STURM RUGER & CO INC
Form 10-Q
August 08, 2003

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, 2003

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	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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

The number of shares outstanding of the issuer's common stock as of July 31, 2003: Common Stock, $1 par value - 26,910,720.

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CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	June 30, 2003 (Unaudited)	December 31, 2002 (Note)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,726	$ 3,598
Short-term investments	45,430	49,776
Trade receivables, less allowances for doubtful accounts ($451 and $449) and discounts ($134 and $783)	13,305	14,026
Inventories:		
Finished products	19,424	16,999
Materials and products in process	36,165	34,629

	55,589	51,628
Deferred income taxes	7,436	6,985
Prepaid expenses and other assets	2,849	4,536
Total current assets	127,335	130,549
Property, plant and equipment	156,098	153,732
Less allowances for depreciation	(127,507)	(124,538)
	28,591	29,194
Deferred income taxes	8,837	9,594
Other assets	14,266	14,621
	$ 179,029	$ 183,958

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

STURM, RUGER & COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS -- CONTINUED
(Dollars in thousands, except per share data)

	June 30, 2003 (Unaudited)	December 31, 2002 (Note)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable and accrued expenses	$ 5,486	$ 5,080
Product liability	4,000	4,000
Employee compensation	7,797	7,324
Workers' compensation	4,805	4,765
Dividends payable	--	5,382
Income taxes	810	882
Total current liabilities	22,898	27,433
Accrued pension liability	5,765	6,423
Deferred income taxes	7,857	5,886
Product liability accrual	4,346	6,233
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	26,911	26,911
Additional paid-in capital	2,508	2,508
Retained earnings	116,829	116,649
Accumulated other comprehensive income	(8,085)	(8,085)

	138,163	137,983
	$ 179,029	$ 183,958

Note:
The balance sheet at December 31, 2002 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.

STURM, RUGER & COMPANY, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30,		Six Months Ended 30,	
	2003	2002	2003	2002
Firearms sales	$ 27,156	$ 33,427	$ 63,639	$ 76,156
Castings sales	4,645	6,357	9,294	12,068
Net sales	31,801	39,784	72,933	88,224
Cost of products sold	25,294	29,839	53,989	65,999
Gross profit	6,507	9,945	18,944	22,225
Expenses:				
Selling	3,313	3,883	7,210	7,415
General and administrative	1,692	1,503	3,067	3,216
	5,005	5,386	10,277	10,631
Operating income	1,502	4,559	8,667	11,594
Other income-net	226	403	618	822
Income before income taxes	1,728	4,962	9,285	12,416
Income taxes	693	2,057	3,723	4,979
Net income	$ 1,035	$ 2,905	$ 5,562	$ 7,437
Earnings per share				
Basic	$ 0.04	$ 0.11	$ 0.21	$ 0.28
Diluted	$ 0.04	$ 0.11	$ 0.21	$ 0.27

Cash dividends per share	$ 0.20	$ 0.20	$ 0.40	$ 0.40
Average shares outstanding				
Basic	26,911	26,911	26,911	26,911
Diluted	26,911	27,106	26,911	27,056

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, 2003	2002
Cash Provided by Operating Activities	$ 8,011	$ 14,522
Investing Activities		
Property, plant and equipment additions	(2,465)	(1,271)
Purchases of short-term investments	(67,761)	(82,346)
Proceeds from maturities of short-term investments	72,107	80,585
Cash provided by (used by) investing activities	1,881	(3,032)
Financing Activities		
Dividends paid	(10,764)	(10,763)
Cash used by financing activities	(10,764)	(10,763)
Increase (decrease) in cash and cash equivalents	(872)	727
Cash and cash equivalents at beginning of period	3,598	3,838
Cash and cash equivalents at end of period	$ 2,726	$ 4,565

See notes to condensed consolidated financial statements.

