNTRUST BANKS INC SR UNSECURED	4/15/2016	3.60%	401,535	407,335
400,000	SVB FINANCIAL GROUP SR UNSECURED	9/15/2020	5.38%	397,200	409,792
310,000	SWISS RE SOLUTIONS SR UNSECURED	3/1/2019	6.45%	328,756	347,165
250,000	TAMPA ELEC CO	5/15/2021	5.40%	279,210	292,578
205,000	TCI COMMUNICATIONS INC SR UNSECURED	8/1/2015	8.75%	263,310	249,037
570,000	TECK RESOURCES LIMITED COMPANY GUAR	1/15/2021	4.50%	591,158	595,241
500,000	TELEFONICA EMISIONES SAU COMPANY GUAR	6/20/2016	6.42%	500,000	523,247
275,000	TELEFONICA EMISIONES SAU COMPANY GUAR	7/15/2019	5.88%	275,000	271,774
330,000	TELEFONOS DE MEXICO SAB SR UNSECURED	11/15/2019	5.50%	329,119	364,905
225,000	TESCO PLC	12/5/2014	2.00%	224,766	227,350
900,000	TEVA PHARM FIN IV BV	11/10/2021	3.65%	887,409	915,422

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Schedule H, Line 4i Schedule of Assets (Held at End of Year) (continued)

Face Amount or Number of Shares/Units(c)	Identity of Issue and Description of Investment(b)	Contract Issuer Moody s/ S&P Rating	Maturity Date(c)	Rate of Interest(c)	Investments at Cost(d)	Investments at Current Value(e)
Underlying Portfolio (continued)						
Fixed income securities (continued)						
405,000	TEVA PHARMA FIN II III		6/15/2015	3.00%	$ 409,617	$ 421,751
900,000	TEVA PHARMA FIN II III		6/15/2015	3.00%	934,911	937,225
565,000	TEVA PHARMACEUT FIN BV		11/10/2021	3.65%	562,938	574,681
990,000	TIME WARNER CABLE INC COMPANY GUAR		7/1/2013	6.20%	1,034,365	1,062,334
575,000	TIME WARNER CABLE INC COMPANY GUAR		7/1/2018	6.75%	676,172	682,936
700,000	TORONTO DOMINION BANK		10/19/2016	2.38%	705,411	712,313
800,000	TOYOTA MOTOR CREDIT CORP SR UNSECURED		1/9/2012	3.89%	798,728	800,417
800,000	TOYOTA MOTOR CREDIT CORP SR UNSECURED		1/15/2014	0.65%	793,432	794,304
110,000	TOYOTA MOTOR CREDIT CORP SR UNSECURED		6/17/2015	3.20%	112,796	115,700
225,000	TRANSATLANTIC HOLDINGS SR UNSECURED		12/14/2015	5.75%	240,368	237,650
175,000	TRANSOCEAN INC SR NT		3/15/2018	6.00%	189,028	178,854
5	TSY INFL IX N/B		1/15/2021	1.13%	5	6
1,569,214	TSY INFL IX N/B		2/15/2041	2.13%	2,035,056	2,119,542
5,379,098	TSY INFL IX N/B		4/15/2012	2.00%	5,477,767	5,402,632
3,468,864	TSY INFL IX N/B		4/15/2016	0.13%	3,622,055	3,616,291
493,184	TSY INFL IX N/B		7/15/2013	1.88%	516,866	515,724
1,662,029	TSY INFL IX N/B		7/15/2021	0.63%	1,764,971	1,777,982
145,000	TURNER BROADCASTING COMPANY GUAR		7/1/2013	8.38%	133,400	159,762
690,000	U S BANCORP MTN BK ENT		11/15/2016	2.20%	697,487	696,630
375,000	UBS AG STAMFORD CT SR UNSECURED		4/25/2018	5.75%	425,749	388,528
450,000	UBS AG STAMFORD CT SUBORDINATED		7/15/2016	5.88%	491,958	448,173
200,000	UDR INC COMPANY GUAR		6/1/2018	4.25%	197,976	206,877
625,000	UNION BANK NA SR UNSECURED		6/6/2016	3.00%	626,181	629,144
150,000	UNION ELECTRIC CO SR SECURED		2/1/2019	6.70%	184,199	182,226
165,000	UNION ELECTRIC CO SR SECURED		4/1/2018	6.00%	164,502	194,798
245,000	UNION PACIFIC CORP SR UNSECURED		2/15/2020	6.13%	296,448	299,906
335,000	UNIONBANCAL CORPORATION SUBORDINATED		12/16/2013	5.25%	358,001	344,669
110,000	UNITEDHEALTH GROUP INC		11/15/2021	3.38%	109,416	113,767
1,000,000	UNITEDHEALTH GROUP INC SR UNSECURED		2/10/2014	4.75%	1,074,820	1,071,494

