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STURM RUGER & CO INC
Form 10-Q
November 05, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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 30, 2004

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 an accelerated filer (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
October 31, 2004: Common Stock, \$1 par value - 26,910,720.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

STURM, RUGER & COMPANY, INC.

CONDENSED BALANCE SHEETS

(Dollars in thousands, except per share data)

September 30,
2004

(Unaudited)

December 31,
2003

(Note)

ASSETS

Current Assets

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Cash and cash equivalents	\$ 3,801	\$ 3,446
Short-term investments	32,927	50,026
Trade receivables, less allowances for doubtful accounts (\$373 and \$441) and discounts (\$234 and \$772)	17,385	13,284
Inventories:		
Finished products	13,895	15,243
Materials and products in process	36,415	33,286
	-----	-----
	50,310	48,529
Deferred income taxes	6,760	7,284
Prepaid expenses and other current assets	3,034	1,985
	-----	-----
Total current assets	114,217	124,554
Property, plant and equipment	157,945	155,689
Less allowances for depreciation	(131,583)	(128,525)
	-----	-----
	26,362	27,164
Deferred income taxes	819	1,108
Other assets	9,614	10,047
	-----	-----
Total Assets	\$ 151,012	\$ 162,873
	=====	=====

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

STURM, RUGER & COMPANY, INC.

CONDENSED BALANCE SHEETS

(Dollars in thousands, except per share data)

	September 30, 2004	December 31, 2003
	-----	-----
	(Unaudited)	(Note)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable and accrued expenses	\$ 4,574	\$ 4,386
Product liability	4,000	4,000
Employee compensation	5,816	6,177
Workers' compensation	5,843	6,057
Income taxes	917	1,219
	-----	-----
Total current liabilities	21,150	21,839
Accrued pension liability	5,022	4,729
Product liability accrual	1,257	2,665
Contingent liabilities--Note 8	--	--
Stockholders' Equity		
Common Stock, non-voting, par value \$1:		

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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	2,509	2,508
Retained earnings	102,808	112,866
Accumulated other comprehensive income	(8,645)	(8,645)
	-----	-----
Total Stockholders' Equity	123,583	133,640
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 151,012	\$ 162,873
	=====	=====

Note:

The balance sheet at December 31, 2003 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Firearms sales	\$ 29,063	\$32,237	\$ 92,798	\$ 95,876
Castings sales	6,317	4,583	15,531	13,877
	-----	-----	-----	-----
Net sales	35,380	36,820	108,329	109,753
Cost of products sold	30,382	31,102	86,358	85,091
	-----	-----	-----	-----
Gross profit	4,998	5,718	21,971	24,662
Expenses:				
Selling	4,504	3,987	12,519	11,197
General and administrative	1,410	1,465	4,747	4,532
	-----	-----	-----	-----
	5,914	5,452	17,266	15,729
	-----	-----	-----	-----
Operating income(loss)	(916)	266	4,705	8,933
Gain on sale of real estate	874	5,922	874	5,922
Other income - net	9	243	92	861
	-----	-----	-----	-----
Total other income	883	6,165	966	6,783
	-----	-----	-----	-----

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Income(loss) before income taxes	(33)	6,431	5,671	15,716
Income taxes	(13)	2,579	2,274	6,302
	-----	-----	-----	-----
Net income(loss)	(\$ 20)	\$ 3,852	\$ 3,397	\$ 9,414
	=====	=====	=====	=====
Earnings per share				
Basic	\$ 0.00	\$ 0.14	\$ 0.13	\$ 0.35
	=====	=====	=====	=====
Diluted	\$ 0.00	\$ 0.14	\$ 0.13	\$ 0.35
	=====	=====	=====	=====
Cash dividends per share	\$ 0.10	\$ 0.20	\$ 0.50	\$ 0.60
	=====	=====	=====	=====
Average shares outstanding				
Basic	26,911	26,911	26,911	26,911
	=====	=====	=====	=====
Diluted	26,911	26,928	26,940	26,914
	=====	=====	=====	=====

See notes to condensed financial statements.

