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STURM RUGER & CO INC
Form 10-Q
July 29, 2009

UNITED STATES
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 July 4, 2009

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to rule 405 of Regulation S-T (ss.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

The number of shares outstanding of the issuer's common stock as of July 4, 2009: Common Stock, \$1 par value -19,063,143.

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PART I. FINANCIAL INFORMATION
 ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)
 STURM, RUGER & COMPANY, INC.

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

| | July 4, 2009 | December 31, 2008 |
|---|--------------|-------------------|
| | | (Note) |
| <hr/> | | |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 3,890 | \$ 9,680 |
| Short-term investments | 39,704 | 18,550 |
| Trade receivables, net | 27,534 | 25,800 |
| Gross inventories | 51,822 | 59,840 |
| Less LIFO reserve | (43,160) | (44,330) |
| Less excess and obsolescence reserve | (2,597) | (3,560) |
| Net inventories | 6,065 | 11,930 |
| Deferred income taxes | 5,318 | 6,400 |
| Prepaid expenses and other current assets | 2,558 | 3,370 |
| Total current assets | 85,069 | 75,760 |
| Property, plant and equipment | 131,087 | 125,020 |
| Less allowances for depreciation | (101,364) | (98,800) |
| Net property, plant and equipment | 29,723 | 26,220 |
| Deferred income taxes | 9,205 | 7,740 |
| Other assets | 4,525 | 3,030 |
| Total Assets | \$ 128,522 | \$ 112,760 |

Note:

The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

See notes to condensed financial statements.

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STURM, RUGER & COMPANY, INC.

CONDENSED BALANCE SHEETS

(Dollars in thousands, except share data)

| | July 4, 2009 | December 31, 2008 |
|---|--------------|-------------------|
| | | (Note) |
| <hr/> | | |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Trade accounts payable and accrued expenses | \$ 9,690 | \$ 10,235 |
| Product liability | 771 | 1,051 |
| Employee compensation and benefits | 10,643 | 7,994 |
| Workers' compensation | 4,665 | 5,067 |
| Income taxes payable | 2,456 | 4,171 |
| Line of credit | -- | 1,000 |
| | <hr/> | |
| Total current liabilities | 28,225 | 29,518 |
| Accrued pension liability | 16,932 | 16,946 |
| Product liability accrual | 906 | 693 |
| Contingent liabilities - Note 9 | -- | -- |
| 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 | | |
| 2009 - 22,798,732 issued, 19,063,143 outstanding | | |
| 2008 - 22,798,732 issued, 19,047,323 outstanding | 22,817 | 22,799 |
| Additional paid-in capital | 6,447 | 2,442 |
| Retained earnings | 106,347 | 93,500 |
| Less: Treasury stock - at cost | | |
| 2009 - 3,753,821 shares | | |
| 2008 - 3,751,419 shares | (30,167) | (30,153) |
| Accumulated other comprehensive loss | (22,985) | (22,985) |
| | <hr/> | |
| Total Stockholders' Equity | 82,459 | 65,603 |
| | <hr/> | |
| Total Liabilities and Stockholders' Equity | \$ 128,522 | \$ 112,760 |
| | <hr/> <hr/> | |

Note:

The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

See notes to condensed financial statements.

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STURM, RUGER & COMPANY, INC.

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

| | Three Months Ended | | Six Mo |
|---|--------------------|----------------|-----------------|
| | July 4, 2009 | June 28, 2008 | July 4, 2009 |
| Net firearms sales | \$ 71,372 | \$ 36,839 | \$ 133,600 |
| Net castings sales | 1,018 | 1,825 | 2,320 |
| <hr/> Total net sales | <hr/> 72,390 | <hr/> 38,664 | <hr/> 135,920 |
| Cost of products sold | 47,358 | 30,169 | 91,362 |
| <hr/> Gross profit | <hr/> 25,032 | <hr/> 8,495 | <hr/> 44,558 |
| <hr/> Expenses: | | | |
| Selling | 5,319 | 4,098 | 10,764 |
| General and administrative | 5,738 | 2,968 | 10,384 |
| Other operating expenses (income), net | -- | (54) | -- |
| <hr/> Total operating expenses | <hr/> 11,057 | <hr/> 7,012 | <hr/> 21,148 |
| <hr/> Operating income | <hr/> 13,975 | <hr/> 1,483 | <hr/> 23,410 |
| <hr/> Other income: | | | |
| Interest income | 39 | 118 | 57 |
| Other income (expense), net | (14) | 144 | (101) |
| <hr/> Total other income (expense), net | <hr/> 25 | <hr/> 262 | <hr/> (44) |
| <hr/> Income before income taxes | <hr/> 14,000 | <hr/> 1,745 | <hr/> 23,366 |
| Income taxes | 5,320 | 663 | 8,879 |
| <hr/> Net income | <hr/> \$ 8,680 | <hr/> \$ 1,082 | <hr/> \$ 14,487 |
| <hr/> Earnings per share | | | |
| Basic | \$ 0.46 | \$ 0.05 | \$ 0.76 |
| Diluted | \$ 0.45 | \$ 0.05 | \$ 0.76 |
| <hr/> Average shares outstanding | | | |
| Basic | 19,059 | 20,576 | 19,052 |
| Diluted | 19,272 | 20,609 | 19,110 |

See notes to condensed financial statements.

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STURM, RUGER & COMPANY, INC.

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

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Treas Sto |
|--|-----------------|----------------------------------|----------------------|--------------|
| Balance at December 31, 2008 | \$ 22,799 | \$ 2,442 | \$ 93,500 | \$ (30 |
| Net income and comprehensive income | -- | -- | 14,487 | |
| Dividends paid | -- | -- | (1,640) | |
| Stock-based compensation | -- | 2,645 | -- | |
| Tax benefit from exercise of stock options | -- | 1,378 | -- | |
| Issuance of 18,222 shares of common stock | 18 | (18) | -- | |
| Repurchase of 2,401 shares of common stock | -- | -- | -- | |
| Balance at July 4, 2009 | \$ 22,817 | \$ 6,447 | \$ 106,347 | \$ (30 |

See notes to condensed financial statements.

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STURM, RUGER & COMPANY, INC.

