



Sturm, Ruger & Company, Inc. Second Quarter Report 2004



TO OUR STOCKHOLDERS:

In the second quarter of 2004, net sales were \$32.7 million, producing a net loss of \$0.5 million, or \$0.02 per share. Comparable amounts for the second quarter of 2003 were net sales of \$31.8 million, and net income of \$1.0 million, or \$0.04 per share. For the six months ended June 30, 2004, net sales were \$73.0 million and net income was \$3.4 million, or \$0.13 per share. For the corresponding period in 2003, net sales were \$72.9 million and net income was \$5.6 million, or \$0.21 per share.

Although firearms unit shipments declined by 5% from the prior year, perhaps due to softness in the overall firearms market, demand for our new products has proven to be very strong. Therefore we are devoting increasing production capacity toward these new models, which are in great demand. We expect these successful products to lead our return to expected profitability levels.

In addition to the many new products previously announced for 2004, we introduced, in the second quarter of 2004, a new family of pistols, the Ruger Mark III .22 caliber autoloading rimfire pistols, all of which incorporate an effective, but unobtrusive, internal lock, magazine disconnect, and loaded chamber indicator, to comply with firearms sales regulations in all states.

Newly announced products in the quarter include:

- The New Ruger MKIII 512 pistol, which is available in both blued and stainless steel, incorporates a new, convenient, frame-mounted magazine release button, and a new and greatly improved micro-adjustable sight. The receiver is drilled and tapped to accept a new, Weaver-style scope base adapter, included with each pistol.
- The New Ruger 22/45 P4GCMKIII pistol has an entirely new, slimmer grip frame, which incorporates the new, frame-mounted magazine release button. The totally redesigned grip is finely and handsomely checkered on three sides, for improved control and comfort.
- The New Ruger KP345, in .45ACP caliber, is altogether different in appearance and feel from previous models, being more compact but having a full 8-shot capacity, improved trigger pull, contoured and slenderized slide, optional accessory rail, and thoroughly enhanced shape and feel. This product is in full production, and we have been unable to keep up with the demand. Like the new Ruger MKIII pistols, it has a loaded chamber indicator, magazine disconnect, and an unobtrusive, but effective internal lock.
- The New Model Ruger Single Six Hunter, incorporates a target crowned barrel with gold bead sight and an integral barrel rib, cut to receive patented Ruger scope rings, and tip-off scope bases. The New Model Ruger Single Six Hunter is available in .17 HMR, or in a .22 rimfire convertible model, which includes both .22LR and .22WMR cylinders.

We are planning to introduce further new models during the second half of the year, as we continually expand and enhance the Ruger range of firearms offerings. This is the largest number of new product introductions made by the Company since 1982. Because we have introduced so many new products, with their attendant start-up costs, our margins have suffered. As production levels increase, we expect these costs to be amply and quickly covered.

We are encouraged by the 10% increase in castings sales this quarter, and remain determined to succeed in this market. To that end we will continue to explore opportunities in diverse markets and end uses for both our steel and titanium foundry capabilities.

On the legal front, we were gratified that the dismissal of Washington, D.C.'s municipal lawsuit against the Company and other firearms manufacturers, as well as St. Louis' similar lawsuits, were sustained on appeal. The nationwide decline in unintentional firearms fatalities continued, and accidental injuries involving the Company's products have declined to the point where only four open product liability lawsuits currently exist. We truly are "Arms Makers for Responsible Citizens," as our corporate motto reflects.

Besides appreciation by our customers and stockholders, recognition by our industry peers is also gratifying and humbling. In April, we were pleased to receive the 2004 Shooting Industry Academy of Excellence Award for "Rifle of the Year" for our new M77MKII Target Rifle chambered for the innovative .204 Ruger cartridge. In June, *Outdoor Life* magazine gave its prestigious 2004 Editors' Choice Award to our new stainless steel Number 1 Rifle, also in the new .204 Ruger, calling it our "top rifle" and "impossible to shoot without smiling."

The Company remains financially solid and debt free, with over \$45 million in cash and short-term investments as of June 30th. However, in order to allow the Company to continue the modernization of manufacturing processes upon which many of our newly announced products depend, our Board of Directors, at its July 27th meeting, approved a quarterly dividend of \$0.10 per share payable on September 15, 2004 to stockholders of record on September 1, 2004. This fiscally prudent decrease in the dividend from \$0.20 in the past few quarters is designed to assure the Company the financial liquidity to provide a smooth transition through what we believe to be a temporary situation. We trust that our stockholders understand these things, and urge them to watch our future progress closely. We sincerely thank our customers and stockholders for their support, and are confident that we will continue to deserve the loyalty you have shown to Sturm, Ruger.

William B. Ruger, Jr.
Chairman and Chief Executive Officer
July 28, 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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Condensed Consolidated Statements of Income

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

	Three Months Ended June 30				Six Months Ended June 30			
	2004	%	2003	%	2004	%	2003	%
Firearms sales	\$27,598	84.4	\$27,156	85.4	\$63,736	87.4	\$63,639	87.3
Castings sales	5,115	15.6	4,645	14.6	9,214	12.6	9,294	12.7
Net sales	32,713	100.0	31,801	100.0	72,950	100.0	72,933	100.0
Cost of products sold	27,951	85.4	25,294	79.5	55,977	76.7	53,989	74.0
Gross profit	4,762	14.6	6,507	20.5	16,973	23.3	18,944	26.0
Expenses:								
Selling	3,865	11.8	3,313	10.4	8,015	11.0	7,210	9.9
General and administrative	1,660	5.1	1,692	5.4	3,336	4.6	3,067	4.2
	5,525	16.9	5,005	15.8	11,351	15.6	10,277	14.1
Operating income (loss)	(763)	(2.3)	1,502	4.7	5,622	7.7	8,667	11.9
Other income (loss) – net	(7)	(0.0)	226	0.7	83	0.1	618	0.8
Income (loss) before income taxes	(770)	(2.3)	1,728	5.4	5,705	7.8	9,285	12.7
Income taxes	(309)	(0.9)	693	2.1	2,288	3.1	3,723	5.1
Net income (loss)	(\$461)	(1.4)	\$1,035	3.3	\$3,417	4.7	\$5,562	7.6
Earnings per share								
Basic	(\$0.02)		\$0.04		\$0.13		\$0.21	
Diluted	(\$0.02)		\$0.04		\$0.13		\$0.21	
Cash dividends per share	\$0.20		\$0.20		\$0.40		\$0.40	
Average shares outstanding								
Basic	26,911		26,911		26,911		26,911	
Diluted	26,911		26,911		26,983		26,911	

Sturm, Ruger & Company, Inc.

Condensed Consolidated Balance Sheet

(unaudited)
(in thousands)

	June 30 2004
Assets	
Cash and cash equivalents	\$1,259
Short-term investments	44,004
Trade receivables, net	13,078
Inventories	50,989
Deferred income taxes	7,753
Prepaid expenses and other current assets	1,275
Total current assets	118,358
Property, plant and equipment	157,658
Less depreciation	(131,434)
	26,224
Deferred income taxes	914
Other assets	10,066
Total	\$155,562
Liabilities and Stockholders' Equity	
Trade accounts payable and accrued expenses	\$4,478
Product liability	4,000
Employee compensation	7,032
Workers' compensation	5,899
Income taxes	1,409
Total current liabilities	22,818
Accrued pension liability	4,956
Product liability accrual	1,494
Stockholders' equity	126,294
Total	\$155,562