

STURM RUGER & CO INC
Form 10-Q
May 01, 2012

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 March 31, 2012

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
(State or other jurisdiction of
incorporation or organization)

06-0633559
(I.R.S. employer
identification no.)

Lacey Place, Southport, Connecticut

06890

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(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 (§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 large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. 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 April 30, 2012: Common Stock, \$1 par value 19,145,937.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

STURM, RUGER & COMPANY, INC.

CONDENSED BALANCE SHEETS

(Dollars in thousands)

	March 31, 2012	December 31, 2011 (Note)
Assets		
Current Assets		
Cash and cash equivalents	\$ 75,835	\$ 81,056
Short-term investments	19,994	—
Trade receivables, net	49,026	42,225
Gross inventories	46,264	49,004
Less LIFO reserve	(37,405)	(37,476)
Less excess and obsolescence reserve	(1,238)	(1,311)
Net inventories	7,621	10,217
Deferred income taxes	6,861	5,776
Prepaid expenses and other current assets	1,025	6,968
Total Current Assets	160,362	146,242
Property, plant and equipment	171,869	169,142
Less allowances for depreciation	(119,252)	(116,195)
Net property, plant and equipment	52,617	52,947

Deferred income taxes	312	32
Other assets	8,102	7,289
Total Assets	\$221,393	\$206,510

Note:

The balance sheet at December 31, 2011 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)

	March 31, 2012	December 31, 2011 (Note)
Liabilities and Stockholders' Equity		
Current Liabilities		
Trade accounts payable and accrued expenses	\$ 31,075	\$ 28,592
Product liability	1,283	1,305
Employee compensation and benefits	10,644	14,882
Workers' compensation	4,728	4,600
Income taxes payable	4,405	217
Total Current Liabilities	52,135	49,596
Accrued pension liability	19,082	19,082
Product liability accrual	398	441
Contingent liabilities - Note 11	—	—
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		
2012 23,445,371 issued,		

19,145,937 outstanding

2011 23,382,566 issued,

19,083,132 outstanding	23,445	23,383
Additional paid-in capital	11,358	10,454
Retained earnings	180,402	168,981
Less: Treasury stock at cost		

2012 4,299,434 shares

2011 4,299,434 shares	(37,884)	(37,884)
Accumulated other comprehensive loss	(27,543)	(27,543)
Total Stockholders Equity	149,778	137,391
Total Liabilities and Stockholders Equity	\$221,393	\$206,510

Note:

The balance sheet at December 31, 2011 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 INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

(In thousands, except per share data)

	Three Months Ended	
	March 31, 2012	April 2, 2011
Net firearms sales	\$ 110,787	\$74,441
Net castings sales	1,550	1,000
Total net sales	112,337	75,441
Cost of products sold	70,544	51,446
Gross profit	41,793	23,995
Operating expenses:		
Selling	10,999	6,912
General and administrative	6,378	4,625
Total operating expenses	17,377	11,537
Operating income	24,416	12,458
Other income:		
Interest (expense) income, net	(23)	50
Other income, net	178	106
Total other income, net	155	156

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Income before income taxes	24,571	12,614
Income taxes	9,091	4,667
Net income and comprehensive income	\$ 15,480	\$ 7,947
Basic earnings per share	\$0.81	\$0.42
Fully diluted earnings per share	\$0.79	\$0.42
Cash dividends per share	\$0.212	\$0.050

See notes to condensed financial statements.

STURM, RUGER & COMPANY, INC.

CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

(Dollars in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2011	\$23,383	\$10,454	\$168,981	\$(37,884)	\$(27,543)	\$137,391
Net income			15,480			15,480
Dividends paid			(4,059)			(4,059)
Recognition of stock-based compensation expense		928				928
Employee withholding tax related to share-based compensation						
		(884)				(884)
Tax benefit realized from exercise of stock options and vesting of RSUs						
		922				922
Common stock issued in compensation plans	62	(62)				—
Balance at March 31, 2012	\$ 23,445	\$11,358	\$180,402	\$(37,884)	\$(27,543)	\$149,778

See notes to condensed financial statements.

STURM, RUGER & COMPANY, INC.