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

| | Six Mo July 4, 2009 |
|---|------------------------|
| Operating Activities | |
| Net income | \$ 14,487 |
| Adjustments to reconcile net income to cash provided by operating activities: | |
| Depreciation | 3,325 |
| Stock-based compensation | 2,950 |
| Gain on sale of assets | -- |
| Deferred income taxes | (380) |
| Changes in operating assets and liabilities: | |

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| | |
|--|----------|
| Trade receivables | (1,725) |
| Inventories | 5,874 |
| Trade accounts payable and accrued expenses | 1,472 |
| Product liability | (68) |
| Prepaid expenses, other assets and other liabilities | (769) |
| Income taxes | (1,715) |
| <hr style="border-top: 1px dashed black;"/> | |
| Cash provided by (used for) operating activities | 23,451 |
| <hr style="border-top: 1px dashed black;"/> | |
| Investing Activities | |
| Property, plant and equipment additions | (6,829) |
| Proceeds from sale of assets | -- |
| Purchases of short-term investments | (48,708) |
| Proceeds from maturities of short-term investments | 27,564 |
| <hr style="border-top: 1px dashed black;"/> | |
| Cash provided by (used for) investing activities | (27,973) |
| <hr style="border-top: 1px dashed black;"/> | |
| Financing Activities | |
| Tax benefit from exercise of stock options | 1,378 |
| Repayment of line of credit balance | (1,000) |
| Repurchase of common stock | (14) |
| Dividends paid | (1,640) |
| <hr style="border-top: 1px dashed black;"/> | |
| Cash used for financing activities | (1,276) |
| <hr style="border-top: 1px dashed black;"/> | |
| (Decrease) Increase in cash and cash equivalents | (5,798) |
| Cash and cash equivalents at beginning of period | 9,688 |
| <hr style="border-top: 1px dashed black;"/> | |
| Cash and cash equivalents at end of period | \$ 3,890 |
| <hr style="border-top: 3px double black;"/> | |

See notes to condensed financial statements.

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STURM, RUGER & COMPANY, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

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

In the opinion of management, the accompanying unaudited condensed financial statements include all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the results of the interim periods. Operating results for the six months ended July 4, 2009 are not indicative of the results to be expected for the full year ending December 31, 2009. These financial statements have been prepared on a basis that is

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substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the year ended December 31, 2008.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Organization:

Sturm, Ruger & Company, Inc. (the "Company") is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Approximately 98% of the Company's total sales for the three and six months ended July 4, 2009 were firearms sales, and 2% were investment castings sales. Export sales represent less than 2% of total sales. The Company's design and manufacturing operations are located in the United States and almost all product content is domestic. The Company's firearms are sold through a select number of independent wholesale distributors principally to the commercial sporting market.

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

Fair Value of Financial Instruments:

The carrying amounts of financial instruments, including cash, short-term investments, accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of these items.

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.

Reclassifications:

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

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Recent Accounting Pronouncements:

In July 2009, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 165 ("FAS 165") "Subsequent Events". FAS 165 establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. The Company adopted FAS 165 during the quarter ended July 4, 2009.

NOTE 3 - SHORT-TERM INVESTMENTS

Short-term investments consist principally of United States Treasury instruments, all maturing within one year, and are recorded at cost plus accrued interest, which approximates market. The income from short-term investments is included in other income - net. The Company intends to hold these investments

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until maturity.

The Company evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when market conditions warrant such evaluation. The Company has determined that the carrying value of short-term investments has not been impaired.

NOTE 4 - INVENTORIES

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

During the six month period ended July 4, 2009, inventory quantities were reduced. If this reduction remains through year-end, it will result in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the current cost of purchases. Although the effect of such a liquidation cannot be precisely quantified at the present time, management believes that if a LIFO liquidation continues to occur in 2009, the impact may be material to the Company's results of operations for the period but will not have a material impact on the financial position of the Company.

Inventories consist of the following (in thousands):

| | July 4, 2009 | December 31, 2008 |
|---------------------------------------|--------------|-------------------|
| ----- | | |
| Inventory at FIFO | | |
| Finished products | \$ 2,131 | \$ 2,790 |
| Materials and work in process | 49,691 | 57,056 |
| ----- | | |
| Gross inventories | 51,822 | 59,846 |
| Less: LIFO reserve | (43,160) | (44,338) |
| Less: excess and obsolescence reserve | (2,597) | (3,569) |
| ----- | | |
| Net inventories | \$ 6,065 | \$ 11,939 |
| ===== | | |

NOTE 5 - INCOME TAXES

The Company's 2009 effective tax rate differs from the statutory tax rate due principally to state income taxes partially offset by tax benefits related to the American Jobs Creation Act of 2004. The effective income tax rate for the three and six months ended July 4, 2009 and June 28, 2008 is 38.0%. Income tax payments in the three and six months ended July 4, 2009 totaled \$7.0 million and \$10.9 million, respectively. The Company was not required to make income tax payments in the three and six months ended June 28, 2008 because of overpayments of estimated taxes in 2007.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2005. In the third quarter of 2007, the Internal Revenue Service ("IRS") completed an examination of the Company's federal income tax return for 2005. The IRS did not propose any adjustments as a result of this examination

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and has accepted the Company's return as filed. In the first quarter of 2009, the IRS completed audits of the Company's 2006 and 2007 federal income tax returns. Adjustments resulting from this examination did not result in a material change to the Company's financial position or results of operations.

The Company adheres to the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48"). The Company does not believe it has included any "uncertain tax positions" in its federal income tax return or any of the state income tax returns it is currently filing. The Company has made an evaluation of the potential impact of additional state taxes being assessed by jurisdictions in which the Company does not currently consider itself liable. The Company does not anticipate that such additional taxes, if any, would result in a material change to its financial position. However, the Company anticipates that it is more likely than not that additional state tax liabilities in the range of \$0.4 to \$0.7 million exist. The Company has recorded \$0.4 million relating to these additional state income taxes, including approximately \$0.2 million for the payment of interest and penalties. This amount is included in income taxes payable at July 4, 2009. In connection with the adoption of FIN 48, the Company will include interest and penalties related to uncertain tax positions as a component of its provision for taxes.

NOTE 6 - PENSION PLANS

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

In 2007, the Company amended its hourly and salaried defined benefit pension plans so that employees will no longer accrue benefits under them effective December 31, 2007. This action "froze" the benefits for all employees and prevented future hires from joining the plans, effective December 31, 2007. Currently, the Company provides supplemental discretionary contributions to substantially all employees' individual 401(k) accounts.

