



## Sturm, Ruger & Company, Inc. Third Quarter Report 2004



### TO OUR STOCKHOLDERS:

Sturm, Ruger & Company, Inc. financial results for the third quarter 2004 were net sales of \$35.4 million, compared to \$36.8 million in the third quarter 2003. Financial results were break-even for the quarter, versus \$3.9 million or \$0.14 per share in the third quarter 2003. For the nine months ended September 30, 2004, net sales were \$108.3 million and net income was \$3.4 million, or \$0.13 per share. For the corresponding period in 2003, net sales were \$109.8 million and net income was \$9.4 million, or \$0.35 per share. It should be noted that the results of the third quarter 2003 and the nine months ended September 30, 2003 included a \$0.13 per share gain from the sale of non-manufacturing real estate in Arizona, whereas the results for the same periods in 2004, with the exception of a \$0.02 per share gain from the sale of the property and building that formerly housed the Company's Uni-Cast division, are solely results from manufacturing operations.

Demand for new products introduced or first shipped in the year 2004 is very encouraging. We expect these new products and others which are being introduced in the last quarter of 2004 and the first half of 2005 to lead the Company to an improving position in the overall firearms market.

The engineering and manufacturing management associated with the introduction, revision and retooling of more than fifteen new models virtually at once has proven, as we expected, very challenging, indeed. To meet this challenge we started a program of significant expansion of our product and manufacturing engineering departments in the year 2002. Further improvement in these vital departments is still needed, and is presently the top priority in our firearms divisions.

We are encouraged by the 38% increase in castings sales this quarter and remain determined to succeed in this market. Further exploration of steel and titanium opportunities, especially in the field of much larger sized titanium castings, is essential to achieving a satisfactory level of sales and profitability in this segment.

At September 30, 2004, we remain debt free, with \$37 million in cash and short-term investments. Our financial strength allows us to focus on the long-term goals of maximizing operating efficiencies and shareholder value, and we are optimistic about prospects for the new sales year which begins on December 1. At their October 21, 2004 meeting, the Board of Directors named Christopher Killoy as Vice President of Sales and Marketing effective November 1, 2004. Chris joined the Company in 2003 as Executive Director of Sales and Marketing after a fourteen year career with Smith & Wesson Corp. Chris has demonstrated his sales and marketing leadership, as our new look, new products and new programs are all tied to initiatives which he has undertaken, and the Company looks forward to even greater successes in the coming years.

The third quarter 2004 brought more success in the product liability arena. On July 27, 2004, the Missouri Court of Appeals affirmed the trial court's dismissal of the *St. Louis* municipal lawsuit against the Company and other firearms industry members, and the Missouri Supreme Court later declined to accept an appeal by the city. On September 30, 2004, summary judgment was granted in favor of the Company in a West Virginia case which sought to hold the Company liable for the resale of a pistol by a retail firearms dealer to a lawful purchaser who delivered the pistol to an unauthorized criminal user. As the judge in the case stated, to hold a manufacturer liable for such a sale would be a "real stretch." On October 19, 2004, the Washington, D.C. Court of Appeals vacated their earlier dismissal of the city's claim against firearms manufacturers, which had let stand certain individuals' claims against firearms manufacturers under the Washington, D.C. "Strict Liability Act." The D.C. Court of Appeals granted a hearing *en banc* by the full Court of Appeals, to be held in early 2005.

On the Federal level, the expiration of the so-called "assault weapon" ban on September 13, 2004 should have little impact on the Company, as all of the Company's autoloading rifles were exempted by name from that ten-year ban as "legitimate sporting firearms."

We have just introduced many new offerings in our new 2005 Ruger Sportswear and Accessories Catalog. In addition to new leather goods and other shooting accessories, we are proud to introduce an exciting new line of Ruger-brand knives, a project in

which we partnered with W.R. Case & Sons Cutlery Company, which like ourselves is an American company with an outstanding reputation for quality. To view our new accessories or to order the 2005 Sportswear and Accessories Catalog, visit our recently remodeled website at [www.ruger.com](http://www.ruger.com). Our 2005 Firearms Catalog will also be available to consumers in January, 2005.

We were honored by an invitation to hold our October 21, 2004 Board of Directors meeting at the New York Stock Exchange, and to ring the closing bell. As the only firearms company listed on the NYSE, our participation in this event not only provided favorable visibility for the Company as America's "Arms Makers for Responsible Citizens", but also for the responsible firearms industry as a whole.

William B. Ruger, Jr.  
Chairman and Chief Executive Officer  
November 11, 2004

*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, 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.*

**Arms Makers  
for Responsible Citizens®**



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Sturm, Ruger & Company, Inc.

Condensed Consolidated Statements of Income

(unaudited)  
(in thousands, except per share amounts)

	Three Months Ended September 30				Nine Months Ended September 30			
	2004	%	2003	%	2004	%	2003	%
Firearms sales	\$29,063	82.1	\$32,237	87.6	\$92,798	85.7	\$95,876	87.4
Castings sales	6,317	17.9	4,583	12.4	15,531	14.3	13,877	12.6
Net sales	35,380	100.0	36,820	100.0	108,329	100.0	109,753	100.0
Cost of products sold	30,382	85.9	31,102	84.5	86,358	79.7	85,091	77.5
Gross profit	4,998	14.1	5,718	15.5	21,971	20.3	24,662	22.5
Expenses:								
Selling	4,504	12.7	3,987	10.8	12,519	11.6	11,197	10.2
General and administrative	1,410	4.0	1,465	3.9	4,747	4.4	4,532	4.1
	5,914	16.7	5,452	14.7	17,266	16.0	15,729	14.3
Operating income(loss)	(916)	(2.6)	266	0.8	4,705	4.3	8,933	8.2
Gain on sale of real estate	874	2.5	5,922	16.1	874	0.8	5,922	5.4
Other income – net	9	0.0	243	0.6	92	0.1	861	0.7
Total other income	883	2.5	6,165	16.7	966	0.9	6,783	6.1
Income(loss) before income taxes	(33)	(0.1)	6,431	17.5	5,671	5.2	15,716	14.3
Income taxes	(13)	0.0	2,579	7.0	2,274	2.1	6,302	5.7
Net income(loss)	(\$20)	(0.1)	\$3,852	10.5	\$3,397	3.1	\$9,414	8.6
Earnings per share								
Basic	\$0.00		\$0.14		\$0.13		\$0.35	
Diluted	\$0.00		\$0.14		\$0.13		\$0.35	
Cash dividends per share	\$0.10		\$0.20		\$0.50		\$0.60	
Average shares outstanding								
Basic	26,911		26,911		26,911		26,911	
Diluted	26,911		26,928		26,940		26,914	

Sturm, Ruger & Company, Inc.

Condensed Consolidated Balance Sheet

(unaudited)  
(in thousands)

	September 30 2004
<b>Assets</b>	
Cash and cash equivalents	\$3,801
Short-term investments	32,927
Trade receivables, net	17,385
Inventories	50,310
Deferred income taxes	6,760
Prepaid expenses and other assets	3,034
Total current assets	114,217
Property, plant and equipment	157,945
Less depreciation	(131,583)
	26,362
Deferred income taxes	819
Other assets	9,614
Total	\$151,012
<b>Liabilities and Stockholders' Equity</b>	
Trade accounts payable and accrued expenses	\$4,574
Product liability	4,000
Employee compensation	5,816
Workers' compensation	5,843
Income taxes	917
Total current liabilities	21,150
Accrued pension liability	5,022
Product liability accrual	1,257
Stockholders' equity	123,583
Total	\$151,012