STURM RUGER & CO INC
Form 10-Q
August 09, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_______________ to _______________

Commission file number 0-4776
STURM, RUGER & COMPANY, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	06-0633559 (I.R.S. employer identification no.)
Lacey Place, Southport, Connecticut (Address of principal executive offices)	06490 (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 X No _____

The number of shares outstanding of the issuer's common stock as of July 31, 2001: Common Stock, $1 par value - 26,910,720.

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STURM, RUGER & COMPANY, INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

STURM, RUGER & COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	June 3 2001 ------- (Unaudit
ASSETS	
Current Assets	
Cash and cash equivalents	$ 3,7
Short-term investments	55,6
Trade receivables, less allowances for doubtful accounts ($1,245 and $1,252) and discounts ($208 and $1,130)	12,8
Inventories:	
Finished products	19,6
Materials and products in process	44,4

	64,1
Deferred income taxes	7,0
Prepaid expenses and other assets	2,6

Total current assets	146,0
Property, plant and equipment	153,8
Less allowances for depreciation	(112,0
	41,8
Deferred income taxes	1,3
Other assets	18,1
	$ 207,3

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

STURM, RUGER & COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	Jun 2 (una
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Trade accounts payable and accrued expenses	$
Product safety modifications	
Product liability	
Employee compensation	
Workers' compensation	
Income taxes	
Total current liabilities	
Product liability accrual	
Contingent liabilities -- Note 7	
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; issued and outstanding 26,910,720	
Additional paid-in capital	
Retained earnings	1
Accumulated other comprehensive income	
	1
	$ 2

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Note:

The balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

See notes to condensed consolidated financial statements.

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STURM, RUGER & COMPANY, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	Six Months Ended Jun 2001	Six Months Ended Jun 200
Firearms sales	$ 29,543	$ 37,594	$ 65,380	$ 88
Castings sales	8,125	11,341	16,152	20
Net sales	37,668	48,935	81,532	108
Cost of products sold	30,449	36,376	62,346	77
	7,219	12,559	19,186	31
Expenses:				
Selling	3,439	3,274	7,705	6
General and administrative	1,706	1,531	3,675	2
	5,145	4,805	11,380	9
	2,074	7,754	7,806	21
Other income-net	895	1,992	1,962	3
Income before income taxes	2,969	9,746	9,768	24

Income taxes	1,164	3,821	3,829	9
Net income	$ 1,805	$ 5,925	$ 5,939	$ 14
Basic and diluted earnings per share	$ 0.07	$ 0.22	$ 0.22	$
Cash dividends per share	$ 0.20	$ 0.20	$ 0.40	$

See notes to condensed consolidated financial statements.

STURM, RUGER & COMPANY, INC. AND SUBSIDIARIES

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

	Six Months Ended June 30, 2001	2000
Cash Provided by Operating Activities	$ 2,460	$ 16,628
Investing Activities		
Property, plant and equipment additions	(2,307)	(2,367)
Purchases of short-term investments	(39,398)	(79,082)
Proceeds from maturities of short-term investments	49,670	73,555
Net proceeds from sale of non-manufacturing real estate	--	1,978
Net proceeds from sale of Uni-Cast assets	--	382
Cash provided by (used by) investing activities	7,965	(5,534)
Financing Activities		
Dividends paid	(10,764)	(10,764)
Cash used by financing activities	(10,764)	(10,764)
Increase in cash and cash equivalents	(339)	330
Cash and cash equivalents at beginning of period	4,073	8,164

Cash and cash equivalents at end of period	$ 3,734	$ 8,494

See notes to condensed consolidated financial statements.

STURM, RUGER & COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2001

NOTE 1--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated 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 footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the accompanying unaudited condensed consolidated 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 six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year ending December 31, 2001. For further information refer to the consolidated financial statements and footnotes thereto included in the Sturm, Ruger & Company, Inc. Annual Report on Form 10-K for the year ended December 31, 2000.