In 2009 and future years, the Company may be required to make cash contributions to the two defined benefit pension plans according to the new rules of the Pension Protection Act of 2006. The annual contributions will be based on the amount of the unfunded plan liabilities derived from the frozen benefits and will not include liabilities for any future accrued benefits for any new or existing participants. The total amount of these future cash contributions will be dependent on the investment returns generated by the plans' assets and the then-applicable discount rates used to calculate the plans' liabilities.

There is no minimum required cash contribution for the defined benefit plans for 2009, but there may be such a requirement in future years. The Company expects to voluntarily contribute approximately \$2.0 million to the defined benefit plans in 2009, of which \$0.8 million was contributed in the first half of 2009. The intent of this discretionary contribution is to reduce the amount of time that the Company will be required to continue to operate the frozen plans. The ongoing cost of running the plans (even if frozen) is approximately \$200,000 per year, which includes PBGC premiums, actuary and audit fees, and other expenses.

In the first quarter of 2009, the Company settled \$2.0 million of pension liabilities through the purchase of group annuities. This transaction resulted in an insignificant actuarial gain.

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In February 2008, the Company made lump sum benefit payments to two participants in its only non-qualified defined benefit plan, the Supplemental Executive Retirement Plan. These payments, which totaled \$2.1 million, represented the actuarial present value of the participants' accrued benefit as of the date of payment. Only one, retired participant remains in this plan.

The estimated cost of the frozen defined benefit plans for 2009 is \$1.4 million, of which \$0.7 million was recognized in the first half of 2009.

Costs attributable to the supplemental discretionary 401(k) plan totaled \$0.5 million and \$0.9 million for the three and six months ended July 4, 2009, respectively. The Company plans to contribute an additional \$1.0 million to the plan during the remainder of 2009.

NOTE 7 - SHARE BASED PAYMENTS

In April 2007, the Company adopted and the shareholders approved the 2007 Stock Incentive Plan (the "2007 SIP") under which employees, independent contractors, and non-employee directors may be granted stock options, restricted stock, deferred stock awards, and stock appreciation rights, any of which may or may not require the satisfaction of performance objectives. Vesting requirements will be determined by the Compensation Committee or the Board of Directors. The Company has reserved 2,550,000 shares for issuance under the 2007 SIP.

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

| | Shares | Weighted Average Exercise Price | Grant Date Fair Value |
|----------------------------------|-----------|------------------------------------|--------------------------|
| Outstanding at December 31, 2008 | 1,420,250 | \$ 9.02 | \$ 3.9 |
| Granted | 115,900 | \$ 8.69 | \$ 4.5 |
| Exercised | -- | -- | -- |
| Expired | -- | -- | -- |
| Outstanding July 4, 2009 | 1,536,150 | \$ 9.00 | \$ 4.0 |

The aggregate intrinsic value (mean market price at July 2, 2009 less the weighted average exercise price) of options outstanding under the Plans was approximately \$5.4 million.

The aggregate compensation expense for the options granted in the six months ended July 4, 2009, calculated using the Black-Scholes option-pricing model, was \$0.2 million. This expense, which is a non-cash item, is being amortized in the Company's statements of operations over the vesting periods. Compensation costs related to all share-based payments recognized in the statements of operations aggregated \$1.9 million and \$2.8 million for three and six months ended July 4, 2009, respectively, and \$0.2 million and \$0.3 million for three and six months ended June 28, 2008, respectively.

In April 2008, a total of 18,222 deferred stock awards were issued to non-employee directors, which vested in April 2009. Compensation expense related to these awards was amortized ratably over the vesting period. The total compensation expense related to these awards was \$0.1 million. In April 2009, a total of 12,144 deferred stock awards were issued to non-employee directors, which will vest in April 2010. Compensation expense related to these awards will be amortized ratably over the vesting period. The total compensation expense

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related to these awards was \$0.1 million.

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In May 2009, a total of 19,181 deferred stock awards were issued to certain key employees. These awards require that the Company meets certain financial objectives in order for the employees to vest. It is anticipated that these objectives will be met by the end of 2009. The total compensation expense related to these awards is \$0.2 million and is being amortized ratably over the expected vesting period.

The Company has adopted a policy to pay 25% of all officers' annual incentive compensation in restricted stock. During the first quarter of 2009, awards totaling \$0.2 million were made under this policy.

NOTE 8 - BASIC AND DILUTED EARNINGS PER SHARE

Weighted average shares outstanding for the three and six months ended July 4, 2009 were 19,058,537 and 19,051,775, respectively. Weighted average shares outstanding for the three and six months ended June 28, 2008 were 20,571,817 and 20,575,843, respectively.

Diluted earnings per share reflect the impact of options outstanding using the treasury stock method, when applicable. This resulted in diluted weighted-average shares outstanding for the three and six months ended July 4, 2009 of 19,272,412 and 19,109,862, respectively. Diluted weighted-average shares outstanding for the three and six months ended June 28, 2008 were 20,612,584 and 20,629,871 shares, respectively.

NOTE 9 - CONTINGENT LIABILITIES

As of July 4, 2009, the Company was a defendant in approximately 3 lawsuits involving its products and is aware of certain other such claims. These lawsuits and claims fall into one of two categories:

- (i) Those that claim damages from the Company related to allegedly defective product design and/or manufacture which stem from a specific incident. Pending lawsuits and claims are based principally on the theory of "strict liability" but also may be based on negligence, breach of warranty, and other legal theories; or
- (ii) Those brought by cities or other governmental entities, and individuals against firearms manufacturers, distributors and retailers seeking to recover damages allegedly arising out of the misuse of firearms by third-parties in the commission of homicides, suicides and other shootings involving juveniles and adults.

The only remaining lawsuit of the second type is the lawsuit filed by the City of Gary. The complaint in that case seeks damages, among other things, for the costs of medical care, police and emergency services, public health services, and other services as well as punitive damages. In addition, nuisance abatement and/or injunctive relief is sought to change the design, manufacture, marketing and distribution practices of the various defendants. The suit alleges, among other claims, negligence in the design of products, public nuisance, negligent distribution and marketing, negligence per se and deceptive advertising. The case does not allege a specific injury to a specific individual as a result of the misuse or use of any of the Company's products. Market share allegations have been held inapplicable by the Indiana Supreme Court.