STURM, RUGER & COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2002

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, 2003 are not necessarily indicative of the results to be expected for the full year ending December 31, 2003. 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, 2002.

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

Stock Incentive and Bonus Plans: The Company accounts for employee stock options under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standard ("SFAS") No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." Had compensation expense for the Plans been determined in accordance with SFAS No. 123 (using the Black-Scholes option-pricing model), the Company's net income and earnings per share would have been reduced to the following pro forma amounts (in thousands, except per share data):

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months E[nded June 30,] 2003
Net Income:			
As reported	$ 1,035	$ 2,905	$ 5,562
Add: Recognized stock-based employee compensation, net of tax	--	--	--
Deduct: Employee compensation expense determined under fair value method, net of tax	(97)	(97)	(194)
Pro forma	$ 938	$ 2,808	$ 5,368
Basic Earnings per Share:			
As reported	$ 0.04	$ 0.11	$ 0.21
Pro forma	$ 0.03	$ 0.10	$ 0.20
Diluted Earnings per Share:			
As reported	$ 0.04	$ 0.11	$ 0.21
Pro forma	$ 0.03	$ 0.10	$ 0.20

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, 2003 and 2002 were $1.1 million and $5.1 million, respectively.

NOTE 5--BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is based upon the weighted average number of common shares outstanding during the period. 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 three and six months ended June 30, 2003 and 2002 of 26,911,000 and 27,106,000, and 26,911,000 and 27,056,000, respectively.

NOTE 6 -- COMPREHENSIVE INCOME

As there were no non-owner changes in equity during the first half of 2003 and 2002, total comprehensive income equals net income for the three and six months ended June 30, 2003 and 2002, or $1.0 million and $2.9 million, and $5.6 million and $7.4 million, respectively.

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

NOTE 7 - CONTINGENT LIABILITIES

As of June 30, 2003, the Company is a defendant in approximately 24 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, associations, individuals and one state Attorney General against 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. 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.

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 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. 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 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 to the Appellate Division of the New York State Supreme Court for resolution. 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 August 30, 2001, the United States Court of

Appeals for the 2nd Circuit vacated and remanded the case with instructions for the trial court to enter a final judgment of dismissal. The trial court finally dismissed the case on its merits on September 17, 2001.

Of the lawsuits brought by municipalities or a state Attorney General, fourteen have been dismissed. Nine of those cases are 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; and Cincinnati - voluntarily withdrawn after a unanimous vote of the city council.

The Indiana Court of Appeals affirmed the dismissal of the Gary case by the trial court and a decision by the Indiana Supreme Court is pending. Washington, D.C. is on appeal from its complete dismissal. On March 7, 2003, the consolidated California Cities case involving nine cities and three counties was dismissed as to all manufacturer defendants, and plaintiffs appealed on June 9, 2003. On June 24, 2003, the New York State Supreme Court, Appellate Division, affirmed the dismissal of the New York case; plaintiffs have appealed. The Chicago dismissal was reversed in part on appeal, and an appeal to the Illinois Supreme Court is pending. Detroit/Wayne County is also on appeal from partial dismissal.

Cleveland and New York City are stayed. Camden City and St. Louis have pending motions to dismiss at the trial level. On March 11, 2003, the intermediate New Jersey Court of Appeals in the Newark lawsuit affirmed the decision of the trial court permitting certain claims to proceed into pretrial discovery. Newark and Jersey City are proceeding with pretrial discovery. Camden City was dismissed pending the unrelated bankruptcy proceeding of one of the Company's co-defendants.

On May 14, 2003, an advisory jury in the NAACP case returned a verdict rejecting the NAACP's claims. On July 21, 2003, an order of dismissal was entered. It is unknown at present if plaintiffs will appeal.

Legislation has been passed in approximately 31 states precluding suits of the type brought by the municipalities mentioned above, and similar federal legislation has been introduced in the U.S. Congress.