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STURM, RUGER & COMPANY, INC.

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

	Nine Months Ended September 30,	
	2004	2003
	-----	-----
Cash Provided (Used) by Operating Activities	(\$ 572)	\$ 9,759
Investing Activities		
Property, plant and equipment additions	(4,297)	(2,982)
Purchases of short-term investments	(95,712)	(112,540)
Proceeds from maturities of short-term investments	112,811	109,988
Proceeds from sale of real estate	1,580	10,873
	-----	-----
Cash provided by investing activities	14,382	5,339
	-----	-----
Financing Activities		
Dividends paid	(13,455)	(16,146)
	-----	-----
Cash used by financing activities	(13,455)	(16,146)
	-----	-----
Increase(decrease) in cash and cash equivalents	355	(1,048)
Cash and cash equivalents at beginning of period	3,446	3,598
	-----	-----
Cash and cash equivalents at end of period	\$ 3,801	\$ 2,550
	=====	=====

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See notes to condensed consolidated financial statements.

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STURM, RUGER & COMPANY, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2004

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 footnotes required by generally accepted accounting principles 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 30, 2004 are not necessarily indicative of the results to be expected for the full year ending December 31, 2004. 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, 2003.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Organization: Sturm, Ruger & Company, Inc. (the "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. 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 Standards ("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):

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NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) - CONTINUED

	Three Months Ended September 30,	
	2004	2003
	-----	-----
Net Income (loss):		
As reported	(\$ 20)	\$ 3,852
Add: Recognized stock-based employee compensation, net of tax	--	--
Deduct: Employee compensation expense determined under fair value method, net of tax	(5)	(97)
	-----	-----
Pro forma	(\$ 25)	\$ 3,755
	=====	=====
Basic Earnings per Share:		
As reported	\$ 0.00	\$ 0.14
Pro forma	\$ 0.00	\$ 0.14
	=====	=====
Diluted Earnings per Share:		
As reported	\$ 0.00	\$ 0.14
Pro forma	\$ 0.00	\$ 0.14
	=====	=====

The fair value of stock-based compensation expense was computed using the Black-Scholes option-pricing model with the following weighted average assumptions in 2001: dividend yield of 8.0%, expected volatility of 34.3%, risk free rate of return of 2.0%, and expected lives of 5 years. The estimated fair value of options granted is subject to the assumptions made and if the assumptions changed, the estimated fair value amounts could be significantly different. There have been no stock options granted since 2001.

Recent Accounting Pronouncements: The Company is not aware of any recent accounting pronouncements that are expected to have a material effect on its financial position or financial results.

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 nine months ended September 30, 2004 and 2003 were \$2.6 million and \$2.8 million, respectively.

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NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) - CONTINUED

NOTE 5 - PENSION PLANS

The Company sponsors two defined benefit pension plans which cover substantially all employees. A third defined benefit plan is non-qualified and covers certain executive officers of the Company. The estimated cost of these plans is summarized below:

	Three Months Ended September 30,	
	2004	2003
Service cost	\$ 210	\$ 376
Interest cost	421	753
Expected return on plan assets	(453)	(808)
Amortization of prior service cost	82	145
Recognized actuarial gains	109	193
Net periodic pension cost	\$ 369	\$ 659

NOTE 6 - 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. For the three months ended September 30, 2004, the treasury stock method would have been antidilutive, therefore the weighted average number of common shares were used for this period's diluted earnings per share calculation. This resulted in diluted weighted-average shares outstanding for the three and nine months ended September 30, 2004 and 2003 of 26,911,000 and 26,940,000, and 26,928,000 and 26,914,000, respectively.