The Company has expended significant amounts of financial resources and

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management time in connection with product liability litigation. Management believes that, in every case involving firearms, the allegations are unfounded, and that the shootings and any results therefrom were due to negligence or misuse of the firearms by third-parties or the claimant, and that there should be no recovery against the Company. Defenses to the suit brought by Gary further exist based on, among other things, the Protection of Lawful Commerce in Arms Act ("PLCAA").

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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.

Of the lawsuits brought by municipalities, counties or a state Attorney General, twenty-two have been concluded: Atlanta - dismissal by intermediate Appellate Court, no further appeal; Bridgeport - dismissal affirmed by Connecticut Supreme Court; County of Camden - dismissal affirmed by U.S. Third Circuit Court of Appeals; Miami - dismissal affirmed by intermediate appellate court, Florida Supreme Court declined review; New Orleans - dismissed by Louisiana Supreme Court, United States Supreme Court declined review; Philadelphia - U.S. Third Circuit Court of Appeals affirmed dismissal, no further appeal; Wilmington - dismissed by trial court, no appeal; Boston - voluntary dismissal with prejudice by the City at the close of fact discovery; Cincinnati - voluntarily withdrawn after a unanimous vote of the city council; Detroit - dismissed by Michigan Court of Appeals, no appeal; Wayne County - dismissed by Michigan Court of Appeals, no appeal; New York State - Court of Appeals denied plaintiff's petition for leave to appeal the Intermediate Appellate Court's dismissal, no further appeal; Newark - Superior Court of New Jersey Law Division for Essex County dismissed the case with prejudice; City of Camden - dismissed on July 7, 2003, not reopened; Jersey City - voluntarily dismissed and not re-filed; St. Louis - Missouri Supreme Court denied plaintiffs' motion to appeal Missouri Appellate Court's affirmation of dismissal; Chicago - Illinois Supreme Court affirmed trial court's dismissal; and Los Angeles City, Los Angeles County, San Francisco - Appellate Court affirmed summary judgment in favor of defendants, no further appeal; Cleveland - dismissed on January 24, 2006 for lack of prosecution; New York City - U.S. Supreme Court denied plaintiff's Petition for Writ of Certiorari on April 3, 2009; and Washington, D.C. - U.S. Supreme Court denied plaintiff's Petition for Writ of Certiorari on April 3, 2009.

The Indiana Court of Appeals affirmed the dismissal of the Gary case by

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the trial court, but the Indiana Supreme Court reversed this dismissal and remanded the case for discovery proceedings on December 23, 2003. On November 23, 2005, the defendants filed a motion to dismiss pursuant to the PLCAA. The state court judge held the PLCAA unconstitutional and the defendants filed a motion with the Indiana Court of Appeals asking it to accept interlocutory appeal on the issue, which appeal was accepted on February 5, 2007. On October 29, 2007, the Indiana Appellate Court affirmed, holding that the PLCAA does not apply to the City's claims. A petition for rehearing was filed in the Appellate Court and denied on January 9, 2008. On February 8, 2008, a Petition to Transfer the appeal to the Supreme Court of Indiana was filed. The petition was denied on January 13, 2009 and the case was remanded to the trial court.

In the NAACP case, on May 14, 2003, an advisory jury returned a verdict rejecting the NAACP's claims. On July 21, 2003, Judge Jack B. Weinstein entered an order dismissing the NAACP lawsuit, but this order contained lengthy dicta which defendants believe are contrary to law and fact. Appeals by both sides were filed, but plaintiffs withdrew their appeal. On August 3, 2004, the United States Court of Appeals for the Second Circuit granted the NAACP's motion to dismiss the defendants' appeal of Judge Weinstein's order denying defendants' motion to strike his dicta made in his order dismissing the NAACP's case, and the defendants' motion for summary disposition was denied as moot. The ruling of the Second Circuit effectively confirmed the decision in favor of defendants and brought this matter to a conclusion.

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Legislation has been passed in approximately 34 states precluding suits of the type brought by the municipalities mentioned above. On the Federal level, the "Protection of Lawful Commerce in Arms Act" was signed by President Bush on October 26, 2005. The Act requires dismissal of suits against manufacturers arising out of the lawful sale of their products for harm resulting from the criminal or unlawful misuse of a firearm by a third party. The Company is pursuing dismissal of each action involving such claims, including the municipal case described above.

Punitive damages, as well as compensatory damages, are demanded in certain of the lawsuits and claims. Aggregate claimed amounts presently exceed product liability accruals and applicable insurance coverage. For claims made after July 10, 2000, coverage is provided on an annual basis for losses exceeding \$5 million per claim, or an aggregate maximum loss of \$10 million annually, except for certain new claims which might be brought by governments or municipalities after July 10, 2000, which are excluded from coverage.

Product liability claim payments are made when appropriate if, as, and when claimants and the Company reach agreement upon an amount to finally resolve all claims. Legal costs are paid as the lawsuits and claims develop, the timing of which may vary greatly from case to case. A time schedule cannot be determined in advance with any reliability concerning when payments will be made in any given case.

Provision is made for product liability claims based upon many factors related to the severity of the alleged injury and potential liability exposure, based upon prior claim experience. Because our experience in defending these lawsuits and claims is that unfavorable outcomes are typically not probable or estimable, only in rare cases is an accrual established for such costs. In most cases, an accrual is established only for estimated legal defense costs. Product liability accruals are periodically reviewed to reflect then-current estimates of possible liabilities and expenses incurred to date and reasonably anticipated in the future. Threatened product liability claims are reflected in our product liability accrual on the same basis as actual claims; i.e., an accrual is made

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for reasonably anticipated possible liability and claims-handling expenses on an ongoing basis.

A range of reasonably possible loss relating to unfavorable outcomes cannot be made. However, in product liability cases in which a dollar amount of damages is claimed, the amount of damages claimed, which totaled \$12.2 million and \$5.0 at December 31, 2008 and 2007, respectively, are set forth as an indication of possible maximum liability that the Company might be required to incur in these cases (regardless of the likelihood or reasonable probability of any or all of this amount being awarded to claimants) as a result of adverse judgments that are sustained on appeal.

The Company management monitors the status of known claims and the product liability accrual, which includes amounts for asserted and unasserted claims. While it is not possible to forecast the outcome of litigation or the timing of costs, in the opinion of management, after consultation with special and corporate counsel, it is not probable and is unlikely that litigation, including punitive damage claims, will have a material adverse effect on the financial position of the Company, but may have a material impact on the Company's financial results for a particular period.