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. For claims made after July 10, 1994, compensatory and punitive damage insurance coverage is provided, in states where permitted, 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, 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. During April 2002, after the city of Boston voluntarily withdrew its case with prejudice as to all

remaining defendants, Boston moved jointly with Smith & Wesson to dissolve their consent decree settlement, which motion the court accepted. The Company has not engaged in any improper conduct and has cooperated with these investigations.

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 can not be made. However, in the product liability cases in which a dollar amount of damages is claimed, the amount of damages claimed, which totaled $837 million at June 30, 2003, is 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.

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 can not be determined in advance with any reliability concerning when payments will be made in any given case.

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 March 31, 2003 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--RELATED PARTY TRANSACTIONS

For the three and six months ended June 30, 2003 and 2002, the Company paid Newport Mills, of which William B. Ruger, Jr., Chairman and Chief Executive Officer of the Company, is the sole proprietor, $60,750 and $121,500, and $40,500 and $101,250, respectively, for storage rental and office space.

NOTE 9--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

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

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,	
	2003	2002	2003	2002
Net Sales				
Firearms	$ 27,155	$ 33,427	$ 63,639	$ 76,156
Castings				
Unaffiliated	4,645	6,357	9,294	12,068
Intersegment	4,274	4,639	9,614	9,300
	8,919	10,996	18,908	21,368
Eliminations	(4,274)	(4,639)	(9,614)	(9,300)
	$ 31,800	$ 39,784	$ 72,933	$ 88,224
Income Before Income Taxes				
Firearms	$ 2,697	$ 6,947	$ 10,313	$ 16,065
Castings	(1,092)	(2,319)	(1,474)	(4,341)
Corporate	123	334	446	692
	$ 1,728	$ 4,962	$ 9,285	$ 12,416

	June 30, 2003	December 31 2002

Identifiable Assets		
Firearms	$ 82,104	$ 79,301
Castings	18,771	19,394
Corporate	78,154	85,263
	$ 179,029	$ 183,958

NOTE 10 - SUBSEQUENT EVENT

On August 5, 2003, the Company sold certain non-manufacturing real estate for approximately $11 million. This transaction is expected to result in a net gain of approximately $3 million.

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

Results of Operations

Consolidated net sales of $31.8 million and $72.9 million were achieved by the Company for the three and six months ended June 30, 2003. This represents a decrease of 20.1% and 17.3% from 2002 consolidated net sales of $39.8 million and $88.2 million, respectively.

Firearms segment net sales decreased by $6.2 million, or 18.8%, in the second quarter of 2003 to $27.2 million from $33.4 million in the second quarter of the prior year. For the six months ended June 30, 2003, firearms segment net sales decreased by $12.5 million, or 16.4% to $63.6 million, compared to the corresponding 2002 period. Firearms unit shipments decreased 16.7% for the three-month period ended June 30, 2003 and 14.8% for the six-month period ended June 30, 2003 from the comparable 2002 periods. Shipments decreased in all of the four major product categories; however, lever action rifles continue to experience sales growth due to the popularity of the .17 HMR caliber model introduced in 2003. Shipments of centerfire pistols increased in the second quarter of 2003 compared to the second quarter of 2003 in response to a consumer-driven sales incentive program announced in April 2003 for centerfire pistols sold from May to September 2003. Additionally in 2003, the Company instituted a sales incentive program for its distributors which allows them to earn rebates of up to 1.5% if certain annual overall sales targets are achieved. This program replaces a similar sales incentive program in 2002.

Casting segment net sales decreased by 26.9% and 23.0% to $4.6 million and $9.3 million, respectively, for the three and six months ended June 30, 2003 from $6.4 million and $12.1 million in the comparable 2002 periods. The decrease in castings sales in 2003 is primarily due to weakened demand for titanium castings. Shipments of titanium golf clubheads to Karsten Manufacturing Corporation decreased $3.8 million for the six months ended June 30, 2003 compared to the corresponding 2002 period. There are no future shipments expected to Karsten Manufacturing Corporation in 2003. The Company continues to actively pursue other casting business opportunities.

