Summary of Sturm Ruger and American Outdoor Brands Gun Safety Reports

April, 2019
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General comment about the reports and the process:

Reports on gun safety were provided to shareholders as a result of 2019 shareholder resolutions that received majority support at both Sturm Ruger (RGR) and American Outdoor Brands Company (AOBC). In filing the resolutions, proponents sought to understand what role the gun makers could play in curbing gun violence and promoting gun safety. Specifically the resolution asked the companies to report on the following:

- Evidence of monitoring of violent events associated with products produced by the company.
- Efforts underway to research and produce safer guns and gun products.
- Assessment of the corporate reputational and financial risks related to gun violence in the U.S.

Both Sturm Ruger and AOBC produced reports by the 2/8 deadline, made them public on their websites.

Of the two companies, only AOBC connected via email with shareholders to ask questions during the preparation of the report. While general practice in response to a shareholder-requested report is ongoing dialogue during its preparation, either by phone or in person, to ensure the company is clear about investor expectations (see Wells Fargo Business Standards Review – page 6), offers to dialogue were rebuffed by AOBC and Sturm Ruger did not correspond with, or reach out at all to the proponents before publishing its report. Failure by both companies to authentically engage with their investors is a serious concern. In a March 2018 letter to investors, Sturm Ruger CEO Christopher Killroy claimed meeting investors would raise “Regulation FD” fair disclosure issues. A Vanguard spokeswoman rejected that claim as inaccurate. In an email to the Reuters news service, she explained that Vanguard “has had 1000+ engagements with public portfolio companies over the past year alone (hundreds of these discussions have included members of the board), all without raising Reg. FD concerns.”

AOBC created its “Principles for Responsible Engagement”, a document that establishes allegiance to the 2nd amendment as a requisite for shareholder engagement and further states that: AOBC will remain focused on the manufacture and distribution of firearms that meet market needs and will not sacrifice shareholder value in pursuit of technologies or products that destroy shareholder value or that serve only the purpose of advancing the agendas of third-parties who do not otherwise agree with these Principles.

The reports provided little to no new information in terms of explorations into safer product offerings or oversight systems to mitigate the serious public safety risks presented by their products. In fact, both manufacturers seemed more focused on denying any responsibility for the harm caused by their products and perhaps most revealing, used their fear of retaliation from the NRA and 2nd amendment activists as an excuse for not authentically exploring solutions to gun violence. This stubborn refusal to consider new ideas and ways of doing business is a troubling theme that runs through both reports.

Both companies went to great lengths to characterize the proponents of the resolutions as gun control activists despite the fact that great effort was taken to confine the report to discussions around progress on gun safety measures, and to avoid discussions about second amendment rights and gun control policies. And while the companies focused on the fact that proponents were minority shareholders, they barely acknowledged the fact that a majority of their shareholders – all of them serious investors and
many of them fiduciaries responsible for voting the proxies of thousands of clients - supported the resolution on the grounds that it surfaced legitimate governance concerns.

**Sturm Ruger Report**

**American Outdoor Brands Company Report**

**I. Monitoring of violent events**

Investors have argued that while currently laws may exist that shield gun makers from direct liability when their products are used in violent events, given their lethality and the outsized risk of misuse, they should see it as their corporate responsibility to track downstream use of their products with an eye to mitigating the risks of societal harm. Recent mass shooting events should make clear the importance of both registration and tracking. Importantly, the term “corporate responsibility” was not fully grasped by the companies: They both preferred to invoke PLCAA, protection from product liability, as a shield rather than own their responsibility for the societal impacts of their products.

The companies had different ways of interpreting what was a fairly straightforward question about tracking.

**Ruger’s Response:**

- Monitoring criminal events involving our products is not feasible and, assuming it could be accomplished, any action by manufacturers could impede law enforcement investigations: *The notion that we should monitor and react also overlooks the very real possibility that such an effort would impede law enforcement investigations. As described more fully below, we believe that the best way to address “violent events” associated with the criminal misuse of firearms is through enforcement of existing laws by the law enforcement agencies and departments tasked with that responsibility.*

- Ruger does not have visibility through the distribution channel: *While we know the distributor to whom we ship a particular firearm, we generally do not know how the distributor disposed of it. Similarly, we do not receive information from retailers regarding the ultimate consumer who purchases the firearm. Thus, we do not have access to the data necessary to track individual firearms through the distribution channel and “monitoring” is not possible.*