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)

	Three Months Ended	
	March 31, 2012	April 2, 2011
Operating Activities		
Net income	\$15,480	\$ 7,947
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	3,388	2,930
Slow moving inventory valuation adjustment	(53)	(125)
Stock-based compensation	928	459
Gain on sale of assets	—	(7)
Deferred income taxes	(1,365)	(1,556)
Changes in operating assets and liabilities:		
Trade receivables	(6,801)	1,135
Inventories	2,649	6,404
Trade accounts payable and accrued expenses	2,611	3,319
Employee compensation and benefits	(4,238)	(2,384)
Product liability	(65)	172
Prepaid expenses, other assets and other liabilities	5,119	(472)
Income taxes payable	4,188	2,914
Cash provided by operating activities	21,841	20,736
Investing Activities		
Property, plant and equipment additions	(3,047)	(4,306)
Proceeds from sale of assets	—	7
Purchases of short-term investments	(19,994)	(61,483)
Proceeds from maturities of short-term investments	—	46,994
Cash used for investing activities	(23,041)	(18,788)

Financing Activities

Tax benefit from exercise of stock options	922	1,247
Repurchase of common stock	—	(1,999)
Payment of employee withholding tax related to share-based compensation	(884)	—
Dividends paid	(4,059)	(938)
Cash used for financing activities	(4,021)	(1,690)
 (Decrease) Increase in cash and cash equivalents	 (5,221)	 258
 Cash and cash equivalents at beginning of period	 81,056	 5,132
 Cash and cash equivalents at end of period	 \$ 75,835	 \$ 5,390

See notes to condensed financial statements.

STURM, RUGER & COMPANY, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands, except per share)

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 March 31, 2012 may not be indicative of the results to be expected for the full year ending December 31, 2012. 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, 2011.

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 99% of the Company's total sales for the three months ended March 31, 2012 were firearms sales, and approximately 1% was investment castings sales. Export sales represent approximately 5% 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 approximate fair value due to the short-term maturity of these items.

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.

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.

NOTE 3 - INVENTORIES

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

During the three month period ended March 31, 2012, 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 occurs in 2012, 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:

	March 31, 2012	December 31, 2011
Inventory at FIFO		
Finished products	\$ 2,702	\$ 3,318
Materials and work in process	43,562	45,686
Gross inventories	46,264	49,004
Less: LIFO reserve	(37,405)	(37,476)
Less: excess and obsolescence reserve	(1,238)	(1,311)
Net inventories	\$ 7,621	\$ 10,217

NOTE 4 - LINE OF CREDIT

In December 2011, the Company renewed a \$25 million credit facility with a bank. This facility is renewable annually and now terminates on June 15, 2013. Borrowings under this facility bear interest at LIBOR (1.01% at March 31, 2012) plus 200 basis points. The Company is charged three-eighths of a percent (0.375%) per year on the unused portion. At March 31, 2012 and December 31, 2011, the Company was in compliance with the terms and covenants of the credit facility, which remains unused.

NOTE 5 - EMPLOYEE BENEFIT 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 to freeze the benefits for current participants and to discontinue the plans for all future employees. All active participants became fully vested in the amount of benefit services accrued through December 31, 2007 and no benefits have accrued since that date. Currently, the Company provides supplemental discretionary contributions to substantially all employees' individual 401(k) accounts.

In future years, the Company may be required to make cash contributions to the two defined benefit pension plans. 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.

Minimum contributions of approximately \$3.0 million are required for the defined benefit plans for 2012. The Company contributed \$2.0 million to the defined benefit plans in 2011. Contributions in the three months ended March 31, 2012 totaled \$0.8 million.

The estimated cost of the frozen defined benefit plans for 2012 is not expected to be significant.

The supplemental discretionary contributions to the 401(k) plan totaled \$0.7 million and \$0.6 million for the three months ended March 31, 2012 and April 2, 2011, respectively. The Company plans to contribute approximately \$2.0 million to the plan during the remainder of 2012.

NOTE 6 - INCOME TAXES

The Company's 2012 and 2011 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 March 31, 2012 and April 2, 2011 are 37.0% and 37.0%, respectively.

Income tax payments in the three months ended March 31, 2012 and April 2, 2011 totaled \$0.3 million and \$0.1 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 2008.

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.

NOTE 7 - EARNINGS PER SHARE

Set forth below is a reconciliation of the numerator and denominator for basic and diluted earnings per share calculations for the periods indicated:

	Three Months Ended	
	March 31, 2012	April 2, 2011
Numerator:		
Net income	\$15,480	\$7,947
Denominator:		
Weighted average number of common shares outstanding Basic	19,116,765	18,752,088
Dilutive effect of options and restricted stock units outstanding under the Company's employee compensation plans	436,916	220,201
Weighted average number of common shares outstanding Diluted	19,553,681	18,972,289

The dilutive effect of outstanding options and restricted stock units is calculated using the treasury stock method. There were no stock options that were anti-dilutive and therefore not included in the diluted earnings per share calculation.