The Company has reported all cases instituted against it through April 4, 2009 and the results of these 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 10 - RELATED PARTY TRANSACTIONS

In the first quarter of 2008, the Company made lump sum pension benefit payments to William B. Ruger, Jr., the former Chairman and Chief Executive Officer of the Company, and Stephen L. Sanetti, the former President of the Company. These payments totaled \$2.1 million which represented the actuarially determined present value of the accrued benefits payable to these individuals under the Supplementary Executive Retirement Plan as of the date of payment.

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NOTE 11 - OPERATING SEGMENT INFORMATION

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

| | Three Months Ended | | Six |
|--------------|--------------------|---------------|--------------|
| | July 4, 2009 | June 28, 2008 | July 4, 2007 |
| Net Sales | | | |
| Firearms | \$ 71,372 | \$ 36,839 | \$ 133,600 |
| Castings | | | |
| Unaffiliated | 1,018 | 1,825 | 2,320 |
| Intersegment | 4,876 | 2,779 | 9,030 |
| | 5,894 | 4,604 | 11,350 |
| Eliminations | (4,876) | (2,779) | (9,030) |

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| | | | | | | |
|-----------------------------------|----|--------|----|--------|----|--------|
| | \$ | 72,390 | \$ | 38,664 | \$ | 135,92 |
| Income (Loss) Before Income Taxes | | | | | | |
| Firearms | \$ | 14,413 | \$ | 3,502 | \$ | 24,02 |
| Castings | | (121) | | (907) | | (62 |
| Corporate | | (292) | | (850) | | (3 |
| | \$ | 14,000 | \$ | 1,745 | \$ | 23,36 |

July 4,
2009

| | | | | | | |
|---------------------|--|--|----|--|--|--------|
| Identifiable Assets | | | | | | |
| Firearms | | | \$ | | | 62,59 |
| Castings | | | | | | 4,49 |
| Corporate | | | | | | 61,43 |
| | | | \$ | | | 128,52 |

NOTE 12 - STOCK REPURCHASE

In November 2008, the Company announced that its Board of Directors authorized a \$5 million stock repurchase program. During the first half of 2009, the Company repurchased approximately 2,400 shares of its common stock under a 10b5-1 program, representing 0.01% of the outstanding shares, in the open market at an average price of \$6.03 per share. These purchases were made with cash held by the Company and no debt was incurred. At July 4, 2009, \$4.7 million remained available for share repurchases under this repurchase program.

NOTE 13 - LINE OF CREDIT

In December 2008, the Company renewed a \$25 million credit facility with a bank which terminates on December 13, 2009. Borrowings under this facility bear interest at LIBOR plus 200 basis points. The unused fee is 50 basis points per year on the unused portion of the credit facility. During the first quarter of 2009, the Company paid down the \$1 million balance on its \$25 million credit facility, in response to the relative improvement in the global financial and credit markets. The credit facility remains unused.

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NOTE 14 - SUBSEQUENT EVENTS

On July 28, 2009, the Company declared a dividend of 12.3 cents per share to shareholders of record on August 14, 2009.

The Company has evaluated events through July 29, 2009, the date the financial statements were issued, and determined that there were no events occurring subsequent to July 4, 2009 that would have a material impact on the Company's results of operations or financial position.

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

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Company Overview

Sturm, Ruger & Company, Inc. (the "Company") is principally engaged in the design, manufacture, and sale of firearms to domestic customers. Approximately 98% of the Company's total sales for the three and six months ended July 4, 2009 were firearms sales, and 2% were investment castings sales. Export sales represent less than 2% of total sales. The Company's design and manufacturing operations are located in the United States and almost all product content is domestic. The Company's firearms are sold through a select number of independent wholesale distributors principally to the commercial sporting market.

The Company manufactures investment castings made from steel alloys for internal use in its firearms and utilizes excess investment casting capacity to manufacture and sell castings to unaffiliated, third-party customers.

Because most of the Company's competitors are not subject to public filing requirements and industry-wide data is generally not available in a timely manner, the Company is unable to compare its performance to other companies or specific current industry trends. Instead, the Company measures itself against its own historical results.

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

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Results of Operations

Summary Unit Data

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

| | 2009 | | 2008 | | |
|--|---------|---------|---------|---------|---------|
| | Q2 | Q1 | Q4 | Q3 | Q2 |
| Units Ordered | 204,700 | 501,000 | 270,400 | 125,700 | 120,300 |
| Units Produced | 247,300 | 209,900 | 167,100 | 158,900 | 150,600 |
| Units Shipped | 246,200 | 213,700 | 208,100 | 146,000 | 136,700 |
| Average Sales Price | \$ 286 | \$ 283 | \$ 275 | \$ 276 | \$ 277 |
| Units on Backorder | 412,300 | 458,900 | 175,900 | 115,300 | 137,700 |
| Units - Company Inventory | 9,600 | 8,800 | 12,400 | 52,600 | 40,200 |
| Units - Distributor Inventory (Note 1) | 53,900 | 35,200 | 57,500 | 65,800 | 62,900 |

Orders Received and Ending Backlog

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

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five quarters are as follows (in millions except average sales price, including Federal Excise Tax):

| | 2009 | | 2008 | | |
|--|----------|----------|---------|---------|----|
| | Q2 | Q1 | Q4 | Q3 | |
| Orders Received | \$ 81.8 | \$ 154.3 | \$ 86.1 | \$ 33.5 | \$ |
| Average Sales Price of Orders Received (2) | \$ 400 | \$ 308 | \$ 287 | \$ 267 | \$ |
| Ending Backlog (2) | \$ 138.0 | \$ 136.3 | \$ 47.8 | \$ 27.9 | \$ |
| Average Sales Price of Ending Backlog (2) | \$ 335 | \$ 297 | \$ 269 | \$ 242 | \$ |

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

Note 2: Average sales price for orders received and ending backlog is net of Federal Excise Tax of 10% for handguns and 11% for long guns.

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The incoming order rate declined in the second quarter of 2009, reflecting the impact of the following:

- o A reduction in the industry-wide surge in demand that began in the fourth quarter of 2008,
- o The large backlog at the end of the first quarter, which discouraged additional orders,
- o Prolonged ammunition shortages at retail, which hindered retail firearms sales,
- o Stronger inventories throughout the distribution channel, and
- o Normal product seasonality.

Demand remained strong for many firearms, particularly those related to self defense, including the LCP pistol and the LCR revolver.