Consolidated cost of products sold for the three and the six months ended June 30, 2003 were $25.3 million and $54.0 million compared to $29.8 million and $66.0 million in the corresponding 2002 periods, representing a decrease of 15.2% and 18.2%, respectively. The respective decreases are primarily attributable to decreased sales in both firearms and castings and to reduced production costs in the castings segment, and are partially offset by increases in product liability costs.

Gross profit as a percentage of net sales was 26.0% for the six month period ended June 30, 2003 as compared to 25.2% in the comparable 2002 period. For the second quarter of 2003, gross profit as a percent of sales fell to 20.5% from 25.0% in the second quarter of 2002. Margin improvement for the six month period ended June 30, 2003 was caused by a decline in production costs in the castings segment, partially offset by increased product liability expenses. The decrease in margin for the three month period ended June 30, 2003 as compared to the three month period ended June 30, 2002 was primarily attributable to increased product liability expenses and an accrual related to the pistol sales incentive program in effect from May through September 2003.

Selling, general and administrative expenses were $5.0 million and $10.3 million for the three and six months ended June 30, 2003, representing decreases of $0.4 million from each of the corresponding periods of 2002. The decrease for both the three and six months ended June 30, 2003 is primarily attributable to a decrease in personnel related expenses.

Other income-net decreased by $0.2 million, respectively, in the three and six months ended June 30, 2003 compared to the corresponding 2002 periods. These decreases are due to decreased earnings on short-term investments resulting from lower yields on these investments, as well as from a decrease in the total short-term investments held during the periods.

The effective income tax rate of 40.1% in the three months and six months ended June 30, 2003 decreased from 41.5% in the three months ended June 30, 2002, and remains unchanged from the six months ended June 30, 2002. The rate in the second quarter of 2002 reflected a cumulative tax adjustment recorded to increase the tax rate from 39.2% through the first quarter of 2002 to 40.1% year to date at June 30, 2002.

As a result of the foregoing factors, consolidated net income decreased $1.9 million, or 64.4%, from $2.9 million for the three months ended June 30, 2002 to $1.0 million for the three months ended June 30, 2003, and decreased $1.8 million, or 25.2%, from $7.4 million for the six months ended June 30, 2002 to $5.6 million for the six months ended June 30, 2003.

Financial Condition

At June 30, 2003, the Company had cash, cash equivalents and short-term investments of $48.2 million, working capital of $104.4 million and a current ratio of 5.6 to 1.

Cash provided by operating activities was $8.0 million and $14.5 million for the six months ended June 30, 2003 and 2002, respectively. The decrease in cash provided is principally a result of the increase in inventories during the first six months of 2003 compared to the decrease in inventories during the first half of 2002.

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 marketing 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 must be made by April 30. Generally, shipments made in subsequent months must be paid within approximately 90 days. Dating plan receivable balances were $2.7 million at June 30, 2003 compared to $4.2 million at June 30, 2002. 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, 2003 totaled $2.5 million. For the past two years capital expenditures averaged approximately $0.9 million per quarter. In 2003, the Company expects to spend approximately $6 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, 2003 dividends paid totaled $10.8 million. This amount reflects the regular quarterly dividend of $.20 per share paid in March and June 2003. On July 24, 2003, the Company declared a regular quarterly dividend of $.20 per share payable on September 15, 2003. Future dividends depend on many factors, including internal estimates of future performance and the Company's need for funds.

In conjunction with the sale of its Uni-Cast division in June 2000, the Company extended credit to the purchaser in the form of a note and a line of credit, both of which are collateralized by certain of the assets of Uni-Cast. In 2002, the Company established an additional collateralized line of credit for the purchaser and, as of June 30, 2003, the total amount due from the purchaser was $2.1 million. The Company purchases aluminum castings used in the manufacture of certain models of pistols exclusively from Uni-Cast.