NOTE 7 - COMPREHENSIVE INCOME

As there were no non-owner changes in equity during the first nine months of 2004 and 2003, total comprehensive income equals net income for the three months ended September 30, 2004 and 2003 of \$0.0 million and \$3.9 million, respectively, and for the nine months ended September 30, 2004 and 2003 of \$3.4 million and \$9.4 million, respectively.

NOTE 8 - CONTINGENT LIABILITIES

As of September 30, 2004, the Company is a defendant in approximately 16 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

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of "strict liability" but also may be based on negligence, breach of warranty, and other legal theories, and

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NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) - CONTINUED

- (ii) those brought by cities, municipalities, counties, associations, and individuals 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, and counties 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. 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

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criminal acts of others.

Of the lawsuits brought by municipalities or a state Attorney General, fifteen have been dismissed with no appeal pending. Fourteen 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

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NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) - CONTINUED

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; and City of Camden - dismissed on July 7, 2003, not reopened.

On November 13, 2003, plaintiffs in the Jersey City case voluntarily dismissed the matter. It is unknown whether plaintiffs will re-file.

The dismissal of the Washington, D.C. 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. Rehearing of the entire appeal is currently pending. 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. The Chicago dismissal was reversed in part on appeal, and an appeal to the Illinois Supreme Court is pending.

On October 20, 2003, the St. Louis Circuit Court dismissed the St. Louis case, and the city filed a notice of appeal. The Missouri Court of Appeals affirmed the trial court's dismissal on July 27, 2004. The plaintiffs then filed a motion for rehearing and/or a transfer of the appeal to the Missouri Supreme Court, which was denied. Thereafter, the plaintiffs filed a motion directly to the Missouri Supreme Court, requesting that it accept transfer of the appeal. That motion was denied on October 26, 2004.

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. Cleveland and New York City are open cases and the New York City case is scheduled to begin trial in April, 2005.

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

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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, and similar federal legislation has been introduced in the U.S. Congress. It passed the House by a 2-to-1 bipartisan majority and had over 54 co-sponsors in the Senate. It was considered by the Senate in February 2004, but failed to gain final passage after it was encumbered with numerous non-germane amendments. It is uncertain when it may be reconsidered by the Senate.

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

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NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) - CONTINUED

claims made after July 10, 1994, compensatory and punitive damage insurance coverage is provided, in states where permitted, 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.

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 the product liability cases in which a dollar amount of damages is claimed, the amount of damages claimed, which totaled \$433 million at September 30, 2004, 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 cannot 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.

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

The Company has reported all cases instituted against it through June 30, 2004 and the results of those cases, where terminated, to the S.E.C. on its previous Form 10-K and 10-Q reports, to which reference is hereby made.

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NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) - CONTINUED

NOTE 9 - RELATED PARTY TRANSACTIONS

For the three and nine months ended September 30, 2004 and 2003, 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 \$182,250, and \$60,750 and \$182,250, respectively, for storage rental and office space. On July 17, 2003, the Company sold two automobiles to William B. Ruger, Jr. for \$60,000.

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 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 September 30,	
	2004	2003
	-----	-----
Net Sales		
Firearms	\$ 29,063	\$ 32,237
Castings		
Unaffiliated	6,317	4,583
Intersegment	3,695	2,754
	-----	-----
	10,012	7,337
Eliminations	(3,695)	(2,754)
	-----	-----
	\$ 35,380	\$ 36,820
	=====	=====
Income(loss) before income taxes		
Firearms	\$ 307	\$ 916
Castings	(1,375)	(633)
Corporate	1,035	6,148
	-----	-----
	(\$ 33)	\$ 6,431
	=====	=====

Identifiable Assets

Firearms
Castings
Corporate

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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 and precision investment castings. The Company's design and manufacturing operations are located in the United States. Substantially all sales are domestic.

The Company is the only U.S. firearms manufacturer which offers products in all four industry product categories - rifles, shotguns, pistols, and revolvers. The Company's firearms are sold through a select number of independent wholesale distributors principally to the commercial sporting market.