**AOBC’s Response:**

- AOBC understands the theory behind this request to be that the harm resulting largely from criminal and intentional firearm misuse is sufficiently “brand focused” as to create reputational and financial risks for the Company:

  *The 12-month retrospective monitoring demonstrated that the conversation around firearm-related violence in the United States is largely an unbranded conversation, with Smith & Wesson brands accounting for less than 1% of all monitored media mentions related to firearms and crime.*
To ensure that monitoring serves shareholders’ interests, which are the basis for the Resolution, AOBC sought to define the purposes for which monitoring might be used to not only enhance shareholder value, but also to reduce hostility to firearms and increase responsible firearm ownership.

Monitoring would identify loss of support for Smith & Wesson among its core constituencies, specifically firearm owners and other Second Amendment advocates.

**Conclusion:** Why more robust tracking of the downstream use of lethal weapons sold to the public is not feasible remains unclear as does how this tracking would interfere with law enforcement investigations. AOBC further misunderstood or misinterpreted the “theory behind the request” conflating it with another question focused on reputational risk. Monitoring of violent events involving weapons sold to the public literally means tracking when/how AOBC products are misused with an eye to uncovering gaps in supply chain management and opportunities to provide more robust oversight of sales/distribution channels. Investors’ recent engagements with opioid manufacturers and distributors provide an example of voluntary enhanced monitoring to mitigate potential misuse. Multinational companies exposed to human rights risks via their extensive global supply chains accept their corporate responsibility to adopt policies and supplier codes of conduct to respect human rights and prevent abuses, above and beyond what may strictly be required by law. These are examples both of enhanced oversight and corporate responsibility.

**II. Efforts underway to research and produce safer guns and gun products**

Both companies responded similarly to this question, i.e., they contend that smart gun technology doesn’t currently exist, and is not worth the additional investment it would require to bring a viable safe gun product to market. A further common argument both companies made is that a significant appetite for smart guns does not exist among current customers. This argument sets up a false dichotomy between customers and individuals who support gun violence reduction measures. Most gun owners support reasonable policies and practices that prevent dangerous individuals from buying guns. For example, a recent Quinnipiac poll found that 87% of gun owners support background checks on all firearm sales, meaning that a buyer must successfully complete a background check not only when buying from a licensed dealer, but also from a private seller.

As AOBC asked for more clarity around this point, we had the opportunity to provide further clarification:

a. Report on research to make guns more secure and easier to trace including state-of-the-art locks, safes and tracking devices;
b. How AOBC explores and identifies opportunities in safe gun innovations including partnerships and business relationships with companies already pioneering this work;
c. Efforts to make AOBC products incompatible with accessories like bump stocks and trigger cranks that convert semi-automatic weapons into automatic weapons;
d. How AOBC measures the relative safety for civilian use of the weapons in its portfolio. What data informs the decision-making process regarding which products in the portfolio are deemed safe enough for civilian use? How are these factors taken into account in the development of marketing and distribution programs?
Many arguments against smart guns were consistent across both companies and included the following key points:

- Both put onus for safety on gun owners. AOBC emphasizes that a “continued emphasis” on safe firearm efforts will result in decreased criminal and accidental misuse.
- Both highlighted the safety features they have created for their products, whether they be mechanical enhancements, instructions or safe storage devices.
- Both talk about the safety education they develop/support. Both specifically mention the NSSF resources.
- Both talk about their support of Fix NICS.
- Both talk about their support of suicide prevention – and the toolkit created in partnership (NSSF and AFSP).
- Both oppose legislation that would mandate the sale, use, manufacture of smart gun technology (reference to the NJ legislation).
- Both cite a 2013 (6-year old) poll by the NSSF on consumer interest that doesn’t support developing these smart guns.
- R & D investment required to develop this tech is seen as cost prohibitive by both companies.
- Premium cost at retail is cited as a negative factor in appealing to their current customer base. Note that estimates are that safe guns might cost between $100-200 more.
- Both say Biometric and RFID technology increases the risk of malfunction for a variety of reasons (gloves or greasy hands, battery failure, etc.).
- AOBC indicated it will “continue to regularly assess the market for authorized user, or “smart gun” technology”.