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 2003.

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

Until November 30, 1998, the "Brady Law" mandated a nationwide five-day waiting period and background check prior to the purchase of a handgun. As of November 30, 1998, the National Instant Check System, which applies to both handguns and long guns, replaced the five-day waiting period. The Company believes that the "Brady Law" 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 commercially-sold 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 lawful private ownership of firearms is guaranteed by the Second Amendment to the United States Constitution and that the widespread private ownership of firearms in the United States will continue. However, there can be no assurance that the regulation of firearms will not become more restrictive in the future and that any such restriction would not have a material adverse effect on the business of the Company.

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 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 a state 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 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. 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 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 to the Appellate Division of

the New York State Supreme Court for resolution. 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 August 30, 2001, the United States Court of Appeals for the 2nd Circuit vacated and remanded the case with instructions for the trial court to enter a final judgment of dismissal. The trial court finally dismissed the case on its merits on September 17, 2001.

Of the lawsuits brought by municipalities or a state Attorney General, fourteen have been dismissed. Nine of those cases are 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; and Cincinnati - voluntarily withdrawn after a unanimous vote of the city council.

The Indiana Court of Appeals affirmed the dismissal of the Gary case by the trial court and a decision by the Indiana Supreme Court is pending. Washington, D.C. is on appeal from its complete dismissal. On March 7, 2003, the consolidated California Cities case involving nine cities and three counties was dismissed as to all manufacturer defendants, and plaintiffs appealed on June 9, 2003. On June 24, 2003, the New York State Supreme Court, Appellate Division, affirmed the dismissal of the New York case; plaintiffs have appealed. The Chicago dismissal was reversed in part on appeal, and an appeal to the Illinois Supreme Court is pending. Detroit/Wayne County is also on appeal from partial dismissal.

Cleveland and New York City are stayed. Camden City and St. Louis have pending motions to dismiss at the trial level. On March 11, 2003, the intermediate New Jersey Court of Appeals in the Newark lawsuit affirmed the decision of the trial court permitting certain claims to proceed into pretrial discovery. Newark and Jersey City are proceeding with pretrial discovery. Camden City was dismissed pending the unrelated bankruptcy proceeding of one of the Company's co-defendants.

On May 14, 2003, an advisory jury in the NAACP case returned a verdict rejecting the NAACP's claims. On July 21, 2003, an order of dismissal was entered. It is unknown at present if plaintiffs will appeal.

Legislation has been passed in approximately 31 states precluding suits of the type brought by the municipalities mentioned above, and similar federal legislation has been introduced in the U.S. Congress.

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

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

credits may be taken if cumulative actual costs incurred for that claim, or reasonably expected to be incurred in the future, are less than amounts previously provided.

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

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 valuation of the future defined benefit pension obligations at December 31, 2002 indicated that these plans were underfunded. While this estimation has no bearing on the actual funded status of the pension plans, it resulted in the recognition of other comprehensive loss of $7.9 million in 2002.

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

Inflation's effect on the Company's operations is most immediately felt in cost of products sold because the Company values 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.

Recent Accounting Standards

Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," requires the recognition of an asset and a liability equal to the present value of the estimated costs associated with the retirement of long-lived assets where a legal or contractual obligation exists.

Financial Accounting Standards Board ("FASB") Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," requires a guarantor to recognize a liability with respect to a non-contingent obligation to stand ready to perform under the guarantee even if the probability of future payments under the conditions of a guarantee is remote, for periods beginning after December 15, 2002, and requires certain related disclosures as of December 31, 2002.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, as opposed to when management is committed to an exit plan.

The Company adopted these statements effective January 1, 2003. The adoption of these statements did not have a material impact on the Company's financial statements.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," introduces a new consolidation model with respect to variable interest entities. The new model requires that the determination of control should be based on the potential variability in gains and losses of the variable interest entity being evaluated. This

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

interpretation is effective on July 1, 2003. The Company does not expect the adoption of this interpretation to have a material impact on its financial statements.