Investment castings manufactured are of titanium and steel alloys. Investment castings are sold either directly to or through manufacturers' representatives to companies in a wide variety of industries.

The Company measures its performance only against its own historical results because the Company is unable to compare its performance to other companies or specific current industry trends in a timely manner. Many of the Company's competitors are private companies not subject to public information reporting requirements, and most industry-wide data is generally not available on a current basis.

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

Results of Operations

The Company achieved consolidated net sales of \$35.4 million and \$108.3 million for the three and nine months ended September 30, 2004, respectively. This represents a decrease of 3.9% from third quarter sales in 2003 of \$36.8 million and a decrease of 1.3% from net sales of \$109.8 million for the nine months ended September 30, 2003.

Firearms segment net sales of \$29.1 million in the third quarter of 2004 were \$3.2 million, or 9.8% below the third quarter of 2003. For the nine months ended September 30, 2004, firearms segment net sales decreased by \$3.1 million

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or 3.2% to \$92.8 million compared to the corresponding 2003 period. Firearms unit shipments decreased 15.3% for the three month period and 6.4% for the nine month period ended September 30, 2004 from the comparable 2003 periods. For the third quarter of 2004, shipments of revolvers and pistols declined, while shipments of shotguns and rifles improved. The decrease in shipments for the nine month period ended September 30, 2004 reflected decreased demand for pistols and revolvers. 2003 pistol shipments reflected strong demand for the MK-4NRA, a .22 caliber pistol commemorating William B. Ruger, the Company's founder, which was available only in 2003. In 2004, the Company continued a sales incentive program begun in 2003 for its distributors which allows them to earn rebates of up to 1.5% if certain annual overall sales targets are achieved. From May 1, 2003 to September 30, 2003, the Company offered a consumer-driven sales incentive program for certain centerfire pistols.

Casting segment net sales increased by \$1.7 million or 37.8% to \$6.3 million in the three months ended September 30, 2004 from \$4.6 million in the third quarter of 2003. For the nine months ended September 30, 2004, casting segment net sales increased \$1.7 million or 11.9% to \$15.5 million. The increase in casting

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segment sales in 2004 is the result of a broadening of our customer base in several industries, particularly the firearms industry. The Company continues to explore casting business opportunities.

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

Consolidated cost of products sold for the third quarter of 2004 was \$30.4 million compared to \$31.1 million in the third quarter of 2003. For the nine months ended September 30, 2004, consolidated cost of products sold was \$86.4 million compared to \$85.1 million in the corresponding 2003 period, representing an increase of 1.5% for the nine month period ended September 30, 2004. The slight decrease in the three month period ended September 30, 2004 is attributable to decreased firearms sales and decreased product liability costs, partially offset by increased production costs in the castings segment, and increased unitary overhead expenses resulting from a reduction in production volume. The increase for the nine month period ended September 30, 2004 is primarily attributable to increased production costs in the castings segment, and increased unitary overhead expenses resulting from a reduction in production volume, partially offset by decreased product liability costs. The Company incurred an expense of \$1.0 million for the relocation of two titanium furnaces from its Arizona foundry to New Hampshire. The furnace relocation is nearly complete. In addition, the Company will incur further costs for the development of an additional foundry in New Hampshire.

For the third quarter of 2004, gross profit as a percent of net sales decreased to 14.1% from 15.5% in the third quarter of 2003. Gross profit as a percentage of net sales decreased to 20.3% for the nine month period ended September 30, 2004 from 22.5% for the nine month period ended September 30, 2003. Margin deterioration during the three and nine month periods ended September 30, 2004 was caused by less efficient firearms production due to lower rates of production, discounts offered on discontinued firearm models, increased production costs in the castings segment, and the aforementioned relocation expenses related to the two titanium furnaces, partially offset by decreased product liability expenses.