Conclusion: Absent from both reports are discussions that acknowledge the possibility that advancing safety technology could improve the companies’ financial futures. Sturm Ruger and AOBC’s total rejection of smart gun technology is shortsighted and criticism of the technology focuses primarily on the possibility that the guns will fail when the user needs it for self-defense. However, the companies fail to explain how smart guns are any riskier in self-defense situations than the safe storage protocols they support and that are proven to save lives. Furthermore, gun purchasers seeking firearms for sports shooting may care more about restricting unauthorized access than they do about self-defense.

The companies’ claim that there is no viable commercial market for guns with authorized user technology is based on an old 2013 NSSF survey. The NSSF survey was not designed to be a marketing study, and included only one question that gave any description of the technology. Not only was that description extremely general and limited, it was given only as part of a question about survey respondents’ perceptions of the reliability of those products. That same question included an unqualified statement regarding battery power that could suggest the technology could fail. RGR also argues that the cost of a smart gun would be prohibitive to most consumers. Yet it is frequently the case that products with advanced technology are, at first, attractive mainly to those who are willing to spend more, until that technology becomes less expensive to produce.
III. Reputational and Financial Risks Related to Gun Violence

The companies made it clear in their communications and these reports that they a) are aware of and disclose their most significant legal, financial and reputational risks and b) consider “gun control activists”, including shareholder proponents, to be their biggest reputational risk.

Ruger’s Response:

Implicit in the request that we assess reputational risks is the notion that law-abiding firearms manufacturers are responsible for “gun violence” and therefore at risk of having their reputations tarnished by the criminal misuse of their products. As an initial matter, we do not agree with this underlying premise.

- We already disclose via our 10-K: As we disclose in our filings with the SEC, the Company faces a variety of material risks that may not be obvious to all shareholders. Among these are: (1) the risk of litigation; (2) the risk of additional regulation; and (3) fluctuations in consumer demand. The Company does not believe that “gun violence” presents any material financial risks different from those already disclosed.

- Improving our reputation with certain stakeholders, puts us at risk with others: One of the most significant risks to the Company is the risk of ruining our reputation with loyal, law-abiding consumers. We could easily make this risk a reality by succumbing to political pressure to do what is politically expedient and taking actions or positions that are contrary to the deeply held beliefs and values of these responsible consumers. For example, some have called upon firearms manufacturers to stop producing modern sporting rifles (assault-style semi-automatic weapons). While doing so may be viewed positively by some stakeholders, it will certainly be viewed negatively by others, including specifically the responsible gun owners who lawfully use and enjoy these rifles in a variety of shooting disciplines.

AOBC’s Response:

Investors are aware that firearm manufacturers present a unique, but well-known, risk because both globally and in the United States, a substantial and organized opposition seeks to ban the private ownership of firearms.

- The 2nd amendment is our social license: Proponent has used the term “license to operate” to suggest that specific action by AOBC is necessary to reduce the criminal and intentional misuse of firearms in the United States, and other perceived risks of its business. First, AOBC’s license to operate is rooted in the Second Amendment and its customers’ defense of their rights against a hostile and organized opposition.

- Gun violence hasn’t presented financial or reputational risks to our business: AOBC has not seen any meaningful increase in the Company’s operating, capital, or regulatory costs as a result of firearm-related violence. In fact, [customers] are more inclined to support greater citizen access to firearms to prevent these tragedies. That is why, since the Obama era, there has been no correlation between publicized shootings involving AOBC products and a sustained decline in the Company’s revenues, profits, or stock price.
Our biggest reputational risk is being seen as “caving in” to gun control activists: If anything, experience has taught that the very actions Proponent suggests AOBC employ to mitigate risk are the ones that would cause the greatest reputational and financial harm to AOBC. Even the perception among the Company’s customers that AOBC is undermining their Second Amendment rights would cause immediate and possibly irreparable damage, as it did 19 years ago.

Diversification of risk through non-firearm business: A serious flaw in Proponent’s approach and reflected in the Resolution is the view that risk mitigation is solely a function of addressing risks to the continued sales of firearms. Such an approach takes far too narrow a view of AOBC’s business and ignores the substantial growth in its non-firearms business.

Compliance with federal regulation reduces risk: Participating in one of the most heavily regulated industries poses compliance risks but also acts as a risk mitigation factor. These laws and regulations are designed for various purposes including, among others, preventing the illegal sale and use of firearms and ensuring that firearms are sold to law abiding persons and agencies.

