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STURM RUGER & CO INC  
Form 10-Q  
October 29, 2008

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

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FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended September 27, 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 1-10435

STURM, RUGER & COMPANY, INC.

-----  
(Exact name of registrant as specified in its charter)

Delaware

06-0633559

-----  
(State or other jurisdiction of  
incorporation or organization)

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

Lacey Place, Southport, Connecticut

06890

-----  
(Address of principal executive offices)

-----  
(Zip code)

(203) 259-7843

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a shell company (as  
defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the issuer's common stock as of  
September 27, 2008: Common Stock, \$1 par value -19,458,943.

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## INDEX

STURM, RUGER & COMPANY, INC.

### PART I. FINANCIAL INFORMATION

#### Item 1. Financial Statements (Unaudited)

Condensed balance sheets - September 27, 2008 and December 31, 2007

Condensed statements of operations - Three and nine months ended September 27, 2008 and September 30, 2007

Condensed statement of stockholders' equity - Nine months ended September 27, 2008

Condensed statements of cash flows - Nine months ended September 27, 2008 and September

Notes to condensed financial statements - September 27, 2008

#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Item 4. Controls and Procedures

### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

#### Item 1A. Risk Factors

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### Item 3. Defaults Upon Senior Securities

#### Item 4. Submission of Matters to a Vote of Security Holders

#### Item 5. Other Information

#### Item 6. Exhibits

### SIGNATURES

2

### PART I. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

STURM, RUGER & COMPANY, INC.

CONDENSED BALANCE SHEETS

(Dollars in thousands, except share data)

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	September 27, 2008	December 31, 2007
		(Note)
-----		
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,580	\$ 5,106
Short-term investments	20,035	30,504
Trade receivables, net	19,504	15,636
Gross inventories	67,667	64,330
Less LIFO reserve	(47,454)	(46,890)
Less excess and obsolescence reserve	(3,383)	(4,143)
Net inventories	16,830	13,297
-----		
Deferred income taxes	5,829	5,878
Prepaid expenses and other current assets	3,830	3,091
Total current assets	68,608	73,512
-----		
Property, plant and equipment	125,407	126,496
Less allowances for depreciation	(100,467)	(104,418)
Net property, plant and equipment	24,940	22,078
-----		
Deferred income taxes	3,542	3,626
Other assets	2,921	2,666
Total Assets	\$ 100,011	\$ 101,882
=====		

Note:

The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

See notes to condensed financial statements.

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

STURM, RUGER & COMPANY, INC.

CONDENSED BALANCE SHEETS  
(Dollars in thousands, except share data)

September 27, 2008      December 31,

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(Note)

Liabilities and Stockholders' Equity

Current Liabilities

Trade accounts payable and accrued expenses	\$	10,927	\$
Product liability		1,034	
Employee compensation and benefits		5,753	
Workers' compensation		5,003	
Income taxes payable		1,743	

-----  
 Total current liabilities 24,460

Accrued pension liability	2,721
Product liability accrual	637
Contingent liabilities - Note 8	--

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; 22,798,732 issued and 19,458,943 and 20,571,817 outstanding	22,799
Additional paid-in capital	2,394
Retained earnings	87,741
Less: Treasury stock - 3,339,789 and 2,215,995 shares, at cost	(27,352)
Accumulated other comprehensive loss	(13,389)

-----  
 Total Stockholders' Equity 72,193

-----  
 Total Liabilities and Stockholders' Equity \$ 100,011 \$  
 =====

Note:

The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

See notes to condensed financial statements.

STURM, RUGER & COMPANY, INC.

CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)  
 (Dollars in thousands, except per share data)

Three Months Ended		Nine Months Ended	
September 27, 2008	September 30, 2007	September 27, 2008	Septem 20
-----	-----	-----	-----

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Net firearms sales	\$	40,318	\$	29,298	\$	117,186	\$
Net castings sales		1,504		2,565		5,806	
-----							
Total net sales		41,822		31,863		122,992	
-----							
Cost of products sold		34,964		26,268		96,985	
-----							
Gross profit		6,858		5,595		26,007	
-----							
Expenses:							
Selling		3,864		3,853		12,350	
General and administrative		2,615		2,675		9,524	
Pension plan curtailment charge		--		1,143		--	
Other operating expenses, net		--		489		--	
-----							
Total expenses		6,479		8,160		21,874	
-----							
Operating income (loss)		379		(2,565)		4,133	
-----							
Other income:							
Gain on sale of real estate		--		--		--	
Interest income		72		772		352	
Other income (expense), net		150		51		204	
-----							
Total other income, net		222		823		556	
-----							
Income (loss) before income taxes		601		(1,742)		4,689	
-----							
Income taxes (benefit)		229		(1,125)		1,782	
-----							
Net income (loss)	\$	372	(\$	617)	\$	2,907	\$
=====							
Earnings (loss) per share							
Basic	\$	0.02	(\$	0.03)	\$	0.14	\$
		=====		=====		=====	
Diluted	\$	0.02	(\$	0.03)	\$	0.14	\$
		=====		=====		=====	
Average shares outstanding							
Basic		20,047		22,759		20,398	
		=====		=====		=====	
Diluted		20,054		22,759		20,429	
		=====		=====		=====	

See notes to condensed financial statements.

