STURM RUGER \& CO INC
Form 10-Q
April 27, 2010

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

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 3, 2010
OR
oTRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from $\qquad$ to $\qquad$
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)

Lacey Place, Southport, Connecticut
(Address of principal executive offices)

06890
(I.R.S. employer
identification no.)
(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 $15(\mathrm{~d})$ of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. Yes x No o

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 ( $\$ 232.405$ 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 x No o

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

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

The number of shares outstanding of the issuer's common stock as of April 23, 2010: Common Stock, \$1 par value -19,112,548.

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STURM, RUGER \& COMPANY, INC.


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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)
$\left.\begin{array}{llll} & \text { April 3, 2010 } & \begin{array}{c}\text { December 31, } \\ \text { 2009 }\end{array} \\ \text { Assets } & & & \text { (Note) }\end{array}\right\}$

Note:
The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

See notes to condensed financial statements.

STURM, RUGER \& COMPANY, INC.

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


Note:

The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

See notes to condensed financial statements.

STURM, RUGER \& COMPANY, INC.
CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share data)

| Three Months Ended |  |  |  |
| :---: | :---: | :---: | :---: |
| April 3, 2010 | April 4, 2009 |  |  |


| Net firearms sales | \$ | 67,269 | \$ | 62,227 |
| :---: | :---: | :---: | :---: | :---: |
| Net castings sales |  | 1,007 |  | 1,302 |
| Total net sales |  | 68,276 |  | 63,529 |
| Cost of products sold |  | 45,145 |  | 44,003 |
| Gross margin |  | 23,131 |  | 19,526 |
| Expenses: |  |  |  |  |
| Selling |  | 5,899 |  | 5,445 |
| General and administrative |  | 3,932 |  | 4,147 |
| Other operating expenses, net |  | 400 |  | 500 |
| Total operating expenses |  | 10,231 |  | 10,092 |
| Operating income |  | 12,900 |  | 9,434 |
| Other income: |  |  |  |  |
| Interest (expense) income, net |  | (33 |  | (18 |
| Other income (expense), net |  | 127 |  | (50 |
| Total other income, net |  | 94 |  | (68 |
| Income before income taxes |  | 12,994 |  | 9,366 |
| Income taxes |  | 4,678 |  | 3,559 |
| Net income | \$ | 8,316 | \$ | 5,807 |
| Earnings per share |  |  |  |  |
| Basic | \$ | 0.44 | \$ | 0.30 |
| Diluted | \$ | 0.43 | \$ | 0.30 |
| Average shares outstanding |  |  |  |  |
| Basic |  | 19,087 |  | 19,045 |
| Diluted |  | 19,340 |  | 19,175 |
| Cash dividends per share | \$ | 0.06 |  | - |

See notes to condensed financial statements.

STURM, RUGER \& COMPANY, INC.
CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
(Dollars in thousands)

|  | Common Stock | Additional <br> Paid-in <br> Capital | Retained <br> Earnings | Treasury Stock |  | Accumulated Other Comprehensive Loss | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance at December 31, 2009 | \$22,827 | \$8,031 | \$115,187 | \$(30,167 | ) | \$ (20,362 | \$95,516 |
| Net income and comprehensive income | - | - | 8,316 | - |  | - | 8,316 |
| Dividends paid | - | - | (1,146 | - |  | - | (1,146 |
| Stock-based compensation | - | 628 | - | - |  | - | 628 |
| Cashless exercise of stock options | - | (230 | - | - |  | - | (230 |
| Issuance of 39,768 shares of common stock | 39 | (39 ) | - | - |  | - | - |
| Balance at April 3, 2010 | \$22,866 | \$8,390 | \$122,357 | \$(30,167 | ) | \$ (20,362 ) | \$103,084 |

See notes to condensed financial statements.

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STURM, RUGER \& COMPANY, INC.