NOTE 2--SIGNIFICANT ACCOUNTING POLICIES

Organization: Sturm, Ruger & Company, Inc. ("Company") is principally engaged in the design, manufacture, and sale of firearms and investment castings. The Company's design and manufacturing operations are located in the United States. Substantially all sales are domestic. The Company's firearms are sold through a select number of independent distributors to the sporting and law enforcement markets. Investment castings are sold either directly to or through manufacturers' representatives to companies in a wide variety of industries.

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.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

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 forces beyond management's control, interim results are subject to the final year-end LIFO inventory valuation.

NOTE 4--INCOME TAXES

The Company's effective tax rate differs from the statutory tax rate principally as a result of state income taxes. Total income tax payments during the six months ended June 30, 2001 and 2000 were $0.7 million and $13.1 million, respectively.

NOTE 5--BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the impact of options outstanding using the treasury stock method, when applicable.

NOTE 6--COMPREHENSIVE INCOME

As there were no non-owner changes in equity during the first half of 2001 and 2000, total comprehensive income equals net income for the three and six months ended June 30, 2001 and 2000, or $1.8 million and $5.9 million, and $5.9 million and $15.0 million, respectively.

NOTE 7 - CONTINGENT LIABILITIES

As of June 30, 2001, the Company is a defendant in approximately 39 lawsuits involving its products and is aware of certain other such claims. These lawsuits and claims fall into two categories:

(i) those that claim damages from the Company related to allegedly defective product design which stem from a specific incident. These 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, and

(ii) those brought by cities, municipalities, counties, individuals (including certain putative class actions) and one state Attorney General against numerous firearms manufacturers, distributors and dealers 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. None of these cases allege a specific injury to a specific individual as a result of the misuse or use of any of the Company's products.

Management believes that, in every case, 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 further exist to the suits brought by cities, municipalities, counties, and the Attorney General based, among other reasons, on established state law precluding recovery by municipalities 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 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. The Court upheld the verdict of the jury and dismissed each case as to the Company in its later opinion. The three defendants found liable have filed a notice of appeal from the Court's decision. On August 16, 2000, the U.S. 2nd Circuit Court of Appeals certified certain questions involving the appeal to the Appellate Division of the New York State Supreme Court for resolution. Oral argument on those certified questions was heard in the New York Appellate Division on February 8, 2001. On April 26, 2001, the Appellate Division of the New York State Supreme Court responded to the U.S. 2nd Circuit Court of Appeals' certified questions. The questions involved whether firearms manufacturers have a legal duty to prevent criminal misuses of their lawfully-sold products and whether any liability of the firearms manufacturers should be apportioned by a market share theory. The New York State Appellate Division answered both questions in the negative.

On October 7, 1999, a lawsuit brought against the Company and numerous firearms manufacturers and distributors by the mayor of Cincinnati, City of Cincinnati v. Beretta U.S.A. Corp., et. al., was dismissed. This was the first dismissal of one of the lawsuits which have been filed by certain cities, municipalities and counties. The Ohio Court of Appeals affirmed this decision on August 11, 2000. Such lawsuits filed by the cities of Bridgeport, Miami, Chicago, Camden County, Philadelphia, and Gary have been completely dismissed and those filed by the cities of Atlanta and Wilmington have been partially dismissed. The Cleveland suit has withstood an initial motion to dismiss in the trial court, and in New Orleans the Court declared legislation passed to prohibit such suits unconstitutional. However, on April 3, 2001, the Louisiana Supreme Court reversed this decision, finding the statute to be constitutional, and it dismissed the case. The Detroit/Wayne County case was also partially dismissed, and the Michigan legislature has also passed legislation precluding such suits, as have about twenty other states. The Boston case and the California city claims (consolidated into one case) have been permitted to proceed into the discovery phase. Appeals of all trial court decisions are pending or will be filed when appropriate. Motions to dismiss other such lawsuits are pending or will be filed when timely.

The Company's 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.