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Selling, general and administrative expenses increased \$0.5 million to \$5.9 million for the quarter ended September 30, 2004 compared with the prior year period principally reflecting increased personnel costs and national advertising expenditures. Selling, general and administrative expenses of \$17.3 million for the nine months ended September 30, 2004 increased \$1.5 million from the corresponding 2003 period resulting from additional firearms promotional and advertising expenses as well as increased personnel related expenses.

Total other income decreased by \$5.3 million and \$5.8 million in the quarter and nine months ended September 30, 2004, respectively, compared to the corresponding 2003 periods. Included in total other income for the third quarter and nine months ended September 30, 2003 was the pretax gain of \$5.9 million from the sale of certain non-manufacturing real estate in Arizona, known as the Single Six Ranch. Included in total other income for the three and nine months ended September 30, 2004 is a \$0.9 million gain from the sale of the property and building that housed the Company's Uni-Cast division prior to its sale in 2000.

The effective income tax rate was 40.1% in both the third quarter and nine months ended September 30, 2004 and 2003, respectively.

As a result of the foregoing factors, consolidated net income for the three and nine months ended September 30, 2004 decreased to a break-even and to \$3.4 million, respectively, from \$3.9 million and \$9.4 million for the three and nine months ended September 30, 2003, respectively.

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

Financial Condition

OPERATIONS

At September 30, 2004, the Company had cash, cash equivalents and short-term investments of \$36.7 million, working capital of \$93.1 million and a current ratio of 5.4 to 1.

Cash used by operating activities was \$0.6 million for the nine months ended September 30, 2004. For the nine months ended September 30, 2003, operations provided \$9.8 million in cash. The adverse fluctuation in cash provided by operations is attributable to reduced earnings in 2004 and a greater increase in accounts receivable in 2004 compared to 2003.

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 120 days. Dating plan receivable balances were \$3.7 million at September 30, 2004 compared to \$4.8 million at September 30, 2003. 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.

The Company purchases its various raw materials from a number of suppliers. There is, however, a limited supply of these materials in the marketplace at any given time which can cause the purchase prices to vary based

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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 a reasonable cost without interruption of its manufacturing operations. However, if market conditions result in a significant prolonged inflation of certain prices, the Company's results could be materially adversely affected.

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 July 2002, the Company established an additional collateralized line of credit for the purchaser and, as of September 30, 2004, the total amount due from the purchaser was \$1.5 million. The Company purchases aluminum castings used in the manufacture of certain models of pistols exclusively from Uni-Cast.

INVESTING AND FINANCING

Capital expenditures during the nine months ended September 30, 2004 totaled \$4.3 million. For the past two years capital expenditures averaged approximately \$1.1 million per quarter. In 2004, the Company expects to spend approximately \$6.0 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 and available cash and short-term investments.

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

For the nine months ended September 30, 2004 dividends paid totaled \$13.5 million. This amount reflects a quarterly dividend of \$.20 per share paid in March and June and a \$.10 dividend paid in September 2004. On October 21, 2004, the Company declared a quarterly dividend of \$.10 per share payable on December 15, 2004. 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 2004.

Firearms Legislation

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

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

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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." This ban expired by operation of law on September 13, 2004. The Company remains strongly opposed to laws which would restrict the rights of law-abiding citizens to lawfully acquire firearms. The Company believes that the lawful private ownership of firearms is guaranteed by the Second Amendment to the United States Constitution and that the widespread private ownership of firearms in the United States will continue. However, there can be no assurance that the regulation of firearms will not become more restrictive in the future and that any such restriction would not have a material adverse effect on the business of the Company.

Firearms Litigation

The 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

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

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. 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.

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Of the lawsuits brought by municipalities or a state Attorney General, fifteen have been dismissed with no appeal pending. Fourteen 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; 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; and City of Camden - dismissed on July 7, 2003, not reopened.

On November 13, 2003, plaintiffs in the Jersey City case voluntarily dismissed the matter. It is unknown whether plaintiffs will re-file.