The increase in the average sales price of orders received and the average sales price of the ending backlog at the end of the second quarter of 2009 is due to the orders received during the quarter for the SR-556 rifle, which was introduced in the second quarter of 2009. Shipments of the SR-556, which has a higher price relative to the other product lines, began in the latter part of the second quarter. In addition, throughout 2008 the lower-priced LCP pistol accounted for a disproportionate percentage of the total backlog, depressing the average sales price of the units in backlog in 2008.

Production

Production rates continued to improve. Unit production in the second quarter of 2009 increased 18% from the first quarter of 2009, and increased 64% from the second quarter of 2008.

The Company continues to work on the transition from large-scale batch production to lean manufacturing, with an emphasis on setting up manufacturing cells that facilitate single-piece flow production and inventory pull systems. The current focus is on:

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- o Establishing single-piece flow cells for small parts manufacturing,
- o Process improvement for existing cells,
- o Developing inventory pull systems,
- o Developing standard work for all cell processes,
- o Managing vendors,
- o Reallocating capacity from products for which demand appears to be cresting to products with unmet demand, and
- o Re-engineering existing product designs for improved manufacturability.

There is also considerable focus on better matching production rates to incoming orders and the backlog to optimize order fill rates while reducing inventory levels.

Inventories

The Company's finished goods inventory remains at extraordinarily low levels. When the current surge in demand subsides, the Company expects to replenish its finished goods inventory to safety stock levels before implementing any significant production rate reductions. This planned replenishment could increase the value of finished goods inventory by as much as \$15.0 million from current depressed levels.

Sales

Consolidated net sales were \$72.4 million for the three months ended July 4, 2009. This represents an increase of \$33.7 million or 87% from consolidated net sales of \$38.7 million in the comparable prior year period.

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For the six months ended July 4, 2009, consolidated net sales were \$135.9 million, an increase of \$54.8 million or 67% from sales of \$81.2 million in the comparable 2008 period.

Firearms net sales were \$71.4 million for the three months ended July 4, 2009. This represents an increase of \$34.5 million or 94% from firearms net sales of \$36.8 million in the comparable prior year period.

For the six months ended July 4, 2009, firearms net sales were \$133.6 million. This represents an increase of \$56.7 or 74% from firearms net sales of \$76.9 million in the comparable 2008 period.

Firearms unit shipments increased 80% and 69% for the three and six months ended July 4, 2009 when compared to the comparable prior year period due to increased shipments of pistols, rifles and revolvers. This increase is attributable to continued strong demand for most product lines and increased production of both new and mature products throughout the first half of 2009.

Casting net sales were \$1.0 million for the three months ended July 4, 2009. This represents a decrease of \$0.8 million or 44% from casting sales of \$1.8 million in the comparable prior year period.

For the six months ended July 4, 2009, casting net sales were \$2.3 million. This represents a decrease of \$2.0 million or 46% from casting sales of \$4.3 million in the comparable prior year period.

Cost of Products Sold and Gross Margin

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Consolidated cost of products sold was \$47.4 million for the three months ended July 4, 2009. This represents an increase of \$17.2 million or 56.9% from consolidated cost of products sold of \$30.2 million in the comparable prior year period.

For the six months ended July 4, 2009, consolidated cost of products sold was \$91.4 million. This represents an increase of \$29.4 million or 47.3% from consolidated cost of products sold of \$62.0 million in the comparable prior year period.

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Gross margin as a percent of sales was 34.6% and 32.8% for the three and six months ended July 4, 2009. This represents an increase from the gross margin percentages of 22.0% and 23.6% in the comparable prior year periods as illustrated below (in thousands):

| | Three Months Ended | |
|---|--------------------|--------|
| | July 4, 2009 | |
| Net sales | \$ 72,390 | 100.0% |
| Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall | 46,255 | 63.9% |
| LIFO (income) expense | (929) | (1.3) |
| Overhead rate adjustments to inventory | 1,071 | 1.5% |
| Labor rate adjustments to inventory | 289 | 0.4% |
| Product liability | 654 | 0.9% |
| Product recall | 18 | -- |
| | ----- | ----- |
| Total cost of products sold | 47,358 | 65.4% |
| Gross margin | \$ 25,032 | 34.6% |

| | Six Months Ended | |
|---|------------------|--------|
| | July 4, 2009 | |
| Net sales | \$ 135,920 | 100.0% |
| Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall | 88,979 | 65.5% |
| LIFO (income) expense | (1,178) | (0.9) |
| Overhead rate adjustments to inventory | 1,760 | 1.3% |
| Labor rate adjustments to inventory | 457 | 0.3% |
| Product liability | 747 | 0.6% |
| Product recall | 597 | 0.4% |
| | ----- | ----- |
| Total cost of products sold | 91,362 | 67.2% |
| Gross margin | \$ 44,558 | 32.8% |

Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall--During the three and six months ended July 4, 2009, cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall decreased as a percentage of sales by 15.8% and 10.4%, respectively, compared with the comparable 2008 periods. The improvement was due to the leveraging of fixed overhead expense with year-over-year sales growth of 87.2% and 67.5% during the three and six months ended July 4, 2009, respectively. Greater efficiency was experienced in personnel costs and non-personnel variable overhead spending.

LIFO--During the three and six months ended July 4, 2009, gross inventories decreased by \$3.4 million and \$8.0 million, respectively, compared to increases in gross inventories of \$3.5 million and \$3.0 million in the comparable 2008 periods. As a result, in the three and six months ended July 4, 2009 the Company recognized LIFO income resulting in decreased cost of products sold of \$0.9 million and \$1.2 million, respectively, compared to LIFO expense and increased cost of products sold of \$2.1 million and \$2.2 million in the comparable 2008 periods.

Overhead Rate Adjustments-- During the three and six months ended July 4, 2009, the overhead rates used to absorb overhead expenses into inventory declined, resulting in decreases in inventory value of \$1.1 million and \$1.8 million, respectively. These decreases in inventory carrying values resulted in increases to cost of products sold. During the comparable 2008 periods, the overhead rate used to absorb overhead expenses into inventory increased, resulting in increases in inventory value of \$1.1 million and \$1.5 million, respectively. These increases in inventory carrying values resulted in decreases to cost of products sold.