STURM, RUGER & COMPANY, INC.

CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)  
(Dollars in thousands)

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	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance at December 31, 2007	\$ 22,788	\$ 1,836	\$ 84,834	\$ (20,000)
Net income and comprehensive income	--	--	2,907	--
Stock-based compensation, net of tax	11	558	--	--
Repurchase of 1,123,794 shares of common stock	--	--	--	(7,352)
Balance at September 27, 2008	\$ 22,799	\$ 2,394	\$ 87,741	\$ (27,352)

See notes to condensed financial statements.

6

STURM, RUGER & COMPANY, INC.

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)  
(Dollars in thousands)

	Nine Months Ended	
	September 27, 2008	September
Operating Activities		
Net income	\$ 2,907	\$
Adjustments to reconcile net income to cash (used for) provided by operating activities:		
Depreciation	3,518	
Slow moving inventory valuation adjustment	280	
Asset impairment charge	--	
Pension plan curtailment charge	--	
Stock option expense	419	
Gain on sale of assets	(95)	
Deferred income taxes	133	
Changes in operating assets and liabilities:		
Trade receivables	(3,868)	
Inventories	(3,813)	
Trade accounts payable and accrued expenses	3,054	
Product liability	(263)	
Prepaid expenses, other assets and other liabilities	(2,963)	
Income taxes	1,333	
Cash provided by operating activities	642	

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Investing Activities			
Property, plant and equipment additions	(6,380)		
Proceeds from the sale of assets	95		
Purchases of short-term investments	(21,931)		
Proceeds from maturities of short-term investments	32,400		
-----			
Cash provided by (used for) investing activities	4,184		
-----			
Financing Activities			
Payments of employee withholding tax for cashless exercise of stock options	--		
Repurchase of common stock	(7,352)		
-----			
Cash (used for) financing activities	(7,352)		
-----			
Decrease in cash and cash equivalents	(2,526)		
Cash and cash equivalents at beginning of period	5,106		
-----			
Cash and cash equivalents at end of period	\$ 2,580	\$	
=====			

See notes to condensed financial statements.

7

STURM, RUGER & COMPANY, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements.

In the opinion of management, the accompanying unaudited condensed financial statements include all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the results of the interim periods. Operating results for the nine months ended September 27, 2008 are not indicative of the results to be expected for the full year ending December 31, 2008. These financial statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the year ended December 31, 2007.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Organization:

Sturm, Ruger & Company, Inc. (the "Company") is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Approximately 95% of the Company's total sales for the third quarter and nine months ended

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September 27, 2008 and September 30, 2007 were firearms sales, and 5% were investment castings sales. Export sales represent less than 7% of total sales. The Company's design and manufacturing operations are located in the United States and substantially all product content is domestic. The Company's firearms are sold through a select number of independent wholesale distributors principally to the commercial sporting market.

The Company manufactures investment castings made from steel alloys for internal use in its firearms and utilizes available investment casting capacity to manufacture and sell castings to outside customers.

### Change in Interim Fiscal Reporting:

In 2008, the Company is now reporting its first three fiscal quarters ending on the last Saturday of March, June and September, respectively. Each of these fiscal quarters will be comprised of thirteen complete weeks. For 2008, the three quarters will end on March 29, 2008, June 28, 2008, and September 27, 2008. This change was made to provide a better comparison of the Company's reported results with those reported in prior years. The Company's fiscal year end remains December 31. The impact of this change on results of operations for the nine months ended September 27, 2008 is not significant.

### Use of Estimates:

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

8

### Reclassifications:

Certain prior period balances 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 are effective for the fiscal year beginning January 1, 2008. The FASB has deferred the implementation of FAS 157 by one year for certain non-financial assets and liabilities such as this will be effective for the fiscal year beginning January 1, 2009. The adoption of FAS 157 did not have a material impact on the Company's financial position, results of operations and cash flows, nor is it expected to have any such impact upon final implementation.

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.



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### NOTE 3 - INVENTORIES

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

Inventories consist of the following (in thousands):

	September 27, 2008	December 31, 2007
-----		
Inventory at FIFO		
Finished products	\$ 8,015	\$ 8,413
Materials and work in process	59,652	55,917
-----		
Gross inventories	67,667	64,330
Less: LIFO reserve	(47,454)	(46,890)
Less: excess and obsolescence reserve	(3,383)	(4,143)
-----		
Net inventories	\$ 16,830	\$ 13,297
=====		

The excess and obsolescence reserve decreased as a result of the disposition of previously reserved inventory.

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 (approximately \$0.5 million after the impact of the LIFO reserve) in the nine months ended September 27, 2008, and a corresponding reduction in cost of sales.

9

### NOTE 4 - INCOME TAXES

The Company's 2008 effective tax rate differs from the statutory tax rate due principally to state income taxes partially offset by tax benefits related to the American Jobs Creation Act of 2004. The Company's 2008 effective tax rate differs from the statutory tax rate due principally to state income taxes. The effective income tax rate for the nine months ended September 27, 2008 and September 30, 2007 is 38.0%. The Company has not been required to make income tax payments in either the third quarter or nine months ended September 27, 2008 because of overpayments of estimated taxes in 2007. Income tax payments in the third quarter and nine months ended September 30, 2007 totaled \$1.1 million and \$4.8 million, respectively.

