STURM RUGER & CO INC
Form 10-Q
November 02, 2005

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 September 30, 2005

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from_______________ to _______________

Commission file number 1-10435

STURM, RUGER & COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	06-0633559
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
Lacey Place, Southport, Connecticut	06890
(Address of principal executive offices)	(Zip code)

(203) 259-7843

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. Yes [X] No [ ]

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

The number of shares outstanding of the issuer's common stock as of October 31, 2005: Common Stock, $1 par value - 26,910,720.

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

	September 30, 2005	December 31, 2004 (Note)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,295	$ 4,841
Short-term investments	18,447	28,430
Trade receivables, less allowances for doubtful accounts ($373 and $373) and discounts ($697 and $555)	19,600	16,082
Inventories:		
Finished products	11,591	13,289

Materials and products in process	41,158	36,230
	52,749	49,519
Deferred income taxes	6,179	6,445
Prepaid expenses and other current assets	5,306	4,383
Total current assets	105,576	109,700
Property, plant and equipment	162,119	160,434
Less allowances for depreciation	(136,041)	(132,860)
	26,078	27,574
Deferred income taxes	833	1,178
Other assets	8,788	8,489
Total Assets	$ 141,275	$ 146,941

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

STURM, RUGER & COMPANY, INC.

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

	September 30, 2005	December 31, 2004
		(Note)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade accounts payable and accrued expenses	$ 4,594	$ 5,281
Product liability	1,584	1,968
Employee compensation and benefits	6,402	5,868
Workers' compensation	5,433	5,387
Income taxes	910	768
Total current liabilities	18,923	19,272
Accrued pension liability	6,465	6,337
Product liability accrual	1,092	1,164
Contingent liabilities - Note 8	-	-
Stockholders' Equity		
Common Stock, non-voting, par value $1: Authorized shares 50,000; none issued	-	-
Common Stock, par value $1: Authorized shares - 40,000,000; issued and outstanding 26,910,700	26,911	26,911
Additional paid-in capital	2,508	2,508
Retained earnings	95,651	101,024
Accumulated other comprehensive income (loss)	(10,275)	(10,275)
Total Stockholders' Equity	114,795	120,168
Total Liabilities and Stockholders' Equity	$ 141,275	$ 146,941

Note:

The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

See notes to condensed financial statements.

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STURM, RUGER & COMPANY, INC.

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

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Firearms sales	$29,006	$ 29,063	$96,826	$92,798
Castings sales	6,084	6,317	16,918	15,531
Net sales	35,090	35,380	113,744	108,329
Cost of products sold	30,190	30,382	91,351	86,358
Gross profit	4,900	4,998	22,393	21,971
Expenses:				
Selling	4,841	4,504	13,051	12,519
General and administrative	1,729	1,410	4,991	4,747
	6,570	5,914	18,042	17,266
Operating income(loss)	(1,670)	(916)	4,351	4,705
Gain on sale of real estate	0	874	0	874
Other income-net	35	9	156	92
Total other income	35	883	156	966
Income(loss) before income taxes	(1,635)	(33)	4,507	5,671
Income taxes (benefit)	(656)	(13)	1,807	2,274
Net income(loss)	$ (979)	$ (20)	$ 2,700	$ 3,397
Earnings(loss) per share				
Basic	$ (0.04)	$ 0.00	$ 0.10	$ 0.13
Diluted	$ (0.04)	$ 0.00	$ 0.10	$ 0.13
Cash dividends per share	$ 0.10	$ 0.10	$ 0.30	$ 0.50
Average shares outstanding				

Basic	26,911	26,911	26,911	26,911
Diluted	26,911	26,911	26,911	26,940

See notes to condensed financial statements.

STURM, RUGER & COMPANY, INC.

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

	Nine Months Ended 2005
Cash Used by Operating Activities	($ 680)
Investing Activities	
Property, plant and equipment additions	(2,777)
Purchases of short-term investments	(91,412)
Proceeds from maturities of short-term investments	101,396
Proceeds from sale of real estate	0
Cash provided by investing activities	7,207
Financing Activities	
Dividends paid	(8,073)
Cash used by financing activities	(8,073)
Increase (decrease) in cash and cash equivalents	(1,546)
Cash and cash equivalents at beginning of period	4,841
Cash and cash equivalents at end of period	$ 3,295

See notes to condensed financial statements.