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

|  | Three Months Ended |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | April 3, 2010 |  | April 4, 2009 |  |
| Operating Activities |  |  |  |  |
| Net income | \$8,316 |  | \$5,807 |  |
| Adjustments to reconcile net income to cash provided by operating activities: |  |  |  |  |
| Depreciation | 2,135 |  | 1,662 |  |
| Slow moving inventory valuation adjustment | (761 | ) | - |  |
| Stock-based compensation | 628 |  | 920 |  |
| Gain on sale of assets | (3 | ) | - |  |
| Deferred income taxes | (408 | ) | 614 |  |
| Changes in operating assets and liabilities: |  |  |  |  |
| Trade receivables | (2,566 | ) | 198 |  |
| Inventories | 3,258 |  | 3,627 |  |
| Trade accounts payable and accrued expenses | (4,836 | ) | 167 |  |
| Product liability | (262 | ) | (415 | ) |
| Prepaid expenses, other assets and other liabilities | 242 |  | (1,240 | ) |
| Income taxes payable | 4,189 |  | (971 | ) |
| Cash provided by operating activities | 9,932 |  | 10,369 |  |
|  |  |  |  |  |
| Investing Activities |  |  |  |  |
| Property, plant and equipment additions | (5,696 | ) | (3,701 | ) |
| Proceeds from sale of assets | 5 |  | - |  |
| Purchases of short-term investments | (34,992 | ) | (25,979 | ) |
| Proceeds from maturities of short-term investments | 32,498 |  | 14,559 |  |
| Cash used for investing activities | (8,185 | ) | (15,121 | ) |
|  |  |  |  |  |
| Financing Activities |  |  |  |  |
| Tax benefit from exercise of stock options | 33 |  | - |  |
| Repayment of line of credit balance | - |  | (1,000 | ) |
| Repurchase of common stock | - |  | (14 | ) |
| Dividends paid | (1,146 | ) | - |  |
| Cash used for financing activities | (1,113 | ) | (1,014 | ) |
|  |  |  |  |  |
| Increase (decrease) in cash and cash equivalents | 634 |  | (5,766 | ) |
|  |  |  |  |  |
| Cash and cash equivalents at beginning of period | 5,008 |  | 9,688 |  |
|  |  |  |  |  |
| Cash and cash equivalents at end of period | \$5,642 |  | \$3,922 |  |

See notes to condensed financial statements.

## 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 three months ended April 3, 2010 are not indicative of the results to be expected for the full year ending December 31, 2010. 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, 2009.

## 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 months ended April 3, 2010 were firearms sales, and $2 \%$ were investment castings sales. Export sales represent less than $4 \%$ 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.

## 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 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 three month period ended April 3, 2010, 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 2010, 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):

|  | April 3, 2010 |  |  | $\begin{aligned} & \text { December 31, } \\ & 2009 \end{aligned}$ |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Inventory at FIFO |  |  |  |  |  |  |
| Finished products | \$ | 4,069 |  | \$ | 4,623 |  |
| Materials and work in process |  | 43,457 |  |  | 46,425 |  |
| Gross inventories |  | 47,526 |  |  | 51,048 |  |
| Less: LIFO reserve |  | (38,435 | ) |  | (38,663 | ) |
| Less: excess and obsolescence reserve |  | (1,930 | ) |  | (2,727 | ) |
| Net inventories | \$ | 7,161 |  | \$ | 9,658 |  |

## NOTE 5 - INCOME TAXES

The Company's 2010 and 2009 effective tax rates differ from the statutory federal 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 rates for the three months ended April 3, 2010 and April 4, 2009 are $36.0 \%$ and $38.0 \%$, respectively. Income tax payments in the three months ended April 3, 2010 and April 4, 2009 totaled $\$ 0.6$ million and $\$ 3.9$ million, respectively.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2005. In the 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 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 $\$ 0.4$ million to $\$ 0.7$ million exist. The Company has recorded $\$ 0.7$ 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 April 3, 2010. The Company will include any future 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 $401(\mathrm{k})$ accounts.

In future years, the Company may be required to make cash contributions to the two defined benefit pension plans according to the 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 2010, 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 2010, of which $\$ 0.5$ million was contributed in the first three months of 2010. 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.

The estimated cost of the frozen defined benefit plans for 2010 is $\$ 1.6$ million, of which $\$ 0.4$ million was recognized in the first three months of 2010.

