

# Sturm, Ruger & Company, Inc.

First Quarter Report 2005



## TO OUR STOCKHOLDERS:

Although our first quarter 2005 net sales increased to \$44.3 million, compared to \$40.2 million in the first quarter of 2004, our first quarter 2005 net income was essentially unchanged at \$3.7 million, or \$0.14 per share, compared to net income of \$3.9 million, or \$0.14 per share in the first quarter of 2004.

Firearms unit shipments increased 2% from the prior year due to strong demand for our new products and continued interest in our established firearms. However, production of new products made in our Newport, N.H. plant is very much behind schedule. Every effort is being made to rectify this situation, and to move toward exploiting the strong demand for these products.

New products receiving praise from both consumers and firearms writers are the new Ruger Vaqueros, Ruger Ranch Rifles, Ruger Mark III pistols, the 50th Anniversary Ruger Blackhawk, the Ruger P345 and P95PR centerfire pistols, and the new Ruger M77MKII Frontier rifles. In addition, we shipped 5,000 KP95D 9mm pistols to the United States Army Tank-Automotive and Armaments Command in January, 2005, delivering this important order one week ahead of schedule.

Our Ruger Gold Label shotgun recently received the NRA's *American Rifleman* magazine "Golden Bullseye" award for "Shotgun of the Year for 2005" as a "new and innovative product honoring the timeless tradition and history of the shooting sports." We were further honored on April 16, 2005 to receive the Shooting Industry "Academy of Excellence" award of "2005 Manufacturer of the Year" for "continued dedication to providing quality American-made products that meet varying needs of responsible gun owners, as reflected in the unprecedented introduction of over 40 new models and product variations in the last year."

Our castings business continues to improve, as evidenced by our 26% increase in sales from 2004. We look forward to further sales growth, and especially to the profitable utilization of our new titanium foundry in New Hampshire, and for further growth in our Arizona ferrous and titanium foundries as well.

The Company continues to prevail in the courtroom. On February 10, 2005, the First Appellate District, Division One, in the Court of Appeals of the State of California, unanimously affirmed that the "unfair trade practice" and "public nuisance" lawsuits filed by San Francisco, Berkeley, Sacramento, Los Angeles, Compton, Inglewood and West Hollywood, and the counties of San Mateo and Alameda, were properly dismissed by the trial court. On April 21, 2005, the District of Columbia Court of Appeals again upheld the trial court's dismissal of the District's negligence and "public nuisance" claims against the Company and the firearms industry, although it let stand individual claims of victims of criminal assaults with "assault weapons" or "machine guns" under the District of Columbia Strict Liability Act. At this time, we do not believe that any of the Company's firearms are implicated, but the language of the District of Columbia statute is imprecise and could easily be misread to encompass many conventional types of firearms.

These are the latest in a long string of cases at both the trial and appeals court levels holding that manufacturers of lawfully-sold, non-defective firearms are not legally at fault if these products are subsequently illegally acquired or misused by criminals. Violent crime and firearms accidents are at a twenty-year low.

We now have only two "conventional" product liability and four "municipal" lawsuits open, the lowest such figures in many years. Court after court has found our responsible sales and marketing practices in this heavily-regulated industry to be appropriate and legally correct. The District of Columbia case discussed above shows, however, that the only way to end these wasteful lawsuits is for Congress to enact legislation preempting any attempts to hold manufacturers of lawfully-sold, non-defective firearms liable for the intentional acts of criminals.

At March 31, 2005, the Company remains financially solid and debt free, with \$35 million in cash and short-term investments. At its May 3rd meeting, the Board of Directors approved a quarterly dividend of \$0.10 per share payable on June 15, 2005 to stockholders of record on June 1, 2005. We again thank our stockholders, customers and employees for their continued loyalty and support.

William B. Ruger, Jr.  
Chairman and Chief Executive Officer  
May 4, 2005

*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 Statements of Income**  
(unaudited)  
(in thousands, except per share amounts)

	Three Months Ended March 31			
	2005	%	2004	%
Firearms sales .....	\$39,100	88.3	\$36,138	89.8
Castings sales .....	5,160	11.7	4,099	10.2
Net sales .....	<u>44,260</u>	<u>100.0</u>	<u>40,237</u>	<u>100.0</u>
Cost of products sold .....	<u>32,412</u>	<u>73.2</u>	<u>28,026</u>	<u>69.7</u>
Gross profit .....	11,848	26.8	12,211	30.3
Expenses:				
Selling .....	4,061	9.2	4,150	10.2
General and administrative .....	<u>1,628</u>	<u>3.7</u>	<u>1,676</u>	<u>4.2</u>
	<u>5,689</u>	<u>12.9</u>	<u>5,826</u>	<u>14.4</u>
Operating income .....	6,159	13.9	6,385	15.9
Other income (loss) – net .....	<u>(14)</u>	<u>(0.0)</u>	<u>90</u>	<u>0.2</u>
Income before income taxes .....	6,145	13.9	6,475	16.1
Income taxes .....	<u>2,464</u>	<u>5.6</u>	<u>2,596</u>	<u>6.5</u>
Net income .....	<u><u>\$3,681</u></u>	<u><u>8.3</u></u>	<u><u>\$3,879</u></u>	<u><u>9.6</u></u>
Earnings per share				
Basic .....	\$0.14		\$0.14	
Diluted .....	\$0.14		\$0.14	
Cash dividends per share .....	\$0.10		\$0.20	
Average shares outstanding				
Basic .....	26,911		26,911	
Diluted .....	26,911		27,008	

**Sturm, Ruger & Company, Inc.**  
**Condensed Balance Sheet**  
(unaudited)  
(in thousands)

	March 31 2005
<b>Assets</b>	
Cash and cash equivalents	\$3,841
Short-term investments	30,890
Trade receivables, net	18,988
Inventories	48,723
Deferred income taxes	6,813
Prepaid expenses and other assets	<u>2,815</u>
Total current assets	112,070
Property, plant and equipment	160,298
Less depreciation	<u>(133,