350,000	UNIVERSAL CITY DEVELOPMT COMPANY GUAR	11/15/2016	10.88%	409,063	423,500
1,385,000	US TREASURY N/B	1/31/2013	0.63%	1,382,565	1,391,763
1,700,000	US TREASURY N/B	1/15/2013	1.38%	1,723,109	1,721,117
1,030,000	US TREASURY N/B	1/31/2014	1.75%	1,026,818	1,061,463
3,000,000	US TREASURY N/B	2/29/2012	0.88%	3,011,494	3,003,984
4,635,000	US TREASURY N/B	2/28/2013	0.63%	4,658,831	4,659,079
3,445,000	US TREASURY N/B	2/15/2013	1.38%	3,502,845	3,490,887
2,655,000	US TREASURY N/B	2/28/2015	2.38%	2,727,577	2,816,997
1,720,000	US TREASURY N/B	2/15/2017	4.63%	2,005,761	2,041,023
490,000	US TREASURY N/B	2/15/2020	3.63%	497,760	568,285
2,370,000	US TREASURY N/B	2/15/2027	6.27%	3,572,198	3,646,838
1,085,000	US TREASURY N/B	2/15/2036	4.50%	1,244,769	1,419,824
100,000	US TREASURY N/B	2/15/2041	4.75%	133,641	137,813
3,000,000	US TREASURY N/B	3/31/2012	1.00%	3,015,433	3,006,915
700,000	US TREASURY N/B	3/15/2014	1.25%	714,629	714,820
2,320,000	US TREASURY N/B	3/31/2017	3.25%	2,564,312	2,597,676

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Schedule H, Line 4i Schedule of Assets (Held at End of Year) (continued)

Face Amount or Number of Shares/Units(c)	Identity of Issue and Description of Investment(b)	Contract Issuer Moody s/ S&P Rating	Maturity Date(c)	Rate of Interest(c)	Investments at Cost(d)	Investments at Current Value(e)
Underlying Portfolio (continued)						
Fixed income securities (continued)						
685,000	US TREASURY N/B		4/30/2016	2.00%	$ 723,095	$ 723,318
920,000	US TREASURY N/B		4/30/2017	3.13%	996,958	1,024,650
815,000	US TREASURY N/B		5/31/2012	0.75%	818,405	817,356
490,000	US TREASURY N/B		5/31/2013	0.50%	491,243	492,067
835,000	US TREASURY N/B		5/31/2015	2.13%	869,900	881,512
2,230,000	US TREASURY N/B		5/31/2017	2.75%	2,388,906	2,440,630
600,000	US TREASURY N/B		5/15/2017	4.50%	712,617	711,610
670,000	US TREASURY N/B		5/31/2018	2.38%	713,629	718,470
525,000	US TREASURY N/B		5/15/2018	3.88%	552,152	612,363
1,730,000	US TREASURY N/B		5/15/2019	3.13%	1,898,063	1,939,763
4,745,000	US TREASURY N/B		5/15/2020	3.50%	5,071,932	5,458,605
4,600,000	US TREASURY N/B		5/15/2021	3.13%	5,030,379	5,136,185
860,000	US TREASURY N/B		5/15/2021	3.13%	945,563	960,243
2,625,000	US TREASURY N/B		6/30/2012	0.63%	2,632,529	2,632,279
1,200,000	US TREASURY N/B		6/15/2013	1.13%	1,211,484	1,215,797
3,215,000	US TREASURY N/B		6/15/2014	0.75%	3,248,783	3,249,912
1,465,000	US TREASURY N/B		6/30/2016	1.50%	1,480,287	1,515,017
1,090,000	US TREASURY N/B		6/30/2017	2.50%	1,173,649	1,178,818
645,000	US TREASURY N/B		6/30/2018	2.38%	678,661	691,157
1,900,000	US TREASURY N/B		6/30/2018	2.38%	2,028,398	2,035,968
4,000,000	US TREASURY N/B		7/31/2012	0.63%	4,014,688	4,012,344
7,100,000	US TREASURY N/B		7/31/2013	0.38%	7,102,867	7,116,919
5,000,000	US TREASURY N/B		7/15/2014	0.63%	4,969,816	5,038,670
4,700,000	US TREASURY N/B		7/31/2016	1.50%	4,690,169	4,858,992
1,615,000	US TREASURY N/B		7/31/2016	1.50%	1,654,153	1,669,632
615,000	US TREASURY N/B		7/31/2017	2.38%	608,273	660,981
11,675,000	US TREASURY N/B		7/31/2018	2.25%	12,098,714	12,417,460
330,000	US TREASURY N/B		8/15/2013	0.75%	329,639	332,746
900,000	US TREASURY N/B		8/31/2014	2.38%	949,500	948,094
3,275,000	US TREASURY N/B		8/31/2016	1.00%	3,297,765	3,310,822
600,000	US TREASURY N/B		8/31/2017	1.88%	626,039	627,985
785,000	US TREASURY N/B		8/15/2017	8.88%	1,110,902	1,123,592
3,400,000	US TREASURY N/B		8/15/2019	3.63%	3,854,505	3,937,890
500,000	US TREASURY N/B		8/15/2021	2.13%	504,297	512,813
760,000	US TREASURY N/B		8/15/2040	3.88%	823,630	911,050
145,000	US TREASURY N/B		8/15/2041	3.75%	168,404	170,534
240,000	US TREASURY N/B		9/15/2014	0.25%	239,738	239,400
4,605,000	US TREASURY N/B		9/30/2016	1.00%	4,611,631	4,652,487
300,000	US TREASURY N/B		9/30/2016	1.00%	301,508	303,094
6,235,000	US TREASURY N/B		10/31/2012	0.38%	6,210,776	6,247,420
15,300,000	US TREASURY N/B		10/31/2013	0.25%	15,306,681	15,302,387