Costs attributable to the supplemental discretionary $401(\mathrm{k})$ plan totaled $\$ 0.4$ million and $\$ 0.5$ million for the three months ended April 3, 2010 and April 4, 2009, respectively. The Company plans to contribute an additional $\$ 1.5$ million to the plan during the remainder of 2010.

## 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 of which $1,671,858$ remain available for future grants under the Plan as of April 3, 2010.

Compensation costs related to all share-based payments recognized in the statements of operations aggregated $\$ 0.6$ million and $\$ 0.9$ million for three months ended April 3, 2010 and April 4, 2009, respectively.

## Stock Options

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

|  | Weighted <br> Average <br> Exercise Price |  |  |
| :--- | :--- | :--- | :--- | | Grant Date |
| :---: |
| Fair Value |

The aggregate intrinsic value (mean market price at April 3, 2010 less the weighted average exercise price) of options outstanding under the Plans was approximately $\$ 5.5$ million.

## Restricted Stock Units

Beginning in the second quarter of 2009, the Company began granting restricted stock units to senior employees, in lieu of incentive stock options. These awards vest dependent on the achievement of various corporate objectives established by the Compensation Committee of the Board of Directors.

During the first quarter of 2010, 21,900 restricted stock units were issued. Compensation costs related to these restricted stock units were $\$ 0.3$ million, which is being recognized over 72 months, the period available for the Company to achieve the required performance objectives.

Beginning in 2008, a portion of all officers' annual incentive compensation was paid in restricted stock units. During the first quarters of 2010 and 2009, awards totaling $\$ 0.4$ million and $\$ 0.2$ million, respectively were made under this policy.

## NOTE 8 - BASIC AND DILUTED EARNINGS PER SHARE

Weighted average shares outstanding for the three months ended April 3, 2010 and April 4, 2009 were 19,086,797 and $19,045,229$, 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 months ended April 3, 2010 and April 4, 2009 of 19,340,228 and 19,174,871, respectively.

## NOTE 9 - CONTINGENT LIABILITIES

As of April 3, 2010, the Company was a defendant in approximately five (5) lawsuits and is aware of certain other such claims.

Lawsuits involving the Company's products generally 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.

As to lawsuits of the first type, 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.

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 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. 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. No trial date has been set.

In addition to the foregoing, on August 18, 2009, the Company was served with a complaint captioned Steamfitters Local 449 Pension Fund, on Behalf of Itself and All Others Similarly Situated v. Sturm, Ruger \& Co. Inc., et al. pending in the United States District Court for the District of Connecticut. The complaint seeks unspecified damages for alleged violations of the Securities Exchange Act of 1934 and is a purported class action on behalf of purchasers of the Company's common stock between April 23, 2007 and October 29, 2007. On October 9, 2009, the Company waived service of a complaint captioned Alan R. Herrett, Individually and On Behalf of All Others Similarly Situated v. Sturm, Ruger \& Co. Inc., et al. pending in the United States District Court for the District of Connecticut. This matter is based upon the same facts and basic allegations set forth in the Steamfitters Local 449 Pension Fund litigation. On October 12, 2009, a motion to consolidate the two actions was filed by counsel for the Steamfitters. On January 11, 2010, the court entered an order consolidating the two matters. The January 11, 2010 order also sets a briefing schedule for plaintiffs to file a consolidated amended complaint and for defendants, including the Company,
to file a responsive pleading. The consolidated amended complaint was filed on March 11, 2010. The defendants' responsive pleading is due on April 26, 2010.

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Although the Company has not been served, it is aware of a lawsuit entitled Karl Lippard v. Sturm, Ruger \& Co., Inc. filed on February 19, 2010 in the District Court of El Paso County, Colorado. The matter was removed to U.S. District Court on April 20, 2010 and currently is pending there. The suit seeks monetary damages for alleged breach of contract.

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.

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.