NOTE 8 - STOCK REPURCHASES

In the first quarter of 2011 the Company repurchased shares of its common stock. Details of these purchases are as follows:

Total Number of Shares Purchased	Maximum Dollar Value of Shares that
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Period	Total Number of Shares Purchased	Average Price Paid Per Share	as Part of	May Yet
			Publicly Announced Program	Be Purchased Under the Program
1/4/11-1/29/11	133,400	\$14.94	133,400	
Total	133,400	\$14.94	133,400	\$8,000,000

These purchases were made with cash held by the Company and no debt was incurred.

During the three months ended March 31, 2012, the Company did not repurchase any shares of its common stock.

NOTE 9 - COMPENSATION PLANS

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 are determined by the Compensation Committee of the Board of Directors. The Company has reserved 2,550,000 shares for issuance under the 2007 SIP of which 892,200 remain available for future grants as of March 31, 2012.

Compensation costs related to all share-based payments recognized in the statements of operations aggregated \$0.9 million and \$0.5 million for the three months ended March 31, 2012 and April 2, 2011, respectively.

Stock Options

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, 2011	328,700	\$8.58	\$4.42
Granted	—	—	—
Exercised	(36,970)	\$7.57	\$3.59
Expired	—	—	—
Outstanding at March 31, 2012	291,730	\$8.71	\$4.52

The aggregate intrinsic value (mean market price at March 31, 2012 less the weighted average exercise price) of options outstanding under the plans was approximately \$11.8 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 corporate objectives established by the Compensation Committee of the Board of Directors. Beginning in 2011, a three year vesting period was added

to the performance criteria, which had the effect of requiring both the achievement of the corporate performance objectives and the satisfaction of the vesting period.

Restricted stock units issued during the three months ended March 31, 2012 were 91,769. Total compensation costs related to these restricted stock units are \$4.1 million. These costs are being recognized ratably over the vesting period which range from three to five years. Total compensation cost related to restricted stock units was \$0.8 million and \$0.5 million for the three months ended March 31, 2012 and April 2, 2011, respectively.

NOTE 10 - OPERATING SEGMENT INFORMATION

The Company has two reportable segments: firearms and investment castings. The firearms segment manufactures and sells rifles, pistols, and revolvers 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	
	March 31, 2012	April 2, 2011
Net Sales		
Firearms	\$110,787	\$74,441
Castings		
Unaffiliated	1,550	1,000
Intersegment	6,383	4,386
	7,933	5,386
Eliminations	(6,383)	(4,386)
	\$112,337	\$75,441
Income (Loss) Before Income Taxes		
Firearms	\$24,894	\$12,753
Castings	(442)	(297)
Corporate	119	158
	\$24,571	\$12,614
	March 31, 2012	December 31, 2011
Identifiable Assets		
Firearms	108,597	\$103,545
Castings	4,940	5,290
Corporate	107,856	97,675
	221,393	\$206,510

NOTE 11 - CONTINGENT LIABILITIES

As of March 31, 2012, the Company was a defendant in approximately five (5) lawsuits and is aware of certain other such claims. The lawsuits fall into three general categories, traditional product liability, municipal litigation and securities litigation, discussed in turn below.

Traditional Product Liability Litigation

Three of the five lawsuits mentioned above involve claims for damages related to allegedly defective product design and/or manufacture. All three lawsuits stem from a specific incident of personal injury and are based on traditional product liability theories such as strict liability, negligence and/or breach of warranty.

The Company management believes that the allegations in these cases are unfounded, and that the incidents were caused by the negligence and/or misuse of the firearms by third-parties or the claimant, and that there should be no recovery against the Company.

Municipal Litigation

Municipal litigation generally includes those cases brought by cities or other governmental entities against firearms manufacturers, distributors and retailers seeking to recover damages allegedly arising out of the misuse of firearms by third-parties.

There is only one remaining lawsuit of this type, filed by the City of Gary in Indiana State Court, over ten years ago. 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.

After a long procedural history, the case was scheduled for trial on June 15, 2009. The case was not tried on that date and no subsequent scheduling order has been entered. There has been no activity since that time.