9,600,000	US TREASURY N/B	10/31/2013	0.25%	9,593,859	9,602,062
7,035,000	US TREASURY N/B	10/31/2013	0.25%	7,036,112	7,036,097
1,400,000	US TREASURY N/B	10/31/2013	2.75%	1,466,719	1,463,382
870,000	US TREASURY N/B	10/31/2014	2.38%	915,293	919,005

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Face Amount or Number of Shares/Units(c)	Identity of Issue and Description of Investment(b)	Contract Issuer Moody s/ S&P Rating	Maturity Date(c)	Rate of Interest(c)	Investments at Cost(d)	Investments at Current Value(e)
Underlying Portfolio (continued)						
Fixed income securities (continued)						
4,775,000	US TREASURY N/B		10/31/2015	1.25%	$ 4,889,142	$ 4,897,359
1,020,000	US TREASURY N/B		10/31/2017	1.88%	1,062,752	1,066,458
1,570,000	US TREASURY N/B		11/15/2012	1.38%	1,589,625	1,586,742
34,500,000	US TREASURY N/B		11/30/2013	0.25%	34,497,047	34,504,037
17,500,000	US TREASURY N/B		11/30/2013	0.25%	17,501,637	17,502,048
1,665,000	US TREASURY N/B		11/30/2013	0.25%	1,664,715	1,665,195
33,505,000	US TREASURY N/B		11/15/2014	0.38%	33,489,703	33,525,941
22,900,000	US TREASURY N/B		11/15/2014	0.38%	22,904,995	22,914,313
5,495,000	US TREASURY N/B		11/15/2014	0.38%	5,490,884	5,498,434
3,000,000	US TREASURY N/B		11/30/2014	2.13%	3,155,977	3,150,936
755,000	US TREASURY N/B		11/30/2015	1.38%	746,597	778,004
15,474,000	US TREASURY N/B		11/30/2016	0.88%	15,437,175	15,521,149
20,900,000	US TREASURY N/B		11/30/2016	0.88%	20,905,215	20,963,682
3,140,000	US TREASURY N/B		11/30/2016	0.88%	3,129,568	3,149,568
130,000	US TREASURY N/B		11/15/2016	4.63%	144,890	153,522
575,000	US TREASURY N/B		11/15/2017	4.25%	679,354	679,174
12,645,000	US TREASURY N/B		11/30/2018	1.38%	12,581,155	12,688,474
1,655,000	US TREASURY N/B		11/15/2018	3.75%	1,764,361	1,925,359
825,000	US TREASURY N/B		11/15/2019	3.38%	931,928	940,436
7,285,000	US TREASURY N/B		11/15/2021	2.00%	7,319,492	7,368,093
525,000	US TREASURY N/B		11/15/2021	2.00%	529,064	530,988
500,000	US TREASURY N/B		11/15/2021	8.00%	775,508	781,485
1,375,000	US TREASURY N/B		11/15/2026	6.50%	2,018,672	2,086,134
1,510,000	US TREASURY N/B		11/15/2041	3.13%	1,546,041	1,581,961
1,095,000	US TREASURY N/B		12/31/2012	0.63%	1,095,426	1,100,133
3,200,000	US TREASURY N/B		12/15/2013	0.75%	3,231,250	3,230,874
1,380,000	US TREASURY N/B		12/31/2015	2.13%	1,389,451	1,463,663
670,000	US TREASURY N/B		12/31/2016	0.88%	668,822	671,204
820,000	US TREASURY N/B		12/31/2016	3.25%	889,578	915,581
500,000	VALE OVERSEAS LIMITED COMPANY GUAR		9/15/2020	4.63%	513,750	517,052
350,000	VALERO ENERGY CORP COMPANY GUAR		2/1/2015	4.50%	352,937	374,472
175,000	VALERO ENERGY CORP COMPANY GUAR		6/15/2017	6.13%	196,919	195,411
20,000	VANGUARD TOTAL BOND MARKET ETF VANGUARD			0.00%	1,574,212	1,670,800
760,000	VERIZON COMMUNICATIONS		11/1/2021	3.50%	770,556	791,253
235,000	VERIZON COMMUNICATIONS SR UNSECURED		3/28/2014	1.95%	234,687	239,854
1,000,000			3/28/2014	1.18%	1,005,360	998,707