STURM, RUGER & COMPANY, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2005

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 nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for the full year ending December 31, 2005. 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, 2004.

NOTE 2--SIGNIFICANT ACCOUNTING POLICIES

Organization: Sturm, Ruger & Company, Inc. ("Company") is principally engaged in the design, manufacture, and sale of firearms and investment castings. The Company's design and manufacturing operations are located in the United States. Substantially all sales are domestic. The Company's firearms are sold through a select number of independent wholesale distributors to the sporting and law enforcement markets. Investment castings are sold either directly or through manufacturers' representatives to companies in a wide variety of industries.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of Consolidation: The financial statements have been prepared from the Company's books and records and include all of the Company's accounts. All significant intercompany accounts and transactions have been eliminated. Certain prior year balances may have been reclassified to conform with current year presentation.

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

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NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) -- CONTINUED

	Three Months Ended September 30,		Nine Months En
	2005	2004	2005
Net Income(loss):			
As reported	($ 979)	($ 20)	$ 2,700
Deduct: Employee compensation expense determined under fair value method, net of tax	(7)	(5)	(16)
Pro forma	($ 986)	($ 25)	$ 2,684
Basic Earnings(loss) per Share:			
As reported	($0.04)	($0.00)	$ 0.10
Pro forma	($0.04)	($0.00)	$ 0.10

Diluted Earnings(loss) per Share:			
As reported	($0.04)	($0.00)	$ 0.10
Pro forma	($0.04)	($0.00)	$ 0.10

The fair value of stock-based compensation expense was computed using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 8.0%, expected volatility of 34.3%, risk free rate of return of 2.0%, and expected lives of 5 years. The estimated fair value of options granted is subject to the assumptions made and if the assumptions changed, the estimated fair value amounts could be significantly different. On August 1, 2005, a total of 40,000 stock options were issued to two new non-employee directors of the Company.

Recent Accounting Pronouncements: In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 151, "Inventory Costs -- an amendment of ARB No. 43, Chapter 4" which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. SFAS 151 requires that these costs be recognized as current period charges regardless of whether they are abnormal. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of manufacturing be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The Company has not completed its evaluation of the impact that the adoption of this statement will have on its financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment", which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. SFAS 123R is effective for fiscal years beginning after June 15, 2005. The Company does not expect the adoption of this statement to have a material effect on its financial position or results of operations.

NOTE 3 -- INVENTORIES

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

NOTE 4 -- INCOME TAXES

The Company's 2005 and 2004 effective tax rate differs from the statutory tax rate due to state income taxes. Total income tax payments during the nine months ended September 30, 2005 and 2004 were $3.1 million and $2.6 million, respectively.

NOTE 5 -- PENSION PLANS

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

	Three Months Ended September 30,		Nine Mont
	2005	2004	200
Service cost	$ 332	$ 210	$
Interest cost	677	421	2,
Expected return on plan assets	(795)	(453)	(2,
Amortization of prior service cost	70	82	
Recognized actuarial gains	185	109	
Net periodic pension cost	$ 469	$ 369	$ 1,

NOTE 6 -- BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the impact of options outstanding using the treasury stock method, when applicable. For the three months ended September 30, 2005 and 2004, the treasury stock method would have been antidilutive, therefore the weighted average number of common shares were used for these periods' diluted earnings per share calculation. This resulted in diluted weighted-average shares outstanding for the three and nine months ended September 30, 2005 and 2004 of 26,911,000 and 26,911,000, and 26,911,000 and 26,940,000, respectively.

NOTE 7 -- COMPREHENSIVE INCOME

As there were no non-owner changes in equity during the first nine months of 2005 and 2004, total comprehensive income(loss) equals net income(loss) for the three and nine months ended September 30, 2005 and 2004, or ($1.0) million and ($0.0) million, and $2.7 million and $3.4 million, respectively.