Punitive damages, as well as compensatory damages, are demanded in many of the lawsuits and claims. Aggregate claimed amounts presently exceed product liability accruals and applicable insurance coverage. As of March 18, 1982, compensatory and punitive damage insurance coverage is provided, in States where permitted, for losses exceeding $1.0 million of loss per occurrence or an aggregate maximum loss of $4.0 million. For claims which the Company has been notified in writing between July 10, 1988, through July 10, 1989, coverage is provided for losses exceeding $2.5 million per claim or an aggregate maximum loss of $9.0 million. For claims made between July 10, 1989, and July 10, 1992, the aggregate maximum loss is $7.5 million. For claims made after July 10, 1992, coverage is provided for losses exceeding $2.25 million per claim, or an aggregate maximum loss of $6.5 million.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)--CONTINUED

For claims made after July 10, 1994, coverage is provided for losses exceeding $2.0 million per claim, or an aggregate maximum loss of $6.0 million. For claims made after July 10, 1997, coverage is provided for annual losses exceeding $2.0 million per claim, or an aggregate maximum loss of $5.5 million annually. For claims made after July 10, 2000, coverage is provided for annual 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.

On March 17, 2000, Smith & Wesson announced that it had reached a settlement to conclude some of the municipal lawsuits with various governmental entities. On March 30, 2000, the Office of the Connecticut Attorney General began an investigation of certain alleged "anticompetitive practices in the firearms industry." On April 17, 2000 the State of Maryland's Attorney General also made similar inquiries as to the Company. On August 9, 2000, the U.S. Federal Trade Commission also filed such a civil investigative demand regarding the Smith & Wesson settlement. The Company has not engaged in any improper conduct and has cooperated with these investigations.

The Company has reported all cases instituted against it through March 31, 2001 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 8--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 consists of two operating divisions which manufacture and sell titanium and steel investment castings. Selected operating segment financial information follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Net Sales				
Firearms	$ 29,543	$ 37,594	$ 65,380	$ 88,689
Castings				
Unaffiliated	8,125	11,341	16,152	20,135
Intersegment	7,073	7,240	18,215	15,069
	15,198	18,581	34,367	35,204
Eliminations	(7,073)	(7,240)	(18,215)	(15,069)
	37,668	$ 48,935	$ 81,532	$ 108,824
Income Before Income Taxes				
Firearms	$ 2,609	$ 7,538	$ 7,698	$ 20,721
Castings	(428)	508	307	1,078
Corporate	788	1,700	1,763	2,792
	$ 2,969	$ 9,746	$ 9,768	$ 24,591

	June 30, 2001	December 31, 2000
Identifiable Assets		
Firearms	$ 90,135	$ 79,230
Castings	32,581	33,043
Corporate	84,607	98,828
	$207,323	$211,101

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

Results of Operations

Consolidated net sales of $37.7 million and $81.5 million were achieved by the Company for the three and six months ended June 30, 2001. This represents a decrease of 23.0% and 25.1% from 2000 consolidated net sales of $48.9 million and $108.8 million, respectively.

Firearms segment net sales decreased by $8.1 million, or 21.4%, in the second quarter of 2001 to $29.5 million from $37.6 million in the second quarter of the prior year. For the six months ended June 30, 2001, firearms segment net sales decreased by $23.3 million, or 26.3% to $65.4 million, compared to the corresponding 2000 period. Firearms unit shipments decreased 26.2% for the three-month period and 33.1% for the six-month period ended June 30, 2001 from the comparable 2000 periods. The unit decrease reflects a decline in overall market demand. In 2001, the Company instituted a sales incentive program for its distributors which allowed them to earn rebates of up to 3% if certain annual overall sales targets were achieved. In May 2001, this program was modified to allow for rebates of up to 5% if certain annual sales targets are achieved. This program replaces a sales incentive program in 2000 which allowed rebates of up to 15% if certain annual overall sales targets were achieved. The Company anticipates that total firearm segment sales in 2001 may be below the level achieved in 2000.