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

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

A range of reasonably possible loss relating to unfavorable outcomes cannot be made. However, in product liability cases in which a dollar amount of damages is claimed, the amount of damages claimed, which totaled $\$ 7.7$ million and $\$ 12.2$ million at December 31, 2009 and 2008, 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 has reported all cases instituted against it through December 31, 2009 and the results of those cases, where terminated, to the SEC on its previous Form $10-\mathrm{K}$ and $10-\mathrm{Q}$ reports to which reference is hereby made.

## 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. Two of these independent wholesale distributors merged in 2009. Further consolidation of independent wholesale distributors would result in a greater concentration of credit risk. The investment castings segment manufactures and sells steel investment castings. Selected operating segment financial information follows (in thousands):


## NOTE 11 - STOCK REPURCHASE

In 2009, the Company repurchased 2,400 shares of its common stock, representing $0.1 \%$ of the then 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 December 31, 2009, $\$ 4.7$ million remained authorized for share repurchases. In February 2010, the Company announced that the Board of Directors expanded this repurchase program from $\$ 4.7$ million to $\$ 10$ million. To date, no share repurchases have been made since the $\$ 10$ million repurchase program was authorized.

## NOTE 12 - LINE OF CREDIT

In December 2009, the Company renewed a $\$ 25$ million credit facility with a bank. This facility is renewable annually and now terminates on December 12, 2010. Borrowings under this facility bear interest at LIBOR ( $0.87 \%$ at April 3, 2010) plus 200 basis points. The Company is charged 50 basis points per year on the unused portion. At April 3, 2010 and December 31, 2009, the Company was in compliance with the terms and covenants of the credit facility, which remains unused.

## NOTE 13 - SUBSEQUENT EVENTS

The Company has evaluated events and transactions occurring subsequent to April 3, 2010 and determined that there were no such events or transactions 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

## 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 months ended April 3, 2010 were firearms sales, and $2 \%$ were investment castings sales. Export sales represent less than $4 \%$ 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.

Results of Operations

## Product Demand

Demand for the Company's products remained strong in the first quarter of 2010. Estimated sell-through of the Company's products from distributors to retailers in the first quarter of 2010 increased by approximately $8 \%$ from the first quarter of 2009 and approximately $21 \%$ from the fourth quarter of 2009. This sales growth, despite declines of $4 \%$ and 5\%, respectively, in National Instant Criminal Background Check System ("NICS") background checks over the same periods, suggests the Company gained market share.

The increase in estimated sell-through from distributors to retailers is likely due to the following factors:

- Successful sales promotions that were in effect during the latter months of 2009 and the first quarter of 2010,
- The introduction of the SR9c pistol in January of 2010,
- Likely gain of market share, and
- Normal, seasonal build-up of retailer inventories resulting from orders placed at annual distributor shows (typically most are in January and February).

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We believe our sell-through estimate overstates the true market demand in the first quarter of 2010, due to the likely seasonal build-up of retailer inventories, but is probably a reasonable year-over-year comparative metric.

| 2010 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| Q1 | Q4 | Q3 | Q2 | Q1 |

Estimated Units Sold from
Distributors to Retailers $\quad 254,200 \quad 209,400 \quad 214,500 \quad 227,500 \quad 236,000$
(1)

Total NICS Background
$\begin{array}{llllll}\text { Checks (millions) (2) } & 3,663 & 3,864 & 3,134 & 3,217 & 3,818\end{array}$
Note The estimates for each period were calculated by taking the beginning inventory at the distributors, plus
1: shipments from the Company to distributors during the period, less the ending inventory at distributors. These estimates are only a proxy for actual market demand as they:

- Rely on data provided by independent distributors that are not verified by the Company,
- Do not consider potential timing issues within the distribution channel, including goods-in-transit, and
- Do not consider fluctuations in inventory at retail.

Note While NICS background checks are not an actual measure of retail activity, the trends in NICS background 2: checks are commonly used as a proxy for trends in retail demand. NICS background checks are performed when the ownership of most firearms, either new or used, is transferred. NICS background checks are also performed for permit applications, permit renewals, and other administrative reasons.

In the first quarter of 2010, the Company launched the SR9c, a compact version of the full-size SR9 striker-fired, semi-automatic pistol. New product introductions, including the new SR9c, remain a strong driver of demand, and products introduced since January 2008 represented $\$ 26.6$ million or $39 \%$ of sales in the first quarter of 2010.