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NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) -- CONTINUED

NOTE 8 -- CONTINGENT LIABILITIES

As of September 30, 2005, the Company is a defendant in approximately 6 lawsuits involving its products and is aware of certain other such claims. These lawsuits and claims fall into two categories:

(i) those that claim damages from the Company related to allegedly defective product design which stem from a specific incident. These lawsuits and claims are based principally on the theory of "strict liability" but also may be based on negligence, breach of warranty, and other legal theories; and

(ii) those brought by cities, municipalities, counties, and individuals against firearms manufacturers, distributors and dealers seeking to recover damages allegedly arising out of the misuse of firearms by third parties in the commission of homicides, suicides and other shootings involving juveniles and adults. The complaints by municipalities seek damages, among other things, for the costs of medical care, police and emergency services, public health services, and the maintenance of courts, prisons, and other services. In certain instances, the plaintiffs seek to recover for decreases in property values and loss of business within the city due to criminal violence. In addition, nuisance abatement and/or injunctive relief is sought to change the design, manufacture, marketing and distribution practices of the various defendants. These suits allege, among other claims, strict liability or negligence in the design of products, public nuisance, negligent entrustment, negligent distribution, deceptive or fraudulent advertising, violation of consumer protection statutes and conspiracy or concert of action theories. Most of these cases do not allege a specific injury to a specific individual as a result of the misuse or use of any of the Company's products.

Management believes that, in every case, the allegations are unfounded, and that the shootings and any results therefrom were due to negligence or misuse of the firearms by third-parties or the claimant, and that there should be no recovery against the Company. Defenses further exist to the suits brought by cities, municipalities, and counties based, among other reasons, on established state law precluding recovery by municipalities for essential government services, the remoteness of the claims, the types of damages sought to be recovered, and limitations on the extraterritorial authority which may be exerted by a city, municipality, county or state under state and federal law, including State and Federal Constitutions.

The only case against the Company alleging liability for criminal shootings by third-parties to ever be permitted to go before a constitutional jury, Hamilton, et al. v. Accu-tek, et al., resulted in a defense verdict in favor of the Company on February 11, 1999. In that case, numerous firearms manufacturers and distributors had been sued, alleging damages as a result of alleged negligent sales practices and "industry-wide" liability. The Company and its marketing and distribution practices were exonerated from any claims of negligence in each of the seven cases decided by the jury. In subsequent proceedings involving other defendants, the New York Court of Appeals as a matter of law confirmed that 1) no legal duty existed under the circumstances to prevent or investigate criminal misuses of a manufacturer's lawfully made products; and 2) liability of firearms manufacturers could not be apportioned under a market share theory. More recently, the New York Court of Appeals on October 21, 2003 declined to hear the appeal from the decision of the New York Supreme Court, Appellate Division, affirming the dismissal of New York Attorney General Eliot Spitzer's public nuisance suit against the Company and other manufacturers and distributors of firearms. In its decision, the Appellate Division relied heavily on Hamilton in concluding that it was "legally inappropriate," "impractical," "unrealistic" and "unfair" to attempt to hold firearms manufacturers responsible under theories of public nuisance for the criminal acts of others.

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NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED) -- CONTINUED

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

On September 26, 2005, the Cleveland municipal lawsuit was dismissed due to Cleveland's failure to prosecute the case. Cleveland has until January 23, 2006 to re-file the case.

The dismissal of the Washington, D.C. municipal lawsuit was sustained on appeal, but individual plaintiffs were permitted to proceed to discovery and attempt to identify the manufacturers of the firearms used in their shootings as "machine guns" under the city's "strict liability" law. On October 19, 2004, the D.C. Court of Appeals vacated the court's judgment, which dismissed the city's claim against firearms manufacturers but let stand certain individuals' claims against the manufacturers of firearms allegedly used in criminal assaults against plaintiffs under the Washington, D.C. "Strict Liability Act," subject to proof of causation. The appellate court in an en banc hearing unanimously dismissed all negligence and public nuisance claims, but let stand individual claims based upon a Washington, D.C. act imposing "strict liability" for manufacturers of "machine guns." Based on present information, none of the Company's products have been identified with any of the criminal assaults which form the basis of the individual claims. The writ of certiorari to the United States Supreme Court regarding the constitutionality of the Washington, D.C. act was denied and the case has been remanded to the trial court for further proceedings.