Casting segment net sales decreased by 28.4% and 19.8% to $8.1 million and $16.2 million, respectively, for the three and six months ended June 30, 2001 from $11.3 million and $20.1 million in the comparable 2000 periods. The decrease is attributable to the absence of aluminum casting sales as the Company sold its Uni-Cast Division during the second quarter of 2000 and an apparent weakened demand for both steel and titanium castings. The Company anticipates that total casting segment sales in 2001 may be below the level achieved in 2000. The Company continues to actively pursue other casting business opportunities.

Consolidated cost of products sold for the second quarter and the six months ended June 30, 2001 were $30.4 million and $62.3 million compared to $36.4 million and $77.8 million in the corresponding 2000 periods, representing a decrease of 16.3% and 19.9%, respectively. This was primarily attributable to lower firearms and castings sales, as discussed above.

Gross profit as a percentage of net sales was 23.5% for the six month period ended June 30, 2001, as compared to 28.5% in the comparable 2000 period. For the second quarter of 2001, gross profit as a percent of sales decreased to 19.2% from 25.7% in the second quarter of 2000. Margin erosion in both periods was caused primarily by reduced sales levels in both segments.

Selling, general and administrative expenses were $5.1 million and $11.4 million for the three and six months ended June 30, 2001, representing an increase of $0.3 million and $1.5 million from the corresponding periods of 2000. These increases are due in part to start-up costs related to a voluntary firearms lock exchange program.

Other income-net decreased by $1.1 million and $1.5 million in the three and six months ended June 30, 2001 compared to the corresponding 2000 periods, respectively. These decreases are primarily due to a gain on the sale of non-manufacturing real estate in the second quarter of 2000 and decreased earnings on short-term investments as a result of decreased principal and declining interest rates during the first half of 2001.

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

The effective income tax rate of 39.2% in the second quarter and six months ended June 30, 2001 is unchanged from the corresponding periods in 2000.

As a result of the foregoing factors, consolidated net income decreased $4.1 million, or 69.5%, from $5.9 million to $1.8 million for the three months ended June 30, 2001 as compared to the second quarter of 2000 and decreased $9.1 million, or 60.3%, from $15.0 million to $5.9 million for the six months ended June 30, 2001 as compared to the first half of 2000.

Financial Condition

At June 30, 2001, the Company had cash, cash equivalents and short-term investments of $59.3 million, working capital of $117.8 million and a current ratio of 5.2 to 1.

Cash provided by operating activities was $2.5 million and $16.6 million for the six months ended June 30, 2001 and 2000, respectively. The decrease in cash provided is principally a result of the increase in inventories during the first six months of 2001.

The Company follows an industry-wide practice of offering a "dating plan" to its firearms customers on selected products, which allows the purchasing distributor to buy the products commencing in December, the start of the Company's dating plan year, and pay for them on extended terms. Discounts are offered for early payment. The dating plan provides a revolving payment plan under which payments for all shipments made during the period December through February have to be made by April 30. Generally, shipments made in subsequent months have to be paid within approximately 90 days. Dating plan receivable balances were $4.6 million at June 30, 2001 compared to $5.3 million at June 30, 2000. The Company has reserved the right to discontinue the dating plan at any time and has been able to finance this dating plan from internally generated funds provided by operating activities.

Capital expenditures during the six months ended June 30, 2001 totaled $2.3 million. For the past two years capital expenditures averaged approximately $1.5 million per quarter. In 2001, the Company expects to spend approximately $5.0 million on capital expenditures to upgrade and modernize manufacturing equipment primarily at the Newport Firearms, Ruger Investment Casting, and Pine Tree Castings Divisions. The Company finances, and intends to continue to finance, all of these activities with funds provided by operations.

For the six months ended June 30, 2001 dividends paid totaled $10.8 million. This amount reflects the regular quarterly dividend of $.20 per share paid in March and June 2001. On July 31, 2001, the Company declared a regular quarterly dividend of $.20 per share payable on September 15, 2001. Future dividends depend on many factors, including internal estimates of future performance and the Company's need for funds.