## Orders Received and Ending Backlog

The value of orders received and ending backlog, net of excise tax, for the trailing five quarters are as follows (in millions except average sales price):

|  | 2010 |  | 2009 |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: |
|  | Q1 | Q4 | Q3 | Q2 | Q1 |
| Orders Received (3) (4) | $\$ 81.8$ | $\$ 42.9$ | $\$ 14.1$ | $\$ 73.6$ | $\$ 138.9$ |
| $\begin{array}{l}\text { Average Sales Price of } \\ \text { Orders Received (3) (4) }\end{array}$ | $\$ 270$ |  | $\$ 275$ | $\$ 196$ | $\$ 400$ |$) \$ 308$

Note During the third quarter of 2009, the Company unilaterally cancelled all of the unshipped orders for Mini-14 and 3: Mini-Thirty auto-loading rifles, and asked the distributors to submit new orders that better represented their
forecasted needs. The cancellation of these unshipped orders, partially offset by the submission of new orders for these products, resulted in a net reduction to the backlog of approximately $\$ 20$ million and decreased the Average Sales Price of Orders Received by $\$ 115$ per unit. Had these orders not been cancelled, the Average Sales Price of Orders Received would have been $\$ 311$ per unit. The Average Sales Price of the Ending Backlog was also impacted for the same reasons.

Note 4: All amounts shown are net of Federal Excise Tax of $10 \%$ for handguns and $11 \%$ for long guns.
The average sales price of orders received in the third quarter of 2009 was lower than usual due to the net cancellation of Mini-14 and Mini-Thirty rifles in that quarter, as discussed in Note 3 above. In the second quarter of 2009, the average sales price of orders received was higher than usual due to the initial stocking orders received for the SR-556 modern sporting rifle, which has a higher price relative to the other product lines.

The $9 \%$ decrease in average sales price of ending backlog in the first quarter of 2010 reflects increased backlog for pistols, including the SR9c pistol, which was introduced in the first quarter of 2010, and decreased backlog for the SR-556 modern sporting rifle.

Production
Total unit production in the first quarter of 2010 increased $3 \%$ from the fourth quarter of 2009 , and $15 \%$ from the first quarter of 2009. This increased production was facilitated by the Company's on-going implementation of lean manufacturing, a process that started in 2006. The current efforts in improving the Company's manufacturing processes include the following:
-transitioning from large-scale batch manufacturing to single-piece-flow manufacturing,

- establishing single-piece flow cells for small parts manufacturing,
- refining existing cells,
- developing inventory pull systems and managing vendors,
- increasing capacity for the products with strong demand, and
- re-engineering existing product designs for improved manufacturability.

The Company plans to produce at rates moderately in excess of estimated retail demand for certain products to build desired finished goods inventory levels for those products.

## Summary Unit Data

Firearms unit data for the last five quarters are as follows:

|  | 2010 | 2009 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Q1 | Q4 | Q3 | Q2 | Q1 |
| Estimated Units Sold from Distributors to Retailers | 254,200 | 209,400 | 214,500 | 227,500 | 236,000 |
| Units Ordered (5) | 305,900 | 173,000 | 80,000 | 204,700 | 501,000 |
| Units Produced | 241,900 | 234,600 | 242,500 | 247,300 | 209,900 |
| Units Shipped | 237,300 | 228,500 | 237,400 | 246,200 | 213,700 |
| Average Sales Price | \$279 | \$276 | \$295 | \$286 | \$283 |
| Units on Backorder (5) | 239,900 | 181,000 | 240,700 | 412,300 | 458,900 |

Note See description in Note 3 above for information relating to order cancellations in the third quarter of 2009. The 5: cancellation of these orders reduced Units Ordered in the third quarter of 2009 by 34,000 units. Had these orders not been cancelled, the Units Ordered in the third quarter would have been approximately 114,000 units.

## Inventories

The Company's finished goods inventory increased slightly during the first quarter of 2010, and remains below desired levels for rapid order fulfillment. The Company anticipates that finished goods inventory could increase by as much as $\$ 12$ to $\$ 15$ million from the current level upon the attainment of desired levels of finished goods inventory.