	VERIZON COMMUNICATIONS SR UNSECURED				
250,000	VERIZON COMMUNICATIONS SR UNSECURED	4/15/2018	6.10%	296,115	300,341
245,000	VIRGINIA ELEC & POWER CO SR UNSECURED	9/15/2017	5.95%	283,120	294,836
160,000	VODAFONE GROUP PLC SR UNSECURED	1/30/2015	5.38%	176,648	177,333
185,000	VODAFONE GROUP PLC SR UNSECURED	2/27/2017	5.63%	213,838	214,810
865,000	VODAFONE GROUP PLC SR UNSECURED	6/10/2014	4.15%	864,420	917,172
100,000	WACHOVIA BANK COMMERCIAL MORTG WBCMT 2005 C17 AJ	3/15/2042	5.22%	101,168	95,070
731,118	WACHOVIA BANK COMMERCIAL MORTG WBCMT 2005 C20 A6A	7/15/2042	5.11%	739,457	740,711
495,000	WACHOVIA CORP SR UNSECURED	2/1/2018	5.75%	564,666	562,331

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Target Corporation 401(k) Plan

EIN: 41-0215170 Plan Number: 002

Schedule H, Line 4i Schedule of Assets (Held at End of Year) (continued)

Face Amount or Number of Shares/Units(c)	Identity of Issue and Description of Investment(b)	Contract Issuer Moody s/ S&P Rating	Maturity Date(c)	Rate of Interest(c)	Investments at Cost(d)	Investments at Current Value(e)
Underlying Portfolio (continued)						
Fixed income securities (continued)						
400,000	WALT DISNEY COMPANY/THE SR UNSECURED		8/16/2016	1.35%	$ 397,836	$ 401,107
400,000	WALT DISNEY COMPANY/THE SR UNSECURED		8/16/2021	2.75%	404,028	407,362
4,502	WASHINGTON MUTUAL MSC MORTGAGE WAMMS 2003 AR1 1A		2/25/2033	2.32%	4,576	3,976
385,000	WEATHERFORD BERMUDA COMPANY GUAR		3/1/2019	9.63%	500,238	497,917
180,000	WELLPOINT INC SR UNSECURED		8/1/2012	6.80%	182,727	186,128
155,000	WELLPOINT INC SR UNSECURED		8/15/2021	3.70%	154,820	159,292
700,000	WELLS FARGO BANK NA SUBORDINATED 05/16 VAR		5/16/2016	0.67%	654,997	615,332
300,000	WI TREASURY N/B		10/31/2016	1.00%	298,858	302,906
4,675,000	WI TREASURY N/B		10/31/2018	1.75%	4,775,889	4,811,599
1,300,000	WI TREASURY N/B		10/31/2018	1.75%	1,330,068	1,337,985
700,000	WI TREASURY N/B		10/31/2018	1.75%	713,088	720,453
3,600,000	WI TREASURY N/B		12/15/2014	0.25%	3,587,075	3,588,188
160,000	XSTRATA CANADA CORP COMPANY GUAR		7/15/2012	7.25%	169,981	164,821
595,000	XSTRATA CANADA FIN CORP		11/10/2014	2.85%	594,441	598,039
550,000	XYLEM INC		9/20/2016	3.55%	558,205	565,920
75,000	XYLEM INC		9/20/2016	3.55%	74,857	77,171
Investment companies						
35,170	ISHARES BARCLAYS AGGREGATE BON ISHARES BARCLAYS AGGREGATE			0.00%	3,567,017	3,877,493
3,500	ISHARES BARCLAYS MBS BOND FUND ISHARES BARCLAYS MBS BOND FD			0.00%	358,688	378,245
Futures contracts						
4,000,000	10YR US TREASURY NOTE FUTURES XCBT		3/21/2012			
8,000,000	5YR US TREASURY NOTE FUTURES XCBT		3/30/2012			
(2,600,000)	2YR US TREASURY NOTE FUTURES XCBT		3/30/2012			
(4,200,000)	30YR US TREASURY BOND FUTURES XCBT		3/21/2012			
(4,100,000)			3/21/2012			