Historically, the Company has not required external financing. Based on its cash flow and unencumbered assets, the Company believes it has the ability to raise substantial amounts of short-term or long-term debt. The Company does not anticipate any need for external financing through 2001.

The purchase of firearms is subject to federal, state and local governmental regulations. The basic federal laws are the National Firearms Act, the Federal Firearms Act, and the Gun Control Act of 1968. These laws generally prohibit the private ownership of fully automatic weapons and place certain restrictions on the interstate sale of

firearms unless certain licenses are obtained. The Company does not manufacture fully automatic weapons, other than for the law enforcement market, and holds all necessary licenses under these federal laws. From time to time, congressional committees review proposed bills relating to the regulation of firearms. These proposed bills generally seek either to restrict or ban the sale and, in some cases, the ownership of various types of firearms. Several states currently have laws in effect similar to the aforementioned legislation.

Until November 30, 1998, the "Brady Law" mandated a nationwide five-day waiting period and background check prior to the purchase of a handgun. As of November 30, 1998, the National Instant Check System, which applies to both handguns and long guns, replaced the five-day waiting period. The Company believes that the "Brady Law" has not had a significant effect on the Company's sales of firearms, nor does it anticipate any impact on sales in the future. The "Crime Bill" took effect on September 13, 1994, but none of the Company's products were banned as so-called "assault weapons." To the contrary, all the Company's then-manufactured long guns were exempted by name as "legitimate sporting firearms." The Company remains strongly opposed to laws which would restrict the rights of law-abiding citizens to lawfully acquire firearms. The Company believes that the private ownership of firearms is guaranteed by the Second Amendment to the United States Constitution and that the widespread private ownership of firearms in the United States will continue. However, there can be no assurance that the regulation of firearms will not become more restrictive in the future and that any such restriction would not have a material adverse effect on the business of the Company.

The Company is a defendant in numerous lawsuits involving its products and is aware of certain other such claims. The Company has expended significant amounts of financial resources and management time in connection with product liability litigation. Management believes that, in every case, the allegations are unfounded, and that the shootings and any results therefrom were due to negligence or misuse of the firearm by third parties or the claimant, and that there should be no recovery against the Company. Defenses further exist to the suits brought by cities, municipalities, counties, and State Attorneys General based, among other reasons, on established state law precluding recovery by municipalities 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 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. The Court upheld the verdict of the jury and dismissed each case as to the Company in its later opinion. The three defendants found liable have filed a notice of appeal from the Court's decision. On August 16, 2000, the U.S. 2nd Circuit Court of Appeals certified certain questions involving the appeal to the Appellate Division of the New York State Supreme Court for resolution. Oral argument on those certified questions was heard in the New York Appellate Division on February 8, 2001. On April 26, 2001, the Appellate Division of the New York State Supreme Court responded to the U.S. 2nd Circuit Court of Appeals' certified questions. The questions involved whether firearms manufacturers have a legal duty to prevent criminal misuses of their lawfully-sold products and whether any liability of the firearms manufacturers should be apportioned by a market share theory. The New York State Appellate Division answered both questions in the negative.

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

On October 7, 1999 a lawsuit brought against the Company and numerous firearms manufacturers and distributors by the mayor of Cincinnati, City of Cincinnati v. Beretta U.S.A. Corp., et. al., was dismissed. This was the first dismissal of one of the lawsuits which have been filed by certain cities, municipalities and counties. The Ohio Court of Appeals affirmed this decision on August 11, 2000. Such lawsuits filed by the cities of Bridgeport, Miami, Chicago, Camden County, Philadelphia, and Gary have been completely dismissed and those filed by the cities of Atlanta and Wilmington have been partially dismissed. The Cleveland suit has withstood an initial motion to dismiss in the trial court, and in New Orleans the Court declared legislation passed to prohibit such suits unconstitutional. However, on April 3, 2001, the Louisiana Supreme Court reversed this decision, finding the statute to be constitutional, and it dismissed the case. The Detroit/Wayne County case was also partially dismissed, and the Michigan legislature has also passed legislation precluding such suits, as have about twenty other states. The Boston case and the California city claims (consolidated into one case) have been permitted to proceed into the discovery phase. Appeals of all trial court decisions are pending or will be filed when appropriate. Motions to dismiss other such lawsuits are pending or will be filed when timely.