The Company files income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2005. 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

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and has accepted the Company's return as filed. In the first quarter of 2008, the IRS commenced an audit of the Company's 2006 Federal income tax return, which is still on-going. The Company anticipates that the IRS will complete this examination by the end of 2008. The Company does not anticipate that adjustments resulting from this examination, if any, would result in a material change to its financial position or results of operations.

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 has 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 September 27, 2008. 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.

### NOTE 5 - PENSION PLANS

The Company is shifting its retirement benefit focus from defined benefit pension plans to defined contribution retirement plans, utilizing its current 401(k) plan.

In the third quarter of 2007, the Company amended its hourly and salaried defined benefit pension plans so that employees no longer accrue benefits under them effective December 31, 2007. This action froze benefits for all employees effective December 31, 2007 and prevents future hires from joining the plans. Starting January 1, 2008, the Company provides 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 these 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 \$0.2 million per year, which includes PBGC premiums, actuary and audit fees, and other expenses.

In 2008 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 2008, but there may be such a requirement in 2009 because of recent market volatility which has adversely affected investment returns for the plans' assets.

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The total annual cash outlays for retirement benefits, which include the continuing discretionary funding of the two defined benefit pension plans and supplemental discretionary 401(k) contributions, are intended to be comparable to the previous retirement benefit cash funding levels of approximately \$2 million per year. This intended annual discretionary funding level is subject to future review based on any changes in the minimum required funding for the defined benefit plans and other business conditions.

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. 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.

The estimated cost of the defined benefit plans is summarized below (in thousands):

	Three Months Ended		Nine Months
	September 27, 2008	September 30, 2007	September 27, 2008
Service cost	\$ --	\$ 339	\$ --
Interest cost	997	700	2,991
Expected return on plan assets	(1,277)	(861)	(3,831)
Amortization of prior service cost	--	33	--
Recognized actuarial gains	303	253	909
Net periodic pension cost	\$ 23	\$ 464	\$ 69

Costs attributable to the discretionary supplemental 401(k) plan totaled \$0.3 million and \$1.0 million for the three and nine months ended September 27, 2008, respectively. The Company plans to contribute an additional \$0.3 million to the plan during the remainder of 2008.

### NOTE 6 - 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 (the "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. Compensation expense related to these awards was amortized ratably over the vesting period. The total compensation expense related to these awards was \$0.2 million. In April 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 being amortized ratably over the vesting period. The total compensation expense related to these awards was \$0.2 million.

A summary of changes in options outstanding under the Plans is summarized below:

	Shares	Weighted Average Exercise Price	Grant Date Fair Value
Outstanding at December 31, 2007	1,091,250	\$ 9.44	\$ 3.91
Granted	359,000	\$ 8.10	4.39
Exercised	--	--	--
Expired	--	--	--
Outstanding September 27, 2008	1,450,250	\$ 9.11	\$ 4.03

The aggregate intrinsic value (mean market price at September 27, 2008 less the weighted average exercise price) of options outstanding under the Plans was approximately \$0.6 million.

The aggregate compensation expense for the options granted in the third quarter and nine months ended September 27, 2008, calculated using the Black-Scholes option-pricing model, was \$0.2 million and \$0.4 million, respectively. This expense, which is a non-cash item, is being amortized in the Company's statements of operations over the vesting periods. Compensation costs related to all share-based payments recognized in the statements of operations aggregated \$0.2 million and \$0.5 million for the third quarter and nine months ended September 27, 2008, respectively and \$0.2 million and \$0.5 million for the third quarter and nine months ended September 27, 2007, respectively.

The Company has adopted a policy to pay 25% of all officers' annual incentive compensation in restricted stock. As of September 27, 2008, no restricted stock has been awarded to officers under this policy.

NOTE 7 - BASIC AND DILUTED EARNINGS PER SHARE

Weighted average shares outstanding for the third quarter and nine months ended September 27, 2008 were 20,047,000 and 20,398,000, respectively. Weighted average shares outstanding for the third quarter and nine months ended September 30, 2007 were 22,759,000 and 22,686,000, respectively.

Diluted earnings per share reflect the impact of options outstanding using the treasury stock method, when applicable. This resulted in diluted weighted-average shares outstanding for the third quarter and nine months ended September 27, 2008 of 20,054,000 and 20,429,000 shares, respectively. Diluted weighted-average shares outstanding for the third quarter and nine months ended September 30, 2007 were 22,759,000 and 23,030,000, respectively.

NOTE 8 - CONTINGENT LIABILITIES

As of September 27, 2008, the Company is a defendant in approximately 5 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 therefrom 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

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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

13

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.

The dismissal of the Washington, D.C. municipal lawsuit was sustained on appeal, but individual plaintiffs were permitted to proceed to discovery and attempt to identify the manufacturers of the firearms used in their shootings as "machine guns" under the city's "strict liability" law. 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

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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. Gary is scheduled to begin trial in 2009. The defendants filed a motion to dismiss pursuant to the PLCAA. 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, which has not yet been ruled upon. The case is set for trial on June 15, 2009.

14

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

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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 \$5.0 million and \$0.0 at December 31, 2007 and 2006, 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.

15

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 June 28, 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.

