STURM RUGER & CO INC
Form 10-Q
July 27, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X]

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the quarterly period ended July 2, 2011

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

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 [X] 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 [X]

The number of shares outstanding of the issuer's common stock as of July 26, 2011: Common Stock, $1 par value 18,910,000.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

STURM, RUGER & COMPANY, INC.

CONDENSED BALANCE SHEETS

(Dollars in thousands)

	July 2, 2011	December 31, 2010 (Note)
Assets		
Current Assets		
Cash and cash equivalents	$12,038	$ 5,132
Short-term investments	64,493	52,493
Trade receivables, net	31,857	31,565
Gross inventories	42,291	48,820
Less LIFO reserve	(37,101)	(37,448)
Less excess and obsolescence reserve	(1,141)	(1,545)
Net inventories	4,049	9,827
Deferred income taxes	5,013	4,780
Prepaid expenses and other current assets	801	1,427
Total Current Assets	118,251	105,224
Property, plant and equipment	156,896	150,379
Less allowances for depreciation	(112,118)	(107,458)
Net property, plant and equipment	44,778	42,921
Deferred income taxes	4,099	5,443
Other assets	8,209	4,173
Total Assets	$175,337	$157,761

Note:

The balance sheet at December 31, 2010 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)

	July 2, 2011	December 31, 2010 (Note)
Liabilities and Stockholders Equity		
Current Liabilities		
Trade accounts payable and accrued expenses	$ 18,966	$ 16,492
Product liability	741	449
Employee compensation and benefits	10,343	10,923

Workers compensation	4,716	4,893
Income taxes payable	2,081	582
Total Current Liabilities	36,847	33,339
Accrued pension liability	9,355	9,369
Product liability accrual	415	573
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		
2011 23,209,472 issued,		
18,910,038 outstanding		
2010 23,003,285 issued,		
18,837,251 outstanding	23,209	23,003
Additional paid-in capital	9,934	9,885
Retained earnings	153,109	137,125
Less: Treasury stock at cost		
2011 4,299,434 shares		
2010 4,166,034 shares	(37,884)	(35,885)
Accumulated other comprehensive loss	(19,648)	(19,648)
Total Stockholders Equity	128,720	114,480
Total Liabilities and Stockholders Equity	$175,337	$157,761

Note:

The balance sheet at December 31, 2010 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 (UNAUDITED)

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net firearms sales	$78,471	$63,621	$152,912	$130,891
Net castings sales	1,151	768	2,151	1,775
Total net sales	79,622	64,389	155,063	132,666
Cost of products sold	51,157	42,649	102,604	87,794
Gross profit	28,465	21,740	52,459	44,872
Operating expenses:				
Selling	6,468	5,118	13,380	11,017

General and administrative	4,935	3,984	9,560	7,919
Other operating expenses, net	-	-	-	398
Total operating expenses	11,403	9,102	22,940	19,334
Operating income	17,062	12,638	29,519	25,538
Other income:				
Interest expense, net	(13)	(24)	(33)	(57)
Other income, net	114	174	290	301
Total other income, net	101	150	257	244
Income before income taxes	17,163	12,788	29,776	25,782
Income taxes	6,350	4,604	11,017	9,281
Net income	$10,813	$ 8,184	$18,759	$16,501
Basic earnings per share	$0.57	$0.43	$1.00	$0.86
Fully diluted earnings per share	$0.56	$0.42	$0.99	$0.85
Cash dividends per share	$0.097	$0.093	$0.147	$0.153

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, 2010	$23,003	$9,885	$137,125	$(35,885)	$(19,648)	$114,480
Net income and comprehensive income			18,759			18,759
Dividends paid			(2,775)			(2,775)
Recognition of stock-based compensation expense		1,247				1,247
Exercise of stock options and vesting of RSU s		(2,433)				(2,433)
Tax benefit realized from exercise of stock options and vesting of RSU s		1,441				1,441

Common stock issued compensation plans	206	(206)				-
Repurchase of 133,400 shares of common stock				(1,999)		(1,999)
Balance at July 2, 2011	$ 23,209	$9,934	$153,109	$(37,884)	$(19,648)	$128,720

See notes to condensed financial statements.

STURM, RUGER & COMPANY, INC.

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

(*Dollars in thousands)*

	Six Months Ended	
	July 2, 2011	July 3, 2010

Operating Activities		
Net income	$18,759	$16,501
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	5,860	4,419
Slow moving inventory valuation adjustment	(176)	(314)
Stock-based compensation	1,247	908
Loss (Gain) on sale of assets	(7)	10
Deferred income taxes	1,111	1,920
Changes in operating assets and liabilities:		
Trade receivables	(292)	2,666
Inventories	5,954	1,061
Trade accounts payable and accrued expenses	2,298	(2,946)
Employee compensation and benefits	(580)	(4,334)
Product liability	135	(896)
Prepaid expenses, other assets and other liabilities	(3,434)	1,296
Income taxes payable	1,499	(1,160)
Cash provided by operating activities	32,374	19,131
Investing Activities		
Property, plant and equipment additions	(7,719)	(12,598)
Proceeds from sale of assets	16	16
Purchases of short-term investments	(47,496)	(76,977)
Proceeds from maturities of short-term investments	35,496	74,736
Cash used for investing activities	(19,703)	(14,823)
Financing Activities		
Tax benefit from exercise of stock options	1,441	698
Repurchase of common stock	(1,999)	-
Payment of employee withholding tax related to		
share-based compensation	(2,432)	(1,367)
Dividends paid	(2,775)	(2,940)
Cash used for financing activities	(5,765)	(3,609)
Increase in cash and cash equivalents	6,906	699
Cash and cash equivalents at beginning of period	5,132	5,008
Cash and cash equivalents at end of period	$12,038	$ 5,707

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 six months ended July 2, 2011 are not indicative of the results to be expected for the full year ending December 31, 2011. 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, 2010.

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 and six months ended July 2, 2011 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. Two of these independent wholesale distributors merged in 2009. Further consolidation of independent wholesale distributors would result in a greater concentration of credit risk.

The 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.

Reclassifications:

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

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 six month period ended July 2, 2011, inventory quantities were reduced. If this reduction remains through year-end, it will result in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the current cost of purchases. Although the effect of such a liquidation cannot be precisely quantified at the present time, management believes that if a LIFO liquidation continues to occur in 2011, 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:

	July 2, 2011	December 31, 2010
Inventory at FIFO		
Finished products	$ 3,247	$ 5,833
Materials and work in process	39,044	42,987
Gross inventories	42,291	48,820
Less: LIFO reserve	(37,101)	(37,448)
Less: excess and obsolescence reserve	(1,141)	(1,545)
Net inventories	$ 4,049	$ 9,827

NOTE 4 - LINE OF CREDIT

In December 2010, the Company renewed a $25 million credit facility with a bank. This facility is renewable annually and now terminates on December 12, 2011. Borrowings under this facility bear interest at LIBOR (0.74% at July 2, 2011) plus 200 basis points. The Company is charged three-eighths of a percent (0.375%) per year on the unused portion. At July 2, 2011 and December 31, 2010, 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 $2.5 million are required for the defined benefit plans for 2011. The Company contributed $2.0 million to the defined benefit plans in 2010. Contributions in the three and six months ended July 2, 2011 totaled $0.4 million and $0.9 million, respectively.

The estimated cost of the frozen defined benefit plans for 2011 is insignificant.

The supplement