Distributor inventory of the Company's products declined 18\% during the first quarter.
Inventory data for the trailing five quarters follows:

|  | 2010 |  | 2009 |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: |
|  | Q1 | Q4 | Q3 | Q2 | Q1 |
| Units - Company Inventory | 24,400 | 20,100 | 15,100 | 9,600 | 8,800 |
| Units - Distributor Inventory <br> (6) | 79,100 | 96,200 | 76,800 | 53,900 | 35,200 |
| Total inventory (7) | 103,500 | 116,300 | 91,900 | 63,500 | 44,000 |

Note Distributor ending inventory as provided by the Company's independent distributors. These numbers do not 6: include goods-in-transit inventory that has been shipped from the Company but not yet received by the distributors.

Note This total does not include inventory at retailers. The Company does not have access to data on retailer 7: inventories of the Company's products.

## Sales

Consolidated net sales were $\$ 68.3$ million for the three months ended April 3, 2010. This represents an increase of $\$ 4.8$ million or $7.5 \%$ from consolidated net sales of $\$ 63.5$ million in the comparable prior year period.

Firearms net sales were $\$ 67.3$ million for the three months ended April 3, 2010. This represents an increase of $\$ 5.1$ million or $8.1 \%$ from firearms net sales of $\$ 62.2$ million in the comparable prior year period.

Firearms unit shipments increased $11.0 \%$ for the three months ended April 3, 2010 from the comparable prior year period, primarily driven by growth in sales of products introduced within the past two years.

Casting net sales were $\$ 1.0$ million for the three months ended April 3, 2010. This represents a decrease of $\$ 0.3$ million or $22.7 \%$ from casting sales of $\$ 1.3$ million in the comparable prior year period.

## Cost of Products Sold and Gross Margin

Consolidated cost of products sold was $\$ 45.1$ million for the three months ended April 3, 2010. This represents an increase of $\$ 1.0$ million or $2.6 \%$ from consolidated cost of products sold of $\$ 44.0$ million in the comparable prior year period.

Gross margin as a percent of sales was $33.9 \%$ for the three months ended April 4, 2010. This represents an increase from the gross margin percentage of $30.7 \%$ in the comparable prior year period as illustrated below (in thousands):

|  | Three Months Ended |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | April 3, 2010 |  |  | April 4, 2009 |  |  |  |  |
| Net sales | \$68,276 |  | 100.0 | \% | \$63,529 |  | 100.0 | \% |
| Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall | 45,711 |  | 67.0 | \% | 42,722 |  | 67.2 | \% |
| LIFO (income) expense | (122 | ) | (0.2 | )\% | (249 | ) | (0.4 | )\% |
| Overhead rate adjustments to inventory | (394 | ) | (0.6 | )\% | 689 |  | 1.2 | \% |
| Labor rate adjustments to inventory | (55 | ) | (0.1 | )\% | 169 |  | 0.3 | \% |
| Product liability | (10 | ) |  |  | 93 |  | 0.1 | \% |
| Product recall | 15 |  | - |  | 579 |  | 0.9 | \% |
| Total cost of products sold | 45,145 |  | 66.1 | \% | 44,003 |  | 69.3 | \% |
| Gross margin | \$23,131 |  | 33.9 | \% | \$19,526 |  | 30.7 | \% |

Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, product liability, and product recall—During the three months ended April 3, 2010, 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 $0.2 \%$ compared with the comparable 2009 period.

LIFO—During the three months ended April 3, 2010, gross inventories decreased by $\$ 3.5$ million compared to a decrease in gross inventories of $\$ 4.6$ million in the comparable 2009 period. As a result, in the three months ended April 3, 2010 the Company recognized LIFO income resulting in decreased cost of products sold of $\$ 0.1$ compared to LIFO income and decreased cost of products sold of $\$ 0.2$ million in the comparable 2009 period.