### NOTE 9 - RELATED PARTY TRANSACTIONS

In February 2008, the Company made a lump sum pension benefit payment to William B. Ruger, Jr., the former Chairman and Chief Executive Officer of the



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Company. This payment totaled \$1.1 million which represented the actuarially determined present value of Mr. Ruger's accrued benefit 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, Jr. The sales price was based upon an independent appraisal. The sale included substantially all of the Company's raw land 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.

16

### NOTE 10 - OPERATING SEGMENT INFORMATION

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

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 30, 2007	September 27, 2008	September 30, 2007
<hr/>				
Net Sales				
Firearms	\$ 40,318	\$ 29,298	\$ 117,186	\$ 112,535
Castings				
Unaffiliated	1,504	2,565	5,806	9,892
Intersegment	1,886	2,639	7,532	6,719
	3,390	5,204	13,338	16,611
Eliminations	(1,886)	(2,639)	(7,532)	(6,719)
	\$ 41,822	\$ 31,863	\$ 122,992	\$ 122,427
<hr/>				
Income (Loss) Before Income Taxes				
Firearms	\$ 3,498	\$ 4,228	\$ 10,025	\$ 20,952
Castings	(701)	(915)	(2,487)	(2,568)
Corporate	(2,196)	(5,055)	(2,849)	1,897
	\$ 601	(\$ 1,742)	\$ 4,689	\$ 20,281
<hr/>				
			September 27, 2008	December 31, 2007
<hr/>				
Identifiable Assets				
Firearms			\$ 59,701	\$ 47,870
Castings			5,051	6,165
Corporate			35,259	47,847

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\$ 100,011                      \$ 101,882  
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### NOTE 11 - STOCK REPURCHASE

In April 2008, the Company announced that its Board of Directors authorized a stock repurchase program. During the third quarter of 2008, the Company repurchased approximately 1,124,000 shares of its common stock under a 10b5-1 program, representing 5.5% of the outstanding shares, in the open market at an average price of \$6.50 per share. These purchases were made with cash held by the Company and no debt was incurred. At September 27, 2008, \$2.6 million remained available for share repurchases under this repurchase program.

### NOTE 12 - LINE OF CREDIT

In December 2007, the Company secured a \$25 million credit facility with a bank which terminates on December 13, 2008. Borrowings under this facility bear interest at LIBOR plus 100 basis points. The unused fee is 25 basis points per year on the unused portion of the credit facility. This credit facility remained unused at September 27, 2008. See note 13 - Subsequent Events.

17

### NOTE 13 - SUBSEQUENT EVENTS

Recently, the Company has received a small number of reports from the field that its LCP pistols can discharge if dropped onto a hard surface. Although no injuries were reported, the Company began recalling all LCP pistols in October 2008 to offer free safety upgrades. The estimated cost of this retrofit program of approximately \$2.3 million was recorded in the third quarter of 2008. This safety upgrade program is expected to be in effect for several years.

After the end of the third quarter of 2008 and through October 17, 2008 when its 10b5-1 program expired, the Company repurchased an additional 364,200 shares of its common stock, representing 1.8% of the outstanding shares, in the open market at an average price of \$6.87 per share. In total, the Company repurchased 1.5 million shares of its common stock for \$9.9 million, representing 7.2% of the outstanding shares, at an average price per share of \$6.59. These purchases were made with cash held by the Company and no debt was incurred. At October 20, 2008, 19.1 million shares remained outstanding.

In October 2008, the Company drew down \$1 million from its \$25 million credit facility to provide additional working capital. The credit facility expires on December 13, 2008, at which time the Company intends on renewing the credit facility for another year, subject to bank approval. The Company plans to use this credit facility to fund its operational cash needs until the financial and credit markets stabilize.

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

### Company Overview

Sturm, Ruger & Company, Inc. (the "Company") is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Approximately 95% of the Company's total sales for the three and nine months ended September 27, 2008 were firearms sales, and 5% were investment castings sales. Export

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sales represent less than 7% of total sales. The Company's design and manufacturing operations are located in the United States and almost all product content is domestic. The Company's firearms are sold through a select number of independent wholesale distributors principally to the commercial sporting market.

The Company manufactures investment castings made from steel alloys for internal use in its firearms and utilizes available investment casting capacity to manufacture and sell castings to outside customers.

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.

18

### Results of Operations

#### Summary Unit Data

Firearms unit data for orders, production, shipments and ending inventory for the last seven quarters are as follows:

	2008			2007		
	Q3	Q2	Q1	Q4	Q3	Q2
Units Ordered	125,700	120,300	260,100	113,100	80,900	115,300
Units Produced	158,900	150,600	124,000	104,900	100,800	132,000
Units Shipped	146,000	136,700	135,700	111,900	98,600	129,600
Average Sales Price	\$ 276	\$ 270	\$ 296	\$ 283	\$ 297	\$ 306
Units on Backorder	115,300	137,700	157,100	36,500	35,700	53,400
Units - Company Inventory	52,600	40,200	24,900	38,300	45,300	43,100
Units - Distributor Inventory (Note 1)	65,800	62,900	61,800	62,000	70,500	78,800

Note 1: Distributor ending inventory as provided by the Company's distributors.