The Company's 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.

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 its business.

The Company expects to realize its deferred tax assets through tax deductions against future taxable income or carry back against taxes previously paid.

The effect of inflation on the Company's operations is most immediately felt in cost of products sold because the Company values its inventory on the LIFO basis. Generally under this method, the cost of products sold reported in the financial statements approximates current costs, and thus, reduces distortion in reported income which would result from the slower recognition of increased costs when other methods are used. The use of historical cost depreciation has a beneficial effect on cost of products sold. The Company has been affected by inflation in line with the general economy.

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, attorneys general and other governmental entities and membership organizations, and the impact of future firearms control and environmental legislation, any one or more of which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publish revised forward-looking statements to reflect events or circumstances after the date such forward-looking statements are made or to reflect the occurrence of subsequent unanticipated events.

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

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 United States Treasury instruments with short-term (less than one year) maturities. 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The nature of the legal proceedings against the Company is discussed in Note 7 to the condensed consolidated financial statements included in this Form 10-Q report, which is incorporated herein by reference.

The Company has reported all cases instituted against it through March 31, 2001, 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.

No cases were instituted against the Company during the three months ended June 30, 2001, which involved significant demands for compensatory and/or punitive damages.

During the three months ended June 30, 2001, no previously-reported cases were settled.

On April 3, 2001, in the previously-reported New Orleans (LA) case, the Louisiana Supreme Court reversed the trial court's decision, finding that legislation prohibiting the city's lawsuit was constitutional, and dismissed the case. Plaintiffs filed a motion for rehearing which was denied on April 24, 2001.

On April 25, 2001, in the previously-reported Halliday (MD) case, the Maryland Court of Special Appeals affirmed en banc the trial court's dismissal of all claims against the Company, holding that a firearms manufacturer has no legal duty to manufacture "childproof" firearms. Plaintiffs are expected to appeal this decision to the Maryland Court of Appeals.

On June 4, 2001, in the previously-reported Binkley (MI) case, the Company was dismissed with prejudice.

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

The 2001 Annual Meeting of the Stockholders of the Company was held on May 3, 2001. The table below sets forth the results of the votes taken at the 2001 Annual Meeting:

1. Election of Directors

	Votes For	Votes Withheld
William B. Ruger	25,070,910	677,051
William B. Ruger, Jr.	25,082,670	665,291
Erle G. Blanchard	25,084,356	663,605
Stephen L. Sanetti	25,083,687	664,274
Richard T. Cunniff	25,503,673	244,288
Townsend Hornor	25,501,771	246,190
Paul X. Kelley	25,503,394	244,567
John M. Kingsley, Jr.	25,512,459	235,502
James E. Service	25,516,097	231,864
Stanley B. Terhune	25,492,468	255,493

2. Ratification of Ernst & Young LLP as Auditors for 2001

Votes For	Votes Against	Votes Withheld
25,597,277	84,322	66,362

3. 2001 Stock Option Plan for Non-Employee Directors

Votes For	Votes Against	Votes Withheld
22,831,591	2,073,006	843,364

4. Stockholder Proposal for a "Report on Gun Policies and Procedures"

Votes For	Votes Against	Votes Withheld	Broker Non-Votes
1,017,720	17,706,503	1,533,503	5,490,023

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits - None

(b) Reports on Form 8-K -

The Company did not file any reports on Form 8-K during the three months ended June 30, 2001.

STURM, RUGER & COMPANY, INC.

FORM 10-Q FOR THE THREE MONTHS ENDED JUNE 30, 2001

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.

Date: August 6, 2001

S/ERLE G. BLANCHARD

Erle G. Blanchard
Principal Financial Officer,
Vice Chairman, President, Chief Operating
Officer, Treasurer and Director