Overhead Rate Adjustments-The Company uses actual overhead expenses incurred as a percentage of sales-value-of-production over a trailing six month period to absorb overhead expense into inventory. During the three months ended April 3, 2010, the Company was less efficient in overhead spending and the overhead rates used to absorb overhead expenses into inventory increased, resulting in an increase in inventory value of $\$ 0.4$ million. This increase in inventory carrying values resulted in a decrease to cost of products sold. During the comparable period in 2009, the overhead rate used to absorb overhead into inventory decreased, resulting in a decrease in inventory value of $\$ 0.7$ million, and a corresponding increase to cost of products sold.

Labor Rate Adjustments-The Company uses actual direct labor expense incurred as a percentage of sales-value-of-production over a trailing six month period to absorb direct labor expense into inventory. During the three months ended April 3, 2010, the Company was less efficient in direct labor utilization and the labor rates used to absorb incurred labor expenses into inventory increased, resulting in an increase in inventory value of $\$ 0.1$ million. This increase in inventory carrying values resulted in a decrease to cost of products sold. During the comparable period in 2009, the labor rates used to absorb incurred labor expenses into inventory decreased, resulting in a decrease in inventory value of $\$ 0.2$ million, and a corresponding increase 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. 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 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. The quantity of pistols being returned to the Company for retrofitting has declined significantly since the first quarter of 2009. Therefore only modest retrofit expenses were recorded in the latter quarters of 2009, and the first quarter of 2010.

Gross Margin-For the three months ended April 3, 2010, gross margin was $\$ 23.1$ million or $33.9 \%$ of sales. This is an increase of $\$ 3.6$ million or $18.5 \%$ from the comparable prior year period gross margin of $\$ 19.5$ million or $30.7 \%$ of sales.

Selling, General and Administrative
Selling, general and administrative expenses were $\$ 9.8$ million or $14.4 \%$ of sales for the three months ended April 3, 2010. This represents an increase of $\$ 0.2$ million from selling, general and administrative expenses of $\$ 9.6$ million or $15.1 \%$ of sales in the comparable prior year period. The increase reflects increased sales promotions and increased shipping expenses.

## Other Operating Expenses

In the three months ended April 3, 2010, the Company recognized an expense of $\$ 0.4$ million related to its frozen defined benefit pension plans, compared to $\$ 0.5$ million in the comparable prior year period.

Other income
Other income was $\$ 0.1$ million in the three months ended April 3, 2010 compared to an expense of $\$ 0.1$ million in the three months ended April 4, 2009.

Income Taxes and Net Income
The effective income tax rate in the three months ended April 3, 2010 was $36.0 \%$, compared to $38.0 \%$ for the comparable prior year period. The decrease in the income tax rate results from an increased benefit from the American Jobs Creation Act of 2004 that was effective January 1, 2010.

As a result of the foregoing factors, consolidated net income was $\$ 8.3$ million for the three months ended April 3, 2010. This represents an increase of $\$ 2.5$ million from consolidated net income of $\$ 5.8$ million in the comparable prior year period.

## Financial Condition

## Liquidity

At the end of the first quarter of 2010, the Company's cash, cash equivalents and short-term investments totaled $\$ 58.9$ million. Our pre-LIFO working capital of $\$ 106.8$ million, less the LIFO reserve of $\$ 38.4$ million, resulted in working capital of $\$ 68.4$ million and a current ratio of 3.1 to 1 .

As the current surge in demand subsides, the Company expects to replenish its finished goods inventory. This planned replenishment to levels that will better serve our customers could increase the FIFO value of finished goods inventory by as much as $\$ 12$ to $\$ 15$ million from current depressed levels. We anticipate that the cash required to fund 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 demand.

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, which expires on December 12, 2010, has remained unused since that time and the Company has no debt.

## Operations

Cash provided by operating activities was $\$ 9.9$ million for the three months ended April 3, 2010 compared to $\$ 10.4$ million for the comparable prior year period. Both periods benefited from increased profitability and decreased inventories.

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

## Investing and Financing

Capital expenditures for the three months ended April 3, 2010 totaled $\$ 5.7$ million. In 2010, the Company expects to spend approximately $\$ 12$ to $\$ 18$ million on capital expenditures to purchase tooling for new product introductions, to upgrade and modernize manufacturing equipment, and to increase capacity for certain products in strong demand. The Company has financed all of these activities with cash provided by operations and current cash and short-term investments.