#### Orders Received and Ending Backlog

The gross value of orders received and ending backlog for the trailing

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seven quarters are as follows (in millions except average unit value, including Federal Excise Tax):

	2008				2007		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Orders Received	\$ 33.5	\$ 37.0	\$ 73.8	\$ 32.8	\$ 25.4	\$ 39.1	\$ 58.9
Average Unit Value of Orders Received	\$ 267	\$ 275	\$ 257	\$ 262	\$ 284	\$ 307	\$ 303
Ending Backlog	\$ 27.9	\$ 33.7	\$ 40.7	\$ 17.9	\$ 16.2	\$ 23.3	\$ 27.9
Average Unit Value of Ending Backlog	\$ 242	\$ 245	\$ 234	\$ 444	\$ 411	\$ 395	\$ 370

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

19

The product mix of orders received in the third quarter of 2008 continued to show a decline of demand for firearms related to hunting and sporting uses and an increase in demand for firearms related to self defense, including the LCP pistol. Certain product lines have been on backorder during the third quarter of 2008, and this may have the effect of causing the incoming order rate to be less than actual demand for those products. Future demand for the popular LCP pistols may be adversely impacted by the LCP pistol recall that was announced in October 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 on 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 unit value of the ending backlog from 2007 to 2008.

### Production

Production rates, which started to increase late in 2007, have continued to improve throughout 2008. This allowed for a 58% increase in unit production in the third quarter of 2008 compared to the third quarter of 2007 and a 6% increase compared to the second quarter of 2008. Inventories of several product lines have grown to the point of satisfying safety stock requirements and production rates for those products were cut during the third quarter to the level of their current demand. The resources that will be dedicated to the LCP pistol recall, which was announced in October of 2008, will result in a reduction to the quantity of LCP pistols that will be produced in the fourth quarter of 2008.

The Company continues to work on the transition from large-scale batch

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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 new products and for small parts manufacturing, developing pull systems, and managing vendors. There is also considerable, on-going engineering work in process to re-engineer existing product designs for improved manufacturability.

An increase in firearm unit shipments in near-term future periods will be more dependent on new product introductions and changes in demand for established products rather than on the Company's ability to increase unit production.

### Inventories

The Company's finished goods unit inventory levels increased in the third quarter of 2008 as improvements in manufacturing capacity allowed for the production of finished goods safety stocks for many products, especially those expected to be in higher demand in the fourth quarter of 2008 and first quarter of 2009.

Finished goods inventories are expected to increase further during the fourth quarter of 2008 as safety stock levels are built in anticipation of increased demand during the first quarter of 2009. Demand is typically strongest during the first quarter of the year.

### Sales

Consolidated net sales were \$41.8 million for the three months ended September 27, 2008. This represents an increase of \$9.9 million or 31.3% from consolidated net sales of \$31.9 million in the comparable prior year period.

For the nine months ended September 27, 2008, consolidated net sales were \$123.0 million, an increase of \$0.6 million or 0.5% from sales of \$122.4 million in the comparable 2007 period.

20

Firearms net sales were \$40.3 million for the three months ended September 27, 2008. This represents an increase of \$11.0 million or 37.6% from firearms net sales of \$29.3 million in the comparable prior year period.

For the nine months ended September 27, 2008, firearms net sales were \$117.2 million. This represents an increase of \$4.7 million or 4.1% from firearms net sales of \$112.5 million in the comparable 2007 period.

Firearms unit shipments increased 48.1% for the three months ended September 27, 2008 when compared to the third quarter of 2007 due principally to the introduction of new products during 2008 (including the LCP pistol) and, to a lesser degree, to an increase in production of established products. A shift in product demand toward firearms with lower unit sales prices, including some new products, resulted in the decrease in average sales price of units shipped in the third quarter of 2008 compared to the third quarter of 2007.

For the nine months ended September 27, 2008, firearms unit shipments increased 13.1% from units shipped during the comparable 2007 period, in spite of reduced inventories at the start of the period in 2008, due principally to the introduction of new products during 2008 (including the LCP pistol) and, to a lesser degree, to an increase in production of established products. A shift in product demand toward firearms with lower unit sales prices, including some new products, resulted in the decrease in average sales price of units shipped

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in the nine months ended September 27, 2008 compared to the comparable period of 2007.

The three and nine months ended September 27, 2008 benefited from a \$0.7 million initial-stocking-order shipment that was made to a new distributor in September. An additional, smaller, initial stocking order shipment was made in early October to a second new distributor. These two new distributors are replacing two previous distributors.

The resources that will be dedicated to the LCP pistol recall, which was announced in October of 2008, will result in a reduction to the quantity of LCP pistols that will be produced, and therefore available for shipment, in the fourth quarter of 2008. Also, the recall may cause a decline in future demand for LCP pistols.

Casting net sales were \$1.5 million for the three months ended September 27, 2008. This represents a decrease of \$1.1 million or 41.4% from casting sales of \$2.6 million in the comparable prior year period.

For the nine months ended September 27, 2008, casting segment net sales were \$5.8 million. This represents a decrease of \$4.1 million or 41.3% from casting sales of \$9.9 million in the comparable prior year period.

The casting sales decrease in the three and nine months ended September 27, 2008 reflects the cessation of titanium casting operations in 2007, as previously announced by the Company in July 2006. Titanium casting sales accounted for \$0.5 million or 20%, and \$3.2 million or 32% of casting sales for third quarter and nine months ended September 30, 2007, respectively.