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. Gary is scheduled to begin trial in 2009. New York City case is presently scheduled to begin trial in November, 2005.

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

Legislation has been passed in approximately 34 states precluding suits of the type brought by the municipalities mentioned above, and similar federal legislation has been introduced in the U.S. Congress. It passed the House by a 2-to-1 bipartisan majority and had over 54 co-sponsors in the Senate. It was considered by the Senate in February 2004, but failed to gain final passage after it was encumbered with numerous non-germane amendments. It was reintroduced in early 2005, and Senate hearings were held in March 2005. The "Protection of Lawful Commerce in Arms Act" was passed by the U.S. Senate by a 2-to-1 margin in August, 2005. On October 20, 2005, the House passed this act with a bipartisan vote of 283-144, and this bill was signed by President Bush on October 26, 2005. Motions to dismiss the remaining cases will be filed when timely, based upon this new law.

Punitive damages, as well as compensatory damages, are demanded in many of the lawsuits and claims. Aggregate claimed amounts presently exceed product liability accruals and applicable insurance coverage. For claims made after July 10, 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.

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

A range of reasonably possible loss relating to unfavorable outcomes cannot be made. However, in the product liability cases in which a dollar amount of damages is claimed, the amount of damages claimed, which totaled $1.6 million at September 30, 2005, is set forth as an indication of possible maximum liability that the Company might be required to incur in these cases (regardless of the likelihood or reasonable probability of any or all of this amount being awarded to claimants) as a result of adverse judgments that are sustained on appeal.

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

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

The Company has reported all cases instituted against it through June 30, 2005 and the results of those cases, where terminated, to the S.E.C. on its previous Form 10-K and 10-Q reports, to which reference is hereby made.

NOTE 9--RELATED PARTY TRANSACTIONS

For the three and nine months ended September 30, 2005 and 2004, the Company paid Newport Mills, of which William B. Ruger, Jr., Chairman and Chief Executive Officer of the Company, is the sole proprietor, $60,750 and $182,250, and $60,750 and $182,250, respectively, for storage rental and office space.

NOTE 10--OPERATING SEGMENT INFORMATION

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

	Three Months Ended September 30,		Nine Months Ended
	2005	2004	2005
Net Sales			
Firearms	$ 29,006	$ 29,063	$ 96,826
Castings			
Unaffiliated	6,084	6,317	16,918
Intersegment	5,123	3,695	13,794
	11,207	10,012	30,712
Eliminations	(5,123)	(3,695)	(13,794)
	$ 35,090	$ 35,380	$ 113,744
Income (Loss) Before Income Taxes			
Firearms	(1,510)	$ 307	$ 4,660
Castings	(367)	(1,375)	(704)
Corporate	242	1,035	551
	($ 1,635)	($ 33)	$ 4,507

	September 30, 2005	December 31, 2004
Identifiable Assets		
Firearms	$ 79,119	$ 77,049
Castings	21,869	19,581
Corporate	40,287	50,311
	$ 141,275	$ 146,941

ITEM2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

COMPANY OVERVIEW

Sturm, Ruger & Company, Inc. (the "Company") is principally engaged in the design, manufacture, and sale of firearms and precision investment castings. The Company's design and manufacturing operations are located in the United States. Substantially all sales are domestic.

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

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

Because many 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 certain models of firearms are usually lower in the third quarter of the year.

Results of Operations

Consolidated net sales of $35.1 million were achieved by the Company for the three months ended September 30, 2005. This represents a decrease of 0.8% from 2004 consolidated net sales of $35.4 million. Sales for the nine month period ended September 30, 2005 were $113.7 million, an increase of $5.4 million or 5.0% over sales of $108.3 million in the comparable 2004 period.