Securities Litigation

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. A consolidated amended complaint was filed on March 11, 2010. The defendants, including the Company, filed a motion to dismiss on April 26, 2010 and plaintiffs filed a response on June 18, 2010. Defendants then filed a reply in support of the motion on July 19, 2010. Oral argument was held on November 22, 2010. On February 4, 2011, the Court entered an order granting the motion to dismiss in part and denying it in part. The matter is ongoing.

Summary of Claimed Damages and Explanation of Product Liability Accruals

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 the Company's 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 the Company's 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 \$5.4 million and \$0.0 million at December 31, 2011 and 2010, 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.

NOTE 12 - SUBSEQUENT EVENTS

The Company has evaluated events and transactions occurring subsequent to March 31, 2012 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 99% of the Company's total sales for the first quarter of 2012 were firearms sales, and 1% was investment castings sales. Export sales represent approximately 5% 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 also manufactures investment castings made from steel alloys for internal use in its firearms and for sale to unaffiliated, third-party customers.

Orders of many models of firearms from the independent distributors tend to be stronger in the first quarter of the year and weaker in the third quarter of the year. This is due in part to the timing of the distributor show season, which occurs during the first quarter.

Results of Operations

Retailer Demand

Retailer demand for the Company's products in the first quarter of 2012 was very strong, and exceeded our expectations for the typical first quarter seasonality (the distributor show season). During the distributor shows, retailers ordered many more units than in the prior years' shows and distributors responded by placing very large unit orders with the Company.

By mid-March, the Company had received orders for more units than the total of all units shipped in 2011, and the Company announced on March 21, 2012 that it was temporarily suspending the acceptance of new orders through the end of May. We believe the strong first quarter demand was due to macro factors affecting the entire industry (political and economic drivers of demand) as well as the Company's continued practice of introducing innovative and exciting new products. New product introductions represented \$40.8 million or 37% of firearm sales in the first quarter of 2012.

In response to the demand, sell-through of the Company's products from distributors to retailers in the first quarter of 2012 was also much higher than ever before. This was possible because distributors increased their inventory of the Company's products prior to Q1 2012, and the Company increased its unit output in Q1 2012 by 25% from Q4 2011 (sequential quarter comparison) and by 57% from Q1 2011 (year-over-year comparison).

Product Demand

Year-over-year comparison: The estimated sell-through of the Company's products from distributors to retailers in the first quarter of 2012 increased by approximately 62% from the first quarter of 2011. For the same periods, the National Instant Criminal Background Check System (NICS) background checks (as adjusted by the National Shooting Sports Foundation) increased 23%.

Sequential quarter comparison: The estimated sell-through of the Company's products from distributors to retailers in the first quarter of 2012 increased by approximately 58% from the fourth quarter of 2011. For the same periods, the NICS background checks decreased by 3%.

Estimated sell-through from distributors and total NICS background checks for the trailing five quarters follows:

	2012		2011		
	Q1	Q4	Q3	Q2	Q1
Estimated Units Sold from Distributors to Retailers (1)	460,800	291,800	244,700	264,400	284,300
Total adjusted NICS Background Checks (thousands) (2)	3,376	3,467	2,374	2,220	2,739

(1)

The estimates for each period were calculated by taking the beginning inventory at the distributors, plus 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.

(2)

While NICS background checks are not a precise measure of retail activity, they are commonly used as a proxy for retail demand. NICS background checks are performed when the ownership of most firearms, either new or used, is transferred by a Federal Firearms Licensee. NICS background checks are also performed for permit applications, permit renewals, and other administrative reasons.

The adjusted NICS data presented above was derived by the National Shooting Sports Foundation (NSSF) by subtracting out NICS checks that are not directly related to the sale of a firearm, including checks used for concealed carry (CCW) permit application checks as well as checks on active CCW permit databases. While not a direct correlation to firearms sales, the NSSF-adjusted NICS data provides a more accurate picture of current market conditions than raw NICS data.

Orders Received and Ending Backlog

On March 21, 2012, the Company announced that it temporarily suspended the acceptance of firearms orders. In the first quarter of 2012, orders for 1.2 million units were received by the Company, which exceeded the total units shipped during 2011. The Company anticipates resuming the acceptance of orders at the end of May 2012.

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

(All amounts shown are net of Federal Excise Tax of 10% for handguns and 11% for long guns.)