### Cost of Products Sold and Gross Margin

Consolidated cost of products sold was \$35.0 million for the three months ended September 27, 2008. This represents an increase of \$8.7 million or 33.1% from consolidated cost of products sold of \$26.3 million in the comparable prior year period.

For the nine months ended September 27, 2008, consolidated cost of products sold was \$97.0 million. This represents an increase of \$8.9 million or 10.1% from consolidated cost of products sold of \$88.1 million in the comparable prior year period.

21

Gross margin as a percent of sales was 16.4% and 21.2% for the three and nine months ended September 27, 2008. These represent an increase from the gross margin of 17.6% in the third quarter of 2007 and a decrease from 28.0% in the first nine months of 2007 as illustrated below (in thousands):

	Three Months Ended			
	September 27, 2008		September 30, 2007	
Net sales	\$ 41,822	100.0%	\$ 31,863	100.
Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall	30,372	72.6%	25,462	79.

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LIFO expense (income)	1,577	3.8%	(237)	(0.
Overhead rate adjustments to inventory	48	0.1%	760	2.
Labor rate adjustments to inventory	569	1.4%	--	--
Product liability	129	0.3%	283	0.
Product Recall	2,269	5.4%	--	--
-----				
Total cost of products sold	34,964	83.6%	26,268	82.
-----				
Gross margin	\$ 6,858	16.4%	\$ 5,595	17.
=====				

	Nine Months Ended			
	September 27, 2008		September 30, 2007	
-----				
Net sales	\$122,992	100.0%	\$122,427	100.
Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall	91,995	74.8%	92,504	75.
LIFO expense (income)	3,807	3.1%	(10,805)	(8.
Overhead rate adjustments to inventory	(1,479)	(1.2)%	4,986	4.
Labor rate adjustments to inventory	(1,311)	(1.1)%	--	--
Product liability	496	0.4%	1,455	1.
Product recalls	3,477	2.8%	--	--
-----				
Total cost of products sold	96,985	78.8%	88,140	72.
-----				
Gross margin	\$ 26,007	21.2%	\$ 34,287	28.
=====				

22

Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall-- During the three and nine months ended September 27, 2008, cost of products sold, before LIFO, overhead rate, and labor rate adjustments to inventory, product liability, and product recall decreased as a percentage of sales by 7.3% and 0.8%, respectively, compared to the comparable 2007 periods. The decrease in the third quarter was primarily related to increased comparable period sales while holding fixed-overhead expenses fairly stable and decreases in non-personnel variable-overhead spending. The slight decrease in the nine months ended September 27, 2008 is attributable to decreases in non-personnel variable-overhead spending.

LIFO-- During the three and nine months ended September 27, 2008, gross inventories increased by \$0.4 million and \$3.3 million, respectively compared to decreases in gross inventories of \$0.4 million and \$26.6 million in the comparable 2007 periods. These inventory fluctuations were caused, in part, by the overhead and direct labor rate adjustments to inventory in the respective periods, as discussed below. The 2008 inventory increases resulted in LIFO expense and increased cost of products sold of \$1.6 million and \$3.8 million for

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the three and nine months ended September 27, 2008 compared to LIFO income and decreased cost of products sold of \$0.2 million and \$10.8 million in the comparable 2007 periods.

Finished goods inventories are expected to further increase in the fourth quarter of 2008 as safety stock levels of certain models are built in anticipation of increased demand during the first quarter of 2009. Demand is typically strongest during the first quarter of the year.

Overhead Rate Adjustments-- During the three and nine months ended September 27, 2008, the change in inventory value resulting from the change in the overhead rates used to absorb overhead expenses into inventory were a decrease of \$48,000 and an increase of \$1.5 million, respectively. The decrease in inventory value in the third quarter of 2008 resulted in an increase to cost of products sold. The increase in inventory during the nine months ended September 27, 2008 resulted in a decrease to cost of sales. During the comparable 2007 periods, the change in inventory value resulting from the change in the overhead rate used to absorb overhead expenses into inventory were decreases of \$0.8 million and \$5.0 million, respectively. These decreases in inventory values resulted in increases 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 (approximately \$0.5 million after the impact of the LIFO reserve) at June 28, 2008, and a corresponding reduction in cost of sales in the second quarter of 2008. For the third quarter of 2008, the change in inventory value resulting from the change in the labor rates used to absorb overhead expenses into inventory was a decrease of \$0.6 million, reflecting continued improvement of labor efficiency during the quarter. This decrease in inventory value resulted in an increase to cost of sales. For the nine months ended September 27, 2008, the change in inventory value resulting from the change in the labor rates used to absorb overhead expenses into inventory was an increase of \$1.3 million, reflecting the second quarter one-time change in methodology and the third quarter rate change. This increase in inventory value resulted in a decrease to cost of sales.

Product Liability--During the three and nine months ended September 27, 2008, the Company incurred product liability expense of \$0.1 million and \$0.5 million, respectively, which includes the cost of outside legal fees, insurance, and other expenses incurred in the management and defense of product liability matters. For the comparable 2007 periods, product liability expenses totaled \$0.3 million and \$1.5 million, respectively.