Firearms segment net sales decreased by $0.1 million, or 0.2%, in the third quarter of 2005 to $29.0 million from $29.1 million in the third quarter of the prior year. For the nine months ended September 30, 2005, firearms segment net sales increased by $4.0 million, to $96.8 million from $92.8 million in the corresponding 2004 period. Firearms unit shipments decreased 12.8% for the three-month period ended September 30, 2005 and increased 0.1% for the nine-month period ended September 30, 2005 from the comparable 2004 periods. For the quarter ended September 30, 2005, shipments of revolvers, rifles, and pistols were below the third quarter of 2004, while shotgun shipments exceeded 2004. Production issues, principally those affecting new revolver and rifle models, significantly curtailed new revolver and rifle shipments during the quarter ended September 30, 2005. The decline in rifle shipments was mitigated by a dealer-driven rebate program for M77 bolt-action rifles in effect in August and September of 2005. The increase in shotgun shipments during the quarter reflected greater availability of the side-by-side model. Change in overall product mix from lower priced products to higher priced products and pricing increases resulted in a lesser decrease in sales versus unit shipments for the quarter ended September 30, 2005.

For the nine-month period ended September 30, 2005, shipments of pistols and shotguns increased compared to 2004, while shipments of revolvers and rifles declined from 2004. The increase in shipments of pistols for the nine months ended September 30, 2005 was attributable to the popularity of the new Ruger MKIII rimfire and Ruger P345 centerfire models, while the increase in shotguns for the nine months ended September 30, 2005 reflected greater availability of the side-by-side model. The decrease in revolvers and rifles was due, in part, to the aforemen-

tioned production issues related to revolvers and rifles. The decrease in rifle shipments was partially offset by the aforementioned dealer-driven rebate program for M77 bolt-action rifles in effect in August and September of 2005 and a dealer-driven rebate program for 10/22 rifles in effect in May and June of 2005. Change in overall product mix from lower priced products to higher priced products and pricing increases resulted in a greater increase in sales versus unit shipments for the nine months ended September 30, 2005.

Casting segment net sales decreased by $0.2 million or 3.7% to $6.1 million for the three month period ended September 30, 2005 from the three month period ended September 30, 2004 due to decreased demand for steel castings. For the nine month period ended September 30, 2005, casting segment net sales increased 9.0% or $1.4 million to $16.9 million, reflecting an increase in demand for titanium castings. Increased sales were primarily generated from existing customers in a variety of industries.

Consolidated cost of products sold for the three and the nine months ended September 30, 2005 were $30.2 million and $91.4 million, respectively, compared to $30.4 million and $86.4 million for the three and nine months ended September 30, 2004, representing a decrease of 0.6% and an increase of 5.8%, respectively. The slight decrease for the quarter ended September 30, 2005 is attributable to improved operating efficiencies in the castings segment, largely offset by increased unitary overhead expenses resulting from a reduction in firearms production volume caused in part by production issues, principally those affecting new revolver and rifle models, and increased product liability costs. For the nine month period ended September 30, 2005, the increase in cost was attributable to increased firearms and castings sales, the aforementioned increased unitary overhead expenses in the firearms segment and increased product liability costs.

For the third quarter of 2005, gross profit as a percent of sales decreased to 14.0% from 14.1% in the third quarter of 2004. Gross profit as a percentage of net sales was 19.7% for the nine month period ended September 30, 2005 as compared to 20.3% in the comparable 2004 period. Gross margin deterioration for quarter ended September 30, 2005 was primarily due to less efficient firearms production caused by lower rates of production and increased product liability costs, partially offset by improved castings manufacturing efficiency. Margin deterioration during the nine month period ended September 30, 2005 resulted from less efficient firearms production caused by lower rates of production and increased product liability expense, partially offset by the benefits of increased castings sales volume and improved castings manufacturing efficiency.

Selling, general and administrative expenses of $6.6 million and $18.0 million for the three and nine months ended September 30, 2005, respectively, increased 11.1% and 4.5% from the corresponding periods of 2004. The increases for both the three and nine months periods ended September 30, 2005 were primarily attributable to increased personnel related expenses, and additional firearm promotional and advertising expenses.