Labor Rate Adjustments-- During the three and six months ended July 4, 2009, the standard labor rates used to absorb incurred labor expenses into inventory declined, resulting in decreases in inventory value of \$0.3 and \$0.5 million, respectively. These decreases in inventory carrying values resulted in increases to cost of products sold. During the comparable 2008 periods, the standard labor rates used to absorb incurred labor expenses into inventory increased, resulting in increases in inventory value of \$1.1 million and \$1.5 million, respectively. These increases in inventory carrying values resulted in decreases to cost of products sold.

Product Liability--Product liability expenses include the cost of outside legal fees, insurance, and other expenses incurred in the management and defense of product liability matters. During the three and six months ended July 4, 2009, the Company incurred product liability expense of \$0.7 million and \$0.7 million, respectively. For the comparable 2008 periods, product liability expenses totaled \$0.2 million and \$0.4 million, respectively. See Note 9 to the notes to the financial statements "Contingent Liabilities" for further discussion of the Company's product liability.

Product Recalls--In 2008, the Company received a small number of reports from the field that its SR9 pistols, and later, its LCP pistols, could discharge if dropped onto a hard surface. The Company began recalling SR9 pistols in April 2008 and LCP pistols in October 2008 to offer free safety retrofits. The estimated cost of these safety retrofit programs of approximately \$3.5 million was recorded in 2008. During the first quarter of 2009, it became apparent that

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the recalls were more successful than originally forecast and a greater quantity of affected pistols would be retrofitted than originally estimated. Therefore, an additional expense of \$0.6 million was recognized in the first quarter of 2009.

Gross Margin--For the three and six months ended July 4, 2009, gross margin was \$25.0 million and \$44.6 million or 34.6% and 32.8% of sales, respectively. This is an increase of \$16.5 million and \$25.4 or 194.7% and 132.7% from the comparable prior year periods gross margin of \$8.5 million and \$19.2 million, or 22.0% and 23.6% of sales.

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Selling, General and Administrative

Selling, general and administrative expenses were \$11.1 million and \$21.1 million, or 15.3% and 15.6% of sales, for the three and six months ended July 4, 2009, respectively. This represents an increase of \$4.0 million and \$5.8 million from selling, general and administrative expenses of \$7.0 million and \$15.3 million, or 18.1% and 18.9% of sales, in the comparable prior year periods. The increase in expense reflects greater personnel-related expenses, increased sales promotion and advertising expenses, and increased shipping expenses.

Other income

Other income was a break-even in the three and six months ended July 4, 2009 compared to income of \$0.3 million in both the three and six months ended June 28, 2008.

Income Taxes and Net Income

The effective income tax rate in the three and six months ended July 4, 2009 and June 28, 2008 was 38.0%.

As a result of the foregoing factors, consolidated net income was \$8.7 million and \$14.5 million for the three and six months ended July 4, 2009, respectively. This represents an increase of \$7.6 million and \$12.0 million from consolidated net income of \$1.1 million and \$2.5 million in the comparable prior year periods.

Financial Condition

Liquidity

At the end of the second quarter of 2009, our cash, cash equivalents and short-term investments totaled \$43.6 million. Our pre-LIFO working capital of \$100.0 million, less the LIFO reserve of \$43.2 million, resulted in working capital of \$56.8 million and a current ratio of 3.0 to 1.

When the current surge in demand subsides, the Company expects to replenish its finished goods inventory to safety stock levels. This planned replenishment could increase the value of finished goods inventory by as much as \$15 million from current depressed levels. The cash that will be consumed by this increase in finished goods inventory would be partially offset by a reduction in accounts receivable which would be expected during a period of reduced sales.

During the first quarter of 2009, the Company paid down the \$1 million balance on its \$25 million credit facility, in response to the relative improvement in the global financial and credit markets. The credit facility,

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which expires on December 13, 2009, remains unused.

Operations

Cash provided by operating activities was \$23.5 million for the six months ended July 4, 2009 compared to cash used by operating activities of \$1.1 million for the comparable prior year period. The increase in cash provided in 2009 compared to 2008 is principally attributable to the increased profitability in 2009, inventory reductions in 2009 compared to inventory increases in 2008, and other working capital fluctuations.

Third parties supply the Company with various raw materials for its firearms and castings, such as fabricated steel components, walnut, birch, beech, maple and laminated lumber for rifle stocks, wax, ceramic material, metal alloys, various synthetic products and other component parts. There is a limited supply of these materials in the marketplace at any given time, which can cause the purchase prices to vary based upon numerous market factors. The Company believes that it has adequate quantities of raw materials in inventory to provide ample time to locate and obtain additional items at then-current market cost without interruption of its manufacturing operations. However, if market conditions result in a significant prolonged inflation of certain prices or if adequate quantities of raw materials can not be obtained, the Company's manufacturing processes could be interrupted and the Company's financial condition or results of operations could be materially adversely affected.

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Investing and Financing

Capital expenditures for the six months ended July 4, 2009 totaled \$6.8 million. In 2009, the Company expects to spend approximately \$12 million on capital expenditures to purchase tooling for new product introductions and to upgrade and modernize manufacturing equipment, and to increase capacity of certain products in strong demand. The Company finances, and intends to continue to finance, all of these activities with cash provided by operations and current cash and short-term investments.

Dividends of \$1.6 million were paid during the six months ended July 4, 2009.

On July 28, 2009, the Company declared a dividend of 12.3 cents per share to shareholders of record on August 14, 2009. The amount of this dividend was based on a percentage of Operating Profit after adjustment for certain items, the same approach used by the Company last quarter when it declared its first dividend in over three years. Under this approach, the amount of the quarterly dividend fluctuates directly with certain operating results of the Company. The payment of future dividends depends on many factors, including internal estimates of future performance, then-current cash and short-term investments, and the Company's need for funds.

In 2007, the Company amended its hourly and salaried defined benefit pension plans so that employees no longer accrue benefits under them effective December 31, 2007. This action "froze" the benefits for all employees and prevented future hires from joining the plans, effective December 31, 2007. Currently, the Company provides supplemental discretionary contributions to substantially all employees' individual 401(k) accounts.

In 2009 and future years, the Company may be required to make cash contributions to the two defined benefit pension plans according to the new rules of the Pension Protection Act of 2006. The annual contributions will be

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based on the amount of the unfunded plan liabilities derived from the frozen benefits and will not include liabilities for any future accrued benefits for any new or existing participants. The total amount of these future cash contributions will be dependent on the investment returns generated by the plans' assets and the then-applicable discount rates used to calculate the plans' liabilities.