Product Recalls--Recently the Company has received a small number of reports from the field that its LCP pistols can discharge if dropped onto a hard surface. Although no injuries were reported, the Company began recalling all LCP pistols in October 2008 to offer free safety upgrades. The estimated cost of this retrofit program of approximately \$2.3 million was recorded in the third quarter of 2008. This safety upgrade program is expected to be in effect for several years.

In April 2008, the Company announced that it determined that Ruger SR9 pistols manufactured between October 2007 and April 2008 can, under certain conditions, fire if dropped with their manual safeties in the "off" or "fire" position and a round in the chamber. The Company has started to retrofit all Ruger SR9 pistols manufactured during that period at no charge to the firearm owners. The estimated cost of this retrofit program of approximately \$1.2



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million was recorded in the first quarter of 2008. The recall program has been very effective, with approximately two thirds of all affected SR9s returned and retrofitted already. This recall program is expected to be in effect for several more years to complete the retrofit of all remaining affected SR9s, and the Company considers the remaining reserve of approximately \$0.4 million to be adequate to complete the recall program. The Company commenced production and shipments of the redesigned SR9 during the third quarter.

### Selling, General and Administrative

Selling, general and administrative expenses were \$6.5 million and \$21.9 million for the three and nine months ended September 27, 2008, respectively. This represents no change and an increase of \$0.6 million from selling, general and administrative expenses of \$6.5 million and \$21.3 million in the comparable prior year periods. The increase for the nine months ended September 27, 2008 reflects a retail co-op advertising program that was introduced on January 1, 2008 and increased promotional and advertising expenses, many of which related to new products.

### Pension Plan Curtailment Charge

During the third quarter of 2007, the Company amended its hourly and salaried defined benefit pension plans so that employees would no longer accrue benefits under these plans effective December 31, 2007. This action, which "froze" the benefits for essentially all employees, also prevented future hires from joining the plans, effective December 31, 2007. These amendments resulted in a \$1.2 million pension curtailment charge that was recognized in the third quarter of 2007.

### Gains on Sale of Real Estate

In the first nine months of 2007, the Company recorded gains on the sale of non-manufacturing real property of \$7.1 million. No real estate sales were made in the 2008.

The Company has two properties in Connecticut and one property in New Hampshire listed for sale. The timing on when these properties will sell is uncertain due to the weak real estate and credit markets.

### Interest income

Interest income was \$0.1 million and \$0.4 million for the three and nine months ended September 27, 2008, respectively. This represents a decrease of \$0.7 million and \$1.6 million from interest income of \$0.8 million and \$2.0 in the comparable prior year periods. The decrease is attributable to lower interest rates and decreased principal invested in 2008 compared to 2007.

### Income Taxes and Net Income

The effective income tax rates in the three and nine months ended September 27, 2008 were 38.0%. The effective income tax rates were 40.1% in the comparable prior year periods.

As a result of the foregoing factors, consolidated net income was \$0.4 million and \$2.9 million for the three and nine months ended September 27, 2008, respectively. This represents an increase of \$1.0 million and a decrease of \$9.7 million from the consolidated net loss of \$0.6 million and consolidated net income of \$12.6 million, respectively, in the comparable prior year periods.

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### Financial Condition

#### Liquidity

At September 27, 2008, the Company had cash, cash equivalents and short-term investments of \$22.6 million. The Company's pre-LIFO working capital of \$91.6 million, less the LIFO reserve of \$47.5 million, resulted in working capital of \$44.1 million and a current ratio of 2.8 to 1.

At October 20, 2008, with the previously announced stock repurchase program substantially completed, the Company had cash, cash equivalents and short-term investments of \$20 million. To protect its liquidity in light of the recent turbulence in the financial and credit markets, in October the Company withdrew \$16 of its short term investments from a money market fund and purchased United States Treasury Bills, which mature over the next 6 months.

Further, the Company drew down \$1 million from its \$25 million credit facility to provide additional working capital. The credit facility expires on December 13, 2008, at which time the Company intends on renewing the credit facility for another year, subject to bank approval. The Company plans to use this credit facility to fund its operational cash needs until the financial and credit markets stabilize.

#### Operations

Cash provided by operating activities was \$0.6 million for the nine months ended September 27, 2008 compared to funds provided by operating activities of \$25.9 million for comparable prior year period. The decrease in cash provided in 2008 compared to 2007 is principally attributable to the significant reduction in gross inventory in 2007.

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.

#### Investing and Financing

Capital expenditures for the nine months ended September 27, 2008 totaled \$6.4 million. In 2008, the Company expects to spend approximately \$8 million on capital expenditures to purchase tooling for new product introductions and to upgrade and modernize manufacturing equipment. The Company finances, and intends to continue to finance, all of these activities with funds provided by operations and current cash and short-term investments. There were no dividends paid for the nine months ending September 27, 2008. 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.

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In April 2008, the Company announced that its Board of Directors authorized a \$10 million stock repurchase program. During the third quarter of 2008, the Company repurchased approximately 1,124,000 shares of its common stock under a 10b5-1 program, representing 5.5% of the outstanding shares, in the open market at an average price of \$6.50 per share. Through October 17, 2008 when its 10b5-1 program expired, the Company repurchased an additional 364,200 shares of its common stock, representing 1.8% of the outstanding shares, in the open market at an average price of \$6.87 per share. In total, the Company repurchased 1.5 million shares of its common stock for \$9.9 million, representing 7.2% of the outstanding shares, at an average price per share of \$6.59. These purchases were made with cash held by the Company and no debt was incurred. At October 20, 2008, 19.1 million shares remained outstanding.