Other income decreased by $0.8 million for both the three and nine months ended September 30, 2005. Included in other income for the three and nine months ended September 30, 2004 is a $0.9 million gain from the sale of the property and building that housed the Company's Uni-Cast division prior to its sale in 2000.

The effective income tax rate of 40.1% in the three months and nine months ended September 30, 2005 remained consistent with the income tax rate in the corresponding 2004 periods.

As a result of the foregoing factors, consolidated net income decreased $1.0 million for the three months ended September 30, 2005 from a breakeven for the three months ended September 30, 2004, and decreased $0.7 million, or 20.5%, from $3.4 million for the nine months ended September 30, 2004 to $2.7 million for the nine months ended September 30, 2005.

Financial Condition

OPERATIONS

At September 30, 2005, the Company had cash, cash equivalents and short-term investments of $21.7 million, working capital of $86.7 million and a current ratio of 5.6 to 1.

Cash used by operating activities was $0.7 million and $0.6 million for the nine months ended September 30, 2005 and 2004, respectively. The cash usage in operations resulted from net income and non-cash expenses being offset by unfavorable fluctuations in operating accounts, principally increases in accounts receivable and inventory.

Until November 30, 2004, the Company followed a common industry practice of offering a "dating plan" to its firearms customers on selected products, which allowed the customer to buy the products commencing in December, the start of the Company's marketing year, and pay for them on extended terms. Discounts were offered for early payment. The dating plan provided a revolving payment plan under which payments for all shipments made during the period December through February were made by April 30. Shipments made in subsequent months were paid for within a maximum of 120 days. On December 1, 2004, the Company modified the payment terms on these selected products whereby payment is now due 45 days after shipment. Discounts are offered for early payment. Dating plan receivable balances were $10.4 million at September 30, 2005 compared to $3.7 million at September 30, 2004. The increase in the dating plan receivable balance at September 30, 2005 is principally attributable to extended payment terms offered in connection with the dealer-driven rebate program for M77 bolt-action rifles in effect in August and September of 2005.

The Company purchases its various raw materials from a number of suppliers. There is, however, a limited supply of these materials in the marketplace at any given time which can cause the purchase prices to vary based upon numerous market factors. The Company believes that it has adequate quantities of raw materials in inventory to provide ample time to locate and obtain additional items at a reasonable cost without interruption of its manufacturing operations. However, if market conditions result in a significant prolonged inflation of certain prices 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 during the nine months ended September 30, 2005 totaled $2.8 million. For the past two years capital expenditures averaged approximately $1.4 million per quarter. In 2005, the Company expects to spend approximately $5 million on capital expenditures to upgrade and modernize manufacturing equipment primarily at the Newport Firearms and Pine Tree Castings Divisions. 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.

For the nine months ended September 30, 2005 dividends paid totaled $8.1 million. This amount reflects a quarterly dividend of $.10 per share paid in March, June and September 2005. On October 20, 2005, the Company suspended its quarterly dividend that would have been paid on December 15, 2005. The payment of future dividends depends on many factors, including internal estimates of future performance, then-current cash and short-term investments, and the Company's need for funds.

Historically, the Company has not required external financing. Based on its unencumbered assets, the Company believes it has the ability to raise substantial amounts of short-term or long-term debt. The Company does not anticipate any need for external financing for the next twelve months.

Firearms Legislation

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

Until November 30, 1998, the "Brady Law" mandated a nationwide five-day waiting period and background check prior to the purchase of a handgun. As of November 30, 1998, the National Instant Check System, which applies to both handguns and long guns, replaced the five-day waiting period. The Company believes that the "Brady Law" has not had a significant effect on the Company's sales of firearms, nor does it anticipate any impact on sales in the future. The "Crime Bill" took effect on September 13, 1994, but none of the Company's products were banned as so-called "assault weapons." To the contrary, all the Company's then-manufactured commercially-sold long guns were exempted by name as "legitimate sporting firearms." This ban expired by operation of law on September 13, 2004. The Company remains strongly opposed to laws which would restrict the rights of law-abiding citizens to lawfully acquire firearms. The Company believes that the lawful private ownership of firearms is guaranteed by the Second Amendment to the United States Constitution and that the widespread private ownership of firearms in the United States will continue. However, there can be no assurance that the regulation of firearms will not become more restrictive in the future and that any such restriction would not have a material adverse effect on the business of the Company.