There is no minimum required cash contribution for the defined benefit plans for 2009, but there may be such a requirement in future years. The Company expects to voluntarily contribute approximately \$2.0 million to the defined benefit plans in 2009, of which \$0.8 million was contributed in the first half of 2009. The intent of this discretionary contribution is to reduce the amount of time that the Company will be required to continue to operate the frozen plans. The ongoing cost of running the plans (even if frozen) is approximately \$200,000 per year, which includes PBGC premiums, actuary and audit fees, and other expenses.

In the first quarter of 2009, the Company settled \$2.0 million of pension liabilities through the purchase of group annuities. This transaction resulted in an insignificant actuarial gain.

Based on its unencumbered assets, the Company believes it has the ability to raise substantial amounts of cash through issuance of short-term or long-term debt. In 2007, the Company established an unsecured \$25 million credit facility. At December 31, 2008, \$1.0 million was outstanding from this credit facility. During the first quarter of 2009, the Company paid down the \$1.0 million balance on its \$25 million credit facility, in response to the relative improvement in the global financial and credit markets. The credit facility, which expires on December 13, 2009, remains unused.

In November 2008, the Company announced that its Board of Directors authorized a \$5 million stock repurchase program. During the first half of 2009, the Company repurchased approximately 2,400 shares of its common stock under a 10b5-1 program, representing 0.01% of the outstanding shares, in the open market at an average price of \$6.03 per share. These purchases were made with cash held by the Company and no debt was incurred. At July 4, 2009, \$4.7 million remained available for share repurchases under this repurchase program.

The Company plans to demolish most of its 300,000 square foot Dorr Woolen Building during the second half of 2009. A portion of the building will remain and be refurbished, and will continue to serve as the firearms warehouse in New Hampshire. The cost of this demolition and refurbishment is expected to be approximately \$2 million.

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Other Operational Matters

In the normal course of its manufacturing operations, the Company is subject to occasional governmental proceedings and orders pertaining to workplace safety, waste disposal, air emissions and water discharges into the environment. The Company believes that it is generally in compliance with applicable environmental regulations and the outcome of such proceedings and orders will not have a material adverse effect on the financial position or results of operations of the Company.

The Company self-insures a significant amount of its product liability, workers' compensation, medical, and other insurance. It also carries significant deductible amounts on various insurance policies.

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The valuation of the future defined-benefit pension obligations at December 31, 2008 and 2007 indicated that these plans were underfunded by \$16.9 million and \$4.8 million, respectively, and resulted in a cumulative other comprehensive loss of \$23.0 million and \$13.4 million on the Company's balance sheet at December 31, 2008 and 2007, respectively.

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

Adjustments to Critical Accounting Policies

The Company has not made any adjustments to its critical accounting estimates and assumptions described in the Company's 2008 Annual Report on Form 10-K filed on February 24, 2009, or the judgments affecting the application of those estimates and assumptions.

Recent Accounting Pronouncements:

In July 2009, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 165 ("FAS 165") "Subsequent Events". FAS 165 establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. The Company adopted FAS 165 during the quarter ended July 4, 2009.

Forward-Looking Statements and Projections

The Company may, from time to time, make forward-looking statements and projections concerning future expectations. Such statements are based on current expectations and are subject to certain qualifying risks and uncertainties, such as market demand, sales levels of firearms, anticipated castings sales and earnings, the need for external financing for operations or capital expenditures, the results of pending litigation against the Company including lawsuits filed by mayors, state attorneys general and other governmental entities and membership organizations, and the impact of future firearms control and environmental legislation, any one or more of which could cause actual results to differ materially from those projected. Readers are cautioned not to 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, all maturing within one year. The carrying amount of these investments approximates fair value due to the short-term maturities. Under its current policies, the Company does not use derivative financial instruments, derivative commodity instruments or other financial instruments to manage its exposure to changes in interest rates or commodity prices.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Treasurer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (the "Disclosure Controls and Procedures"), as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of July 4, 2009.

Based on the evaluation, the Company's Chief Executive Officer and Treasurer and Chief Financial Officer have concluded that, as of July 4, 2009, such disclosure controls and procedures are effective to ensure that information required to be disclosed in the Company's periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms. Additionally, the Company's Chief Executive Officer and Treasurer and Chief Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, there have been no changes in the Company's control over financial reporting that occurred during the quarter ended July 4, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our 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 9 to this Form 10-Q report, which is incorporated herein by reference.

The Company has reported all cases instituted against it through April 4, 2009, and the results of those cases, where terminated, to the S.E.C. on its previous Form 10Q and 10K reports, to which reference is hereby made.

One case was formally instituted against the Company during the three months ending July 4, 2009. On June 23, 2009, the Company was served with a complaint captioned Belmore v. Sturm, Ruger & Co., Inc. pending in Yavapai County Superior Court in the State of Arizona. Plaintiff Roger Belmore worked for a third-party contractor as a security guard in a Company facility, and the complaint alleges that he slipped and fell. General damages, medical expenses, and loss of earnings and earning capacity are demanded.

On July 20, 2009, the Company was served with a complaint captioned Gilbert v. Sturm, Ruger & Co., Inc pending in the Boyd County Circuit Court in the Commonwealth of Kentucky. The complaint alleges that the plaintiff was handling a Ruger SR9 pistol when it discharged, resulting in injury to his leg. Compensatory damages, punitive damages and costs are demanded.

During the three months ending July 4, 2009, no previously reported cases were settled.

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ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from the information provided in Item 1A. Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2008.

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

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

The 2009 Annual Meeting of Stockholders of the Company was held on April 29, 2009. The table below sets forth the results of the votes taken on the 2009 Annual Meeting:

| | | |
|----|---|------------------------|
| 1. | Election of Directors ----- | Votes For ----- |
| | Michael O. Fifer | 16,217,405 |
| | James E. Service | 16,191,960 |
| | John A. Cosentino, Jr. | 16,228,179 |
| | C. Michael Jacobi | 16,133,521 |
| | John M. Kingsley, Jr. | 16,179,342 |
| | Stephen T. Merkel | 16,231,047 |
| | Ronald C. Whitaker | 16,221,218 |
| 2. | Ratification of McGladrey & Pullen, LLP as Auditors for 2009 ----- | |
| | Votes For ----- | Votes Against ----- |
| | 16,255,069 | 120,773 |

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

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- 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 JULY 4, 2009

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: July 28, 2009

/S/ THOMAS A. DINEEN

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

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