In March 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.

In April 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 the third quarter of 2007, the Company amended its hourly and salaried defined benefit pension plans so that employees no longer accrue benefits under them effective December 31, 2007. This action froze the benefits for all employees effective December 31, 2007 and prevents future hires from joining the plans. Since January 1, 2008, the Company has 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 these 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 \$0.2 million per year, which includes PBGC premiums, actuary and audit fees, and other expenses.

In 2008 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 2008, but there may be such a requirement in 2009 because of recent market volatility which has adversely affected investment returns for the plans' assets.

The total annual cash outlays for retirement benefits, which include the continuing discretionary funding of the two defined benefit pension plans and supplemental discretionary 401(k) contributions, are intended to be comparable to the previous retirement benefit cash funding levels of approximately \$2 million per year. This intended annual discretionary funding level is subject to future review based on any changes in the minimum required funding for the

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defined benefit plans and other business conditions.

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. 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.

26

### Firearms Litigation

As of September 27, 2008, the Company is a defendant in approximately 5 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 therefrom 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

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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.

27

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.

The dismissal of the Washington, D.C. municipal lawsuit was sustained on appeal, but individual plaintiffs were permitted to proceed to discovery and attempt to identify the manufacturers of the firearms used in their shootings as "machine guns" under the city's "strict liability" law. 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

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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. Gary is scheduled to begin trial in 2009. The defendants filed a motion to dismiss pursuant to the PLCAA. 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, which has not yet been ruled upon. The case is set for trial on June 15, 2009.

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.

28

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

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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 \$5.0 million and \$0.0 at December 31, 2007 and 2006, 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.

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 June 28, 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.

29

### 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.

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

Historically, the Company has not required external financing. 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 secured a \$25 million credit facility. This credit facility remained unused at September 27, 2008. In October 2008, the Company drew down \$1 million from its \$25 million credit facility to provide additional working capital. The credit facility expires on December 13, 2008, at which time the Company intends on renewing the credit facility for another year, subject to bank approval. The Company plans to use this credit facility to fund its operational cash needs until the financial and credit markets stabilize.

### Adjustments to Critical Accounting Policies

The Company has not made any adjustments to its critical accounting estimates and assumptions described in the Company's 2007 Annual Report on Form 10-K filed on February 26, 2008, or the judgments affecting the application of those estimates and assumptions.

### 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 are effective for the fiscal year beginning January 1, 2008. The FASB has deferred the implementation of FAS 157 by one year for certain non-financial assets and liabilities such as this will be effective for the fiscal year beginning January 1, 2009. The adoption of FAS 157 did not have a material impact on the Company's financial position, results of operations and cash flows.

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



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place undue reliance on these forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publish revised forward-looking statements to reflect events or circumstances after the date such forward-looking statements are made or to reflect the occurrence of subsequent unanticipated events.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to changes in prevailing market interest rates affecting the return on its investments but does not consider this interest rate market risk exposure to be material to its financial condition or results of operations. The Company invests primarily in a bank-managed money market fund that invests principally in United States Treasury instruments, all maturing within one year. The carrying amount of these investments approximates fair value due to the short-term maturities. Under its current policies, the Company does not use derivative financial instruments, derivative commodity instruments or other financial instruments to manage its exposure to changes in interest rates or commodity prices.

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Treasurer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (the "Disclosure Controls and Procedures"), as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the September 27, 2008.

Based on the evaluation, the Company's Chief Executive Officer and Treasurer and Chief Financial Officer have concluded that, as of September 27, 2008, such disclosure controls and procedures are effective to ensure that information required to be disclosed in the Company's periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms. Additionally, the Company's Chief Executive Officer and Treasurer and Chief Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, there have been no changes in the Company's control over financial reporting that occurred during the quarter ended September 27, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

#### Changes in Internal Controls 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.

31

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The nature of the legal proceedings against the Company is discussed at Note 8 to this Form 10-Q report, which is incorporated herein by reference.

The Company has reported all cases instituted against it through June 28,

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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.

No cases were formally instituted against the Company during the three months ending September 27, 2008.

During the three months ending September 27, 2008, no previously reported cases were settled.

On July 10, 2008, in the previously reported case *Watkins v. Company, et al (PA)*, an order was entered sustaining the Company's preliminary objections that the claims are barred under the Protection of Lawful Commerce in Arms Act. On August 8, 2008, plaintiff filed a notice of appeal and on August 21, 2008, the Company filed a motion to quash the appeal on the basis that the order was not a final appealable order but only interlocutory in nature. On September 18, 2008, the Appellate Court granted the motion to quash.

### ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from the information provided in Item 1A. Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2007.

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

Not applicable

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

### ITEM 5. OTHER INFORMATION

None

32

### ITEM 6. EXHIBITS

#### (a) Exhibits:

- 31.1 Certification Pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification Pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

33

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STURM, RUGER & COMPANY, INC.

FORM 10-Q FOR THE NINE MONTHS ENDED SEPTEMBER 27, 2008

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STURM, RUGER & COMPANY, INC.  
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Date: October 29, 2008

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