Dividends of $\$ 1.1$ million were paid during the three months ended April 3, 2010. 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 throughout 2009. Under this approach, the amount per share 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 cash. The Company has financed its dividends with cash provided by operations and current cash and short-term investments.

In February, 2010, the Board of Directors expanded the Company's authorization to repurchase shares of its common stock from $\$ 4.7$ million to $\$ 10$ million. To date, no share repurchases have been made since the $\$ 10$ million repurchase program was authorized.

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.

There was no minimum required cash contribution for the defined benefit plans for 2009 or 2010, but there may be such a requirement in future years. The Company voluntarily contributed $\$ 2$ million to the defined benefit plans in 2009. The Company plans on voluntarily contributing approximately $\$ 2$ million in 2010. The intent of these discretionary contributions 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 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 depend on the investment returns generated by the plans' assets and the then-applicable discount rates used to calculate the plans' liabilities.

In the first quarter of 2009, the Company settled $\$ 2.1$ 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. 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, which expires on December 12, 2010, has remained unused since that time and the Company has no debt.

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. In 2009, the Company was served with a complaint captioned Secretary of Labor v. Sturm, Ruger \& Co. Inc. pending before the Occupational Safety and Health Review Commission. The complaint arose out of a Notice of Contest filed by the Company pursuant to an OSHA inspection conducted at the Company's manufacturing facility in Newport, New Hampshire. The matter was settled by agreement of the parties in December 2009. The Company believes that it is generally in compliance with applicable environmental and safety regulations and the outcome of any proceedings or 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.

The valuation of the future defined-benefit pension obligations at December 31, 2009 and 2008 indicated that these plans were underfunded by $\$ 12.2$ million and $\$ 16.9$ million, respectively, and resulted in a cumulative other comprehensive loss of $\$ 20.4$ million and $\$ 23.0$ million on the Company's balance sheet at December 31, 2009 and

2008, 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 2009 Annual Report on Form 10-K filed on February 24, 2010, or the judgments affecting the application of those estimates and assumptions.

## 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 changing interest rates on its investments, which consist primarily of United States Treasury instruments with short-term (less than one year) maturities and cash. The interest rate market risk implicit in the Company's investments at any given time is low, as the investments mature within short periods and the Company does not have significant exposure to changing interest rates on invested cash.

The Company has not undertaken any actions to cover interest rate market risk and is not a party to any interest rate market risk management activities.

A hypothetical ten percent change in market interest rates over the next year would not materially impact the Company's earnings or cash flows. A hypothetical ten percent change in market interest rates would not have a material effect on the fair value of the Company's investments.

## 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 April 3, 2010.

Based on the evaluation, the Company's Chief Executive Officer and Treasurer and Chief Financial Officer have concluded that, as of April 3, 2010, 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 April 3, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's 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 December 31, 2009, and the results of those cases, where terminated, to the SEC on its previous Form $10-\mathrm{Q}$ and $10-\mathrm{K}$ reports, to which reference is hereby made.

One case was formally instituted against the Company during the three months ending April 3, 2010. Although the Company has not been served, it is aware of a lawsuit entitled Karl Lippard v. Sturm, Ruger \& Co., Inc. filed on February 19, 2010 in the District Court of El Paso County, Colorado. The matter was removed to U.S. District Court on April 20, 2010 and currently is pending there. The suit seeks monetary damages for alleged breach of contract.

During the three months ending April 3, 2010, no previously reported cases were settled.

## 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, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
Not applicable
ITEM 3. DEFAULTS UPON SENIOR SECURITIES
Not applicable
ITEM 4.
OTHER INFORMATION
None

## ITEM 5.

 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
31.2Certification 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
32.2Certification 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 APRIL 3, 2010

## 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: April 27, 2010
S/THOMAS A. DINEEN
Thomas A. Dineen
Principal Financial Officer,
Vice President, Treasurer and Chief
Financial Officer