	2012		2011		
	Q1	Q4	Q3	Q2	Q1
Units Ordered	1,200,100	452,300	168,700	263,500	503,500
Orders Received	\$308.7	\$120.3	\$49.6	\$81.4	\$134.7
Average Sales Price of Orders Received	\$257	\$266	\$294	\$309	\$268
Ending Backlog	\$304.4	\$98.2	\$69.8	\$97.4	\$92.9
Average Sales Price of Ending Backlog	\$264	\$291	\$341	\$309	\$279

Orders received in the first quarter of 2012 were strong across all product lines, but demand for rimfire products was even stronger than the demand for centerfire products and that product mix drove the average sales price of orders received lower in the quarter.

Production

Total unit production in the first quarter of 2012 increased 57% from the first quarter of 2011 and 25% from the fourth quarter of 2011. This increase in unit production resulted from investment in incremental capacity for new product introductions and from our efforts at utilizing lean methodologies for continuous improvement in our operations. Our increase in production was facilitated by \$22.1 million of capital expenditures in 2011. This \$22.1 million of capital expenditures exceeded depreciation in 2011 by approximately \$10 million, which represented an approximate 7% increase to our capital equipment base.

Summary Unit Data

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

	2012		2011		
	Q1	Q4	Q3	Q2	Q1
Units Ordered	1,200,100	452,300	168,700	263,500	503,500
Units Produced	379,000	302,000	289,700	281,200	241,800
Units Shipped	382,500	315,100	276,500	279,600	251,800
Average Sales Price (3)	\$290	\$289	\$286	\$281	\$296
Units on Backlog	1,153,500	337,400	204,500	315,500	332,700

(3)

Net of Federal Excise Tax of 10% for handguns and 11% for long guns.

Inventories

The Company's finished goods inventory decreased 3,400 units during the first quarter of 2012 and remains below optimal levels to support rapid fulfillment of distributor demand. The Company anticipates that finished goods inventory could increase by as much as \$15 million from the current level upon the attainment of the desired levels of finished goods inventory.

Distributor inventories of the Company's products decreased 78,400 units during the first quarter of 2012 and, in the Company's opinion, are below the optimal level to support rapid fulfillment of retailer demand.

Inventory data for the trailing five quarters follows:

		2012		2011		
		Q1	Q4	Q3	Q2	Q1
Units	Company Inventory	12,800	16,200	28,800	15,500	13,700
Units	Distributor Inventory (4)	57,200	135,600	112,300	80,500	65,300
Total inventory (5)		70,000	151,800	141,100	96,000	79,000

(4)

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

(5)

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

Net Sales

Consolidated net sales were \$112.3 million for the three months ended March 31, 2012. This represents an increase of \$36.9 million or 48.9% from consolidated net sales of \$75.4 million in the comparable prior year period.

Firearms net sales were \$110.8 million for the three months ended March 31, 2012. This represents an increase of \$36.4 million or 48.8% from firearms net sales of \$74.4 million in the comparable prior year period.

Firearms unit shipments increased 51.9% for the three months ended March 31, 2012 from the comparable prior year period.

Casting net sales were \$1.6 million for the three months ended March 31, 2012, an increase of \$0.6 million or 55.0% from castings net sales of \$1.0 million in the comparable prior year period.

Cost of Products Sold and Gross Profit

Consolidated cost of products sold was \$70.5 million for the three months ended March 31, 2012. This represents an increase of \$19.1 million or 37.1% from consolidated cost of products sold of \$51.4 million in the comparable prior year period.

Gross margin was 37.2% for the three months ended March 31, 2012. This represents an increase from the gross margin of 31.8% in the three months ended April 2, 2011 as illustrated below (in thousands):

	Three Months Ended			
	March 31, 2012		April 2, 2011	
Net sales	\$112,337	100.0%	\$75,441	100.0%
Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory and product liability	69,935	62.2%	51,316	68.0%
LIFO expense	(71)	(0.1)%	(590)	(0.7)%
Overhead rate adjustments to inventory	405	0.4%	158	0.2%
Labor rate adjustments to inventory	103	0.1%	156	0.2%
Product liability	172	0.2%	406	0.5%
Total cost of products sold	70,544	62.8%	51,446	68.2%
Gross profit	\$41,793	37.2%	\$23,995	31.8%

Cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, and product liability During the three months ended March 31, 2012, cost of products sold, before LIFO, overhead and labor rate adjustments to inventory, and product liability decreased as a percentage of sales by 5.8% compared with the comparable 2011 period. The main contributors to this decrease include the introduction of several new products which increased overall volume thereby favorably leveraging manufacturing overhead and improved productivity from continued emphasis on lean manufacturing techniques, which was partially offset by a modest increase in input costs.