Firearms Litigation

The Company is a defendant in numerous lawsuits involving its products and is aware of certain other such claims. The Company has expended significant amounts of financial resources and management time in connection with product liability litigation. Management believes that, in every case, the allegations are unfounded, and that the shootings and any results therefrom were due to negligence or misuse of the firearms by third-parties or the claimant, and that there should be no recovery against the Company. Defenses further exist to the suits brought by cities, municipalities, counties, and a state attorney general based, among other reasons, on established state law precluding recovery by municipalities for essential government services, the remoteness of the claims, the types of damages sought to be recovered, and limitations on the extraterritorial authority which may be exerted by a city, municipality, county or state under state and federal law, including State and Federal Constitutions.

The only case against the Company alleging liability for criminal shootings by third-parties to ever be permitted to go before a constitutional jury, Hamilton, et al. v. Accu-tek, et al., resulted in a defense verdict in favor of the Company on February 11, 1999. In that case, numerous firearms manufacturers and distributors had been sued, alleging damages as a result of alleged negligent sales practices and "industry-wide" liability. The Company

and its marketing and distribution practices were exonerated from any claims of negligence in each of the seven cases decided by the jury. In subsequent proceedings involving other defendants, the New York Court of Appeals as a matter of law confirmed that 1) no legal duty existed under the circumstances to prevent or investigate criminal misuses of a manufacturer's lawfully made products; and 2) liability of firearms manufacturers could not be apportioned under a market share theory. More recently, the New York Court of Appeals on October 21, 2003 declined to hear the appeal from the decision of the New York Supreme Court, Appellate Division, affirming the dismissal of New York Attorney General Eliot Spitzer's public nuisance suit against the Company and other manufacturers and distributors of firearms. In its decision, the Appellate Division relied heavily on Hamilton in concluding that it was "legally inappropriate," "impractical," "unrealistic" and "unfair" to attempt to hold firearms manufacturers responsible under theories of public nuisance for the criminal acts of others.

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

On September 26, 2005, the Cleveland municipal lawsuit was dismissed due to Cleveland's failure to prosecute the case. Cleveland has until January 23, 2006 to re-file the case.

The dismissal of the Washington, D.C. municipal lawsuit was sustained on appeal, but individual plaintiffs were permitted to proceed to discovery and attempt to identify the manufacturers of the firearms used in their shootings as "machine guns" under the city's "strict liability" law. On October 19, 2004, the D.C. Court of Appeals vacated the court's judgment, which dismissed the city's claim against firearms manufacturers but let stand certain individuals' claims against the manufacturers of firearms allegedly used in criminal assaults against plaintiffs under the Washington, D.C. "Strict Liability Act," subject to proof of causation. The appellate court in an en banc hearing unanimously dismissed all negligence and public nuisance claims, but let stand individual claims based upon a Washington, D.C. act imposing "strict liability" for manufacturers of "machine guns." Based on present information, none of the Company's products have been identified with any of the criminal assaults which form the basis of the individual claims. The writ of certiorari to the United States Supreme Court regarding the constitutionality of the Washington, D.C. act was denied and the case has been remanded to the trial court for further proceedings.

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. Gary is scheduled to begin trial in 2009. New York City case is presently scheduled to begin trial in November, 2005.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF

OPERATIONS -- CONTINUED

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

Legislation has been passed in approximately 34 states precluding suits of the type brought by the municipalities mentioned above, and similar federal legislation has been introduced in the U.S. Congress. It passed the House by a 2-to-1 bipartisan majority and had over 54 co-sponsors in the Senate. It was considered by the Senate in February 2004, but failed to gain final passage after it was encumbered with numerous non-germane amendments. It was reintroduced in early 2005, and Senate hearings were held in March 2005. The "Protection of Lawful Commerce in Arms Act" was passed by the U.S. Senate by a 2-to-1 margin in August, 2005. On October 20, 2005, the House passed this act with a bipartisan vote of 283-144, and this bill was signed by President Bush on October 26, 2005. Motions to dismiss the remaining cases will be filed when timely, based upon this new law.