Conclusion: We would argue that in fact a fast-changing legal and policy landscape is the industry’s largest threat. After the Parkland massacre, state legislatures passed 69 gun control measures. Moreover, 90 percent of state-level bills supported by the NRA failed. Many of these laws addressed access to guns by domestic abusers, stricter background check requirements, and bump stock bans.

Last month, the Connecticut Supreme Court ruled that families of Sandy Hook victims could move forward with their suit against Remington for its reckless marketing of the AR-15-style semiautomatic rifle used in the massacre. Firearms manufacturers have long claimed immunity from lawsuits under the federal Protection of Lawful Commerce in Arms Act (PLCAA) when their products are used illegally. This decision opens up the possibility that gun manufacturers could be held liable for reckless or dangerous advertising of their products; the Sandy Hook plaintiffs pointed to advertising slogans for AR-15-style weapons such as “Consider your man card reissued.” At oral argument, the plaintiffs’ lawyer stated, “Remington may have never known [Sandy Hook gunman] Adam Lanza but they had been courting him for years.”

Gun manufacturers may now face legal risk for their communications and marketing strategies, in addition to reputational risk. Given the industry’s risk profile, and the changing political and legal landscape, Strum Ruger and AOBC should reassess their business plans and engage in dialogue with shareholders about alternative and more sustainable growth strategies.

IV. Key Takeaways:

Both Ruger and AOBC attempted to respond to the requests of the resolution, but their answers revealed the stark differences in worldviews between the companies and the majority of their shareholders who backed the resolutions, notably, their definition (or lack thereof) of corporate responsibility.

Rather than seeing the reports as an investigative exercise that could well uncover opportunities to enhance company value, both Sturm Ruger and AOBC chose to respond defensively to the resolutions, characterizing them as attacks on the 2nd amendment even though proponents went out of their way to avoid any references to gun policy.
Far from seeing the potential new business opportunities presented by smart gun tech, both reports invoked the **NRA-sponsored boycotts against S & W** as a result of its “compromise” on gun safety nearly 20 years ago as a key rationale for not pursuing safe gun tech. In other words, they are afraid that in even researching smart guns, they will incur the wrath of the NRA and the more extremist factions of their customer bases.

Both companies steadfastly **deny any responsibility for the societal harm caused by misuse of their products**. Put another way, because current gun laws don’t require otherwise, once the products leave their warehouses, they wash their hands.

Both companies filter their roles and responsibilities to society through the lens of their current customer base, i.e. **satisfying the desires of current customers is seen as a priority** over any considerations of potential harm to the public at large.

The reports left shareholders with a question:

Will AOBC and RGR do everything within their power to be part of the solution to the complex challenge of gun violence in our country, or will they continue to wash their hands of any accountability for how their products are misused and shut down any opportunities for productive engagement?

ICCR members will continue to make the case that an openness to authentic self-examination of their businesses to uncover areas for improvement that will mitigate these risks as well as regular dialogue with their shareholders and other relevant stakeholders presents the best path forward for both AOBC and RGR: We would argue that a public at risk from gun violence, deserves no less.

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i [https://en.wikipedia.org/wiki/Protection_of_Lawful_Commerce_in_Arms_Act](https://en.wikipedia.org/wiki/Protection_of_Lawful_Commerce_in_Arms_Act)

ii [https://www.sec.gov/Archives/edgar/data/95029/000117494719000142/ex99-1.htm](https://www.sec.gov/Archives/edgar/data/95029/000117494719000142/ex99-1.htm) (page 16)

iii [https://www.sec.gov/Archives/edgar/data/1092796/000119312519032245/d704097dex991.htm](https://www.sec.gov/Archives/edgar/data/1092796/000119312519032245/d704097dex991.htm) (pages 6-7)

iv [https://www.sec.gov/Archives/edgar/data/95029/000117494719000142/ex99-1.htm](https://www.sec.gov/Archives/edgar/data/95029/000117494719000142/ex99-1.htm) (pages 21-23)

v [https://www.sec.gov/Archives/edgar/data/1092796/000119312519032245/d704097dex991.htm](https://www.sec.gov/Archives/edgar/data/1092796/000119312519032245/d704097dex991.htm) (pages 14 - 16)