LIFO During the three months ended March 31, 2012, gross inventories decreased by \$2.7 million and the Company recognized LIFO income resulting in decreased cost of products sold of \$0.1 million. In the comparable 2011 period,

gross inventories decreased \$7.1 million and the Company recognized LIFO income resulting in decreased cost of products sold of \$0.6 million.

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 March 31, 2012, the Company was more efficient in overhead spending and the overhead rates used to absorb overhead expenses into inventory decreased, resulting in a decrease in inventory value of \$0.4 million and corresponding increase to cost of products sold.

During the three months ended April 2, 2011, the overhead rate used to absorb overhead into inventory decreased, resulting in a decrease in inventory value of \$0.2 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 March 31, 2012, the labor rates used to absorb incurred labor expenses into inventory decreased, resulting in a decrease in inventory value of \$0.1 million, and a corresponding increase to cost of products sold in the period.

During the three months ended April 2, 2011, the labor rates used to absorb incurred labor expenses into inventory decreased, resulting in a decrease in inventory value of \$0.2 million. This decrease in inventory carrying values resulted in an increase to cost of products sold in the period.

Product Liability This expense includes the cost of outside legal fees, insurance, and other expenses incurred in the management and defense of product liability matters. These costs totaled \$0.2 million for the three months ended March 31, 2012 and \$0.4 million for the three months ended April 2, 2011. See Note 11 to the notes to the financial statements Contingent Liabilities for further discussion of the Company's product liability.

Gross Profit As a result of the foregoing factors, for the three months ended March 31, 2012 gross profit was \$41.8 million, an increase of \$17.8 million from \$24.0 million in the comparable prior year period. Gross profit as a percentage of sales increased to 37.2% in the three months ended March 31, 2012 from 31.8% in the comparable prior year period.

Selling, General and Administrative

Selling, general and administrative expenses were \$17.4 million for the three months ended March 31, 2012, an increase of \$5.9 million from the comparable prior year period. The increase in selling, general and administrative expenses is attributable to the following:

.

increased promotional and advertising expenses, including the Million Gun Challenge to benefit the National Rifle Association, which commenced in the second quarter of 2011,

.
increased equity and performance-based compensation expense,

.
increased expenses related to the ongoing implementation of a new information technology infrastructure, and

.
increased freight expense due to increased sales volume.

Other income, net

Other income was \$0.2 million in the three months ended March 31, 2012 and the three months ended April 2, 2011.

Income Taxes and Net Income

The effective income tax rate in the three months ended March 31, 2012 and April 2, 2011 was 37.0%.

As a result of the foregoing factors, consolidated net income was \$15.5 million for the three months ended March 31, 2012. This represents an increase of \$7.6 million from consolidated net income of \$7.9 million in the three months ended April 2, 2011.

Financial Condition

Liquidity

At the end of the first quarter of 2012, the Company's cash, cash equivalents and short-term investments totaled \$95.8 million. Our pre-LIFO working capital of \$145.6 million, less the LIFO reserve of \$37.4 million, resulted in working capital of \$108.2 million and a current ratio of 3.1 to 1.

The Company has a goal of replenishing its finished goods inventory to levels that will better serve its customers. This replenishment could increase the FIFO value of finished goods inventory by as much as \$15 million upon the attainment of the desired levels of finished goods inventory.

Operations

Cash provided by operating activities was \$21.8 million for the three months ended March 31, 2012 compared to \$20.7 million for the comparable prior year period. The increase in cash provided by operations is primarily attributable to greater earnings in the three months ended March 31, 2012 compared to the prior year period, partially offset by a smaller reduction in inventories in the three months ended March 31, 2012 compared to the prior year period.

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 sufficient 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 cannot 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 March 31, 2012 totaled \$3.0 million. In 2012, the Company expects to spend \$20 million on capital expenditures to purchase tooling and fixtures for new product introductions, to increase production capacity, and to upgrade and modernize manufacturing equipment and its information technology infrastructure. The Company finances, and intends to continue to finance, all of these activities with funds provided by operations and current cash and short-term investments.

Dividends of \$4.1 million were paid during the three months ended March 31, 2012.