The dismissal of the Washington, D.C. 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. Rehearing of the entire appeal is currently pending. 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. The Chicago dismissal was reversed in part on appeal, and an appeal to the Illinois Supreme Court is pending.

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

On October 20, 2003, the St. Louis Circuit Court dismissed the St. Louis case, and the city filed a notice of appeal. The Missouri Court of Appeals affirmed the trial court's dismissal on July 27, 2004. The plaintiffs then filed a motion for rehearing and/or a transfer of the appeal to the Missouri Supreme Court, which was denied. Thereafter, the plaintiffs filed a motion directly to the Missouri Supreme Court, requesting that it accept transfer of the appeal. That motion was denied on October 26, 2004.

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. Cleveland and New York City are open cases and the New York City case is scheduled to begin trial in April, 2005.

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.

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Legislation has been passed in approximately 34 states precluding suits of the type brought by the municipalities mentioned above, and similar federal legislation has been introduced in the U.S. Congress. It passed the House by a 2-to-1 bipartisan majority and had over 54 co-sponsors in the Senate. It was considered by the Senate in February 2004, but failed to gain final passage after it was encumbered with numerous non-germane amendments. It is uncertain when it may be reconsidered by the Senate.

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 valuation of the future defined benefit pension obligations at December 31, 2003 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 \$0.5 million in 2003.

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

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

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.

Adjustments to Critical Accounting Policies

The Company has not made any adjustments to its critical accounting estimates and assumptions described in the Company's Annual Report on Form 10-K filed on March 12, 2004, or the judgment affecting the application of those estimates and assumptions.

Recent Accounting Pronouncements

The Company is not aware of any recent accounting pronouncements that are expected to have a material effect on its financial position or financial results.

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

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

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.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation

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 (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 end of the period covered by this report.

Conclusions

Based on that evaluation, the Company's Chief Executive Officer and Treasurer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's most recent quarter that have materially affected, or are 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 8 to this Form 10-Q report, which is incorporated herein by reference.

The Company has reported all cases instituted against it through June 30, 2004, 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

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months ended September 30, 2004, 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 September 30, 2004, one previously reported case was settled.

Case Name -----	Jurisdiction -----
Beasley	Alabama

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

On July 27, 2004, in the previously reported St. Louis (MO) case, the Missouri Court of Appeals affirmed the trial court's dismissal. Plaintiffs have filed a motion to appeal the affirmed dismissal directly to the Missouri Supreme Court. That motion was denied on October 26, 2004.

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ITEM 1. LEGAL PROCEEDINGS - CONTINUED

On August 3, 2004, in the previously reported NAACP (NY) case, the United States Court of Appeals for the Second Circuit granted plaintiff's motion to dismiss the defendants' appeal of Judge Weinstein's order denying defendants' motion to strike his extraneous comments 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.

In the previously reported case City of Camden (NJ), plaintiffs have failed to take action to reopen after its dismissal by the trial court over a year ago.

On September 30, 2004, in the previously reported Lemongello (WV) case involving an alleged "straw purchase" from a firearms retailer, summary judgment was entered in favor of the Company. The court found that the Company had breached no legal duty to any of the plaintiffs, and further held that nothing the Company did or failed to do in its sales policy was either a direct or an indirect cause of plaintiff's injuries arising out of a criminal assault. Plaintiffs have four months to file an appeal, and it is unknown at this time whether they will do so.

After the jury returned a unanimous defense verdict on October 6, 2003 in the previously reported Whaley (AK) case, plaintiffs filed a post-trial motion seeking a new trial. Plaintiffs' motion was denied and the appeal has been dismissed.

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

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

None

ITEM 5. OTHER INFORMATION

None

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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

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STURM, RUGER & COMPANY, INC.

FORM 10-Q FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004

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: November 4, 2004

S/THOMAS A. DINEEN

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

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