Other Operational Matters

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

The valuation of the future defined benefit pension obligations at December 31, 2004 indicated that these plans were underfunded. While this estimation has no bearing on the actual funded status of the pension plans, it resulted in a cumulative other comprehensive loss of $10.3 million on the Company's balance sheet at December 31, 2004.

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

Inflation's effect on the Company's operations is most immediately felt in cost of products sold because the Company values inventory on the LIFO basis. Generally under this method, the cost of products sold reported in the financial statements approximates current costs, and thus, reduces distortion in reported income which would result from the slower recognition of increased costs when other methods are used. The use of historical cost depreciation has a beneficial effect on cost of products sold. The Company has been affected by inflation in line with the general economy.

Adjustments to Critical Accounting Policies

The Company has not made any adjustments to its critical accounting estimates and assumptions described in the Company's Annual Report on Form 10-K filed on March 15, 2005, or the judgment affecting the application of those estimates and assumptions.

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

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 151, "Inventory Costs -- an amendment of ARB No. 43, Chapter 4" which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. SFAS 151 requires that these costs be recognized as current period charges regardless of whether they are abnormal. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of manufacturing be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The Company has not completed its evaluation of the impact that the adoption of this statement will have on its financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment", which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. SFAS 123R is effective for fiscal years beginning after June 15, 2005. The Company does not expect the adoption of this statement to have a material effect on its financial position or results of operations.

Forward-Looking Statements and Projections

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to changes in prevailing market interest rates affecting the return on its investments but does not consider this interest rate market risk exposure to be material to its financial condition or results of operations. The Company invests primarily in United States Treasury instruments with short-term (less than one year) maturities. The carrying amount of these investments approximates fair value due to the short-term maturities. Under its current policies, the Company does not use derivative financial instruments, derivative commodity instruments or other financial instruments to manage its exposure to changes in interest rates or commodity prices.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation

The Company's management, with the participation of the Company's Chief Executive Officer and Treasurer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report.

Conclusions

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

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's most recent quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The nature of the legal proceedings against the Company is discussed at Note 8 of the notes to the condensed financial statements in this Form 10-Q report, which is incorporated herein by reference.

The Company has reported all cases instituted against it through June 30, 2005, and the results of those cases, where terminated, to the S.E.C. on its previous Form 10-K and 10-Q reports, to which reference is hereby made.

One case was formally instituted against the Company during the three months ended September 30, 2005, which involved significant demands for compensatory and/or punitive damages and in which the Company has been served with process.

Arnold v. Company (PA) in the Court of Common Pleas of Philadelphia County. The complaint alleges that the plaintiff's decedent was fatally wounded during gang violence by a gang member using a Ruger KP97 pistol.

During the three months ending September 30, 2005, no previously reported cases were settled.

In the previously reported Washington, D.C. municipal case, the appellate court in an en banc hearing unanimously dismissed all negligence and public nuisance claims. The court let stand individual claims based upon a Washington, D.C. act imposing "strict liability" for manufacturers of "machine guns." Based on present information, none of the Company's products have been identified with any of the criminal assaults which form the basis of the individual claims. The defendants, including the Company, filed a petition for a writ of certiorari seeking an appeal to the United States Supreme Court challenging the constitutionality of the Washington, D.C. act. The writ was denied and the case has been remanded to the trial court for further proceedings.

The United States District Court dismissed the previously reported Cleveland case on its own motion because it had been dormant since December, 2001. Plaintiffs have until January 23, 2006 to re-file.

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

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

None

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 SEPTEMBER 30, 2005

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STURM, RUGER & COMPANY, INC.

Date: November 1, 2005

/s/ THOMAS A. DINEEN

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