On April 27, 2012, Board of Directors authorized a dividend of 32.4¢ per share, for shareholders of record as of May 14, 2012, payable on May 29, 2012. This dividend varies every quarter because the Company pays a percent of earnings rather than a fixed amount per share. On February 22, 2012 the Company announced that it was increasing the percentage of earnings to be paid out as dividends by 67%, effective with the dividend paid on March 23, 2012. This decision was based on our analysis of 2011 results that indicated we could fund our high rate of organic growth, including both working capital and capital equipment and tooling expenditures, and fund our dividend while still modestly growing our cash reserves.

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.

During the three months ended March 31, 2012, the Company did not repurchase any shares of its common stock. As of March 31, 2012, \$8.0 million remained available for future stock repurchases.

The Company has migrated its retirement benefits 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 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.

Minimum cash contributions of \$1.7 million were required for the defined-benefit plans for 2011. The Company contributed \$2 million to the defined-benefit plans in 2011. The Company plans to contribute approximately \$3 million in 2012, but will increase the amount of the contribution if required to do so.

In future years, the Company may again be required to make cash contributions to the two defined-benefit pension plans. 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.

Based on its unencumbered assets, the Company believes it has the ability to raise cash through issuance of short-term or long-term debt, if necessary. The Company's unsecured \$25 million credit facility, which expires on June 15, 2013, remains unused 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, firearms serial number tracking and control, waste disposal, air emissions and water discharges into the environment. The Company believes that it is generally in compliance with applicable BATFE, 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 Company is transitioning to a new enterprise resource planning system and converted one of its manufacturing facilities and a portion of its support functions, including sales and finance during 2011. The Company expects to have the new system fully implemented by the end of 2012.

The valuation of the future defined-benefit pension obligations at December 31, 2011 and 2010 indicated that these plans were underfunded by \$19.1 million and \$9.4 million, respectively, and resulted in a

cumulative other comprehensive loss of \$27.5 million and \$19.6 million on the Company's balance sheet at December 31, 2011 and 2010, 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 2011 Annual Report on Form 10-K filed on February 22, 2012, 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, the impact of future firearms control and environmental legislation, and accounting estimates, 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 100 basis point change in market interest rates over the next year would not materially impact the Company's earnings or cash flows. A hypothetical 100 basis point 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 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 March 31, 2012.

Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2012, 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 and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer or persons performing similar functions, as appropriate, to allow timely decisions regarding disclosure.

Additionally, the Company's Chief Executive Officer 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 internal control over financial reporting that occurred during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company is transitioning to a new enterprise resource planning system and converted one of its manufacturing facilities and a portion of its support functions, including sales and finance during 2011. It is anticipated that this implementation may result in changes to certain processes and related internal controls over financial reporting.

The effectiveness of any system of internal controls and procedures is subject to certain limitations, and, as a result, there can be no assurance that the Company's Disclosure Controls and Procedures will detect all errors or fraud. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system will be attained.

PART II.

OTHER INFORMATION

ITEM 1.

LEGAL PROCEEDINGS

The nature of the legal proceedings against the Company is discussed at Note 11 to this Form 10-Q report, which are included in this Form 10-Q.

The Company has reported all cases instituted against it through December 31, 2011, and the results of those cases, where terminated, to the S.E.C. on its previous Form 10-Q and 10-K reports, to which reference is hereby made.

There was one lawsuit that was formally instituted against the Company during the three months ending March 31, 2012, captioned as Joseph Collen Scott vs. Sturm, Ruger & Co. Inc. and Top Dollar Pawn & Sporting Goods and pending in the United States District Court of Atoka County, Oklahoma.

ITEM 1A.

RISK FACTORS

There have been no material changes in the Company's risk factors from the information provided in Item 1A. Risk Factors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 2.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable

ITEM 3.

DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4.

MINING SAFETY DISCLOSURES

Not applicable

ITEM 5.

OTHER INFORMATION

None

ITEM 6.

EXHIBITS

(a)

Exhibits:

31.1

Certification Pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2

Certification Pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1

Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2

Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

STURM, RUGER & COMPANY, INC.

FORM 10-Q FOR THE THREE MONTHS ENDED MARCH 31, 2012

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: May 1, 2012

S/THOMAS A. DINEEN

Thomas A. Dineen

Principal Financial Officer,

Principal Accounting Officer,

Vice President, Treasurer and Chief Financial
Officer