	ULTRA LONG US TREAS BOND FTRS XCBT	
(500,000)	90DAY EURODOLLAR FUTURES CME XCME	6/17/2013
(500,000)	90DAY EURODOLLAR FUTURES CME XCME	12/17/2012
(250,000)	90DAY EURODOLLAR FUTURES CME XCME	6/18/2012
(1,000,000)	90DAY EURODOLLAR FUTURES CME XCME	3/19/2012
(1,750,000)	90DAY EURODOLLAR FUTURES CME XCME	3/18/2013
15,300,000	10YR US TREASURY NOTE FUTURES XCBT	3/21/2012
1,700,000	5YR US TREASURY NOTE FUTURES XCBT	3/30/2012
(2,200,000)	2YR US TREASURY NOTE FUTURES XCBT	3/30/2012
2,200,000	30YR US TREASURY BOND FUTURES XCBT	3/21/2012
100,000	ULTRA LONG US TREAS BOND FTRS XCBT	3/21/2012
(35,000,000)	90DAY EURODOLLAR FUTURES CME XCME	6/18/2012
(15,000,000)	90DAY EURODOLLAR FUTURES CME XCME	9/17/2012
(9,250,000)	90DAY EURODOLLAR FUTURES CME XCME	3/19/2012
32,600,000	2YR US TREASURY NOTE FUTURES XCBT	3/30/2012
1,400,000	30YR US TREASURY BOND FUTURES XCBT	3/21/2012
12,100,000	10YR INTEREST RATE SWAP FUTURE XCBT	3/19/2012
17,300,000	5YR INTERST RATE SWAP FUTURES XCBT	3/19/2012

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Target Corporation 401(k) Plan

EIN: 41-0215170 Plan Number: 002

Schedule H, Line 4i Schedule of Assets (Held at End of Year) (continued)

Face Amount or Number of Shares/Units(c)	Identity of Issue and Description of Investment(b)	Contract Issuer Moody s/ S&P Rating	Maturity Date(c)	Rate of Interest(c)	Investments at Cost(d)	Investments at Current Value(e)
Underlying Portfolio (continued)						
Interest rate swaps						
2,300,000	GR234917 IRS USD R V 03MLIBOR 1 VANILLA		6/20/2017	1.00%	$ (31,062)	$ (39,840)
2,300,000	GR236234 IRS USD R V 03MLIBOR 1 VANILLA		6/20/2017	1.00%	(33,115)	(34,328)
1,700,000	GR236447 IRS USD R V 03MLIBOR 1 VANILLA		6/20/2019	1.00%	(15,682)	(23,819)
1,000,000	GR239049 IRS USD R V 03MLIBOR 1 VANILLA		6/20/2042	1.00%	(9,085)	(20,346)
Cash and cash equivalents						
37,203,796	STATE STREET BANK + TRUST CO SHORT TERM INVESTMENT FUND		12/31/2030	11.18%	37,203,796	37,203,796
	Total Synthetic Guaranteed Investment Contracts				683,920,865	691,236,227
Stable Value Fund						
Synthetic Guaranteed Investment Contracts						
Collective Trust Funds						
1,731,389	WELLS FARGO SYNTHETIC STABLE VALUE FUND		n/a	2.91%	20,000,000	37,942,984
3,903,761	WELLS FARGO STABLE RETURN FUND G		n/a	2.33%	190,232,508	196,253,658
	Total Collective Trust Funds				210,232,508	234,196,642
	Total Stable Value Fund				894,153,373	925,432,869
	Total Investments				$ 4,640,921,402	$ 5,247,984,413
Participant Loans						$ 119,505,402
						$ 5,367,489,815

*Indicates a party-in-interest to the Plan.

The sum of the amounts in the columns may not equal the total amounts due to rounding.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on their behalf by the undersigned hereunto duly authorized.

TARGET CORPORATION 401(K) PLAN

Date: June 27, 2012

By /s/ John J. Mulligan
John J. Mulligan
Chief Financial Officer,
On behalf of Target Corporation as Plan Administrator