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, a state attorney 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.

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.

ITEM 4. CONTROLS AND PROCEDURES

At the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Treasurer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Treasurer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in ensuring that material information related to the Company is made known to the Chief Executive Officer and Treasurer and Chief Financial Officer by others within the Company during the period in which this report was being prepared. During the second quarter of 2003, there

were no changes in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The nature of the legal proceedings against the Company is discussed at Note 7 to this Form 10-Q report, which is incorporated herein by reference.

ITEM 1. LEGAL PROCEEDINGS -- CONTINUED

The Company has reported all cases instituted against it through March 31, 2003, 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 formally instituted against the Company during the three months ended June 30, 2003, which involved significant demands for compensatory and/or punitive damages and in which the Company has been served with process.

During the three months ending June 30, 2003, one previously reported case was settled:

Case Name	Jurisdiction
Dantin	Louisiana

The settlement amount was within the limits of its self-insurance coverage or self-insurance retention.

On April 30, 2003, the Cincinnati (OH) lawsuit was voluntarily withdrawn after a unanimous vote of the city council.

On May 14, 2003, the jury in the NAACP (NY) lawsuit rejected the NAACP's claims as to all defendants, finding each of them not liable by a verdict of at least 10-2 or by reporting that they were unable to reach a verdict due to a deadlock of 9-3 in favor of all remaining defendants. The jury's decision was advisory and the matter remained pending before the Eastern District of New York (Judge J. Weinstein) for further rulings as of June 30, 2003. On July 21, 2003, an order of dismissal of all counts in the case was entered. It is unknown at present if plaintiffs will appeal.

On June 24, 2003, the Appellate Division, First Department, of the New York State Supreme Court affirmed the complete dismissal of all claims including that of "public nuisance" made by the New York State Attorney General in the New York State (NY) case. It is unknown at this time whether plaintiffs will appeal.

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

The 2003 Annual Meeting of the Stockholders of the Company was held on May 6, 2003. The table below sets forth the results of the votes taken at the 2003 Annual Meeting:

1.	Election of Directors	Votes For	Votes Withheld
	William B. Ruger, Jr.	24,181,747	1,323,610
	Stephen L. Sanetti	24,140,146	1,365,211
	Richard T. Cunniff	25,258,161	247,196
	Townsend Hornor	25,192,812	312,545
	Paul X. Kelley	25,268,054	237,303
	John M. Kingsley, Jr.	25,311,888	193,469
	James E. Service	25,311,310	194,047

2. Ratification of KPMG LLP as Auditors for 2003

Votes For	Votes Against	Votes Withheld
25,308,566	162,282	34,509

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(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

(b) The Company filed the following reports on Form 8-K during the three months ended June 30, 2003:

On April 22, 2003, the Company filed a Current Report on Form 8-K regarding an update to stockholders and other interested parties on financial results for the first quarter ended March 31, 2003.

On April 30, 2003, the Company filed a Current Report on Form 8-K regarding the retirement of Erle G. Blanchard as Vice Chairman, President, Chief Operating Officer, Treasurer and Director as of April 30, 2003.

On May 6, 2003, the Company filed a Current Report on Form 8-K announcing the appointment of Stephen L. Sanetti as its President and Chief Operating Officer effective immediately.

On June 20, 2003, the Company filed a Current Report on Form 8-K regarding an update to stockholders and other interested parties on preliminary estimates for the second quarter ending June 30, 2003.

STURM, RUGER & COMPANY, INC.

FORM 10-Q FOR THE THREE MONTHS ENDED JUNE 30, 2003

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, 2003

/S/ THOMAS A. DINEEN

Thomas A. Dineen
Principal Financial Officer,
Treasurer and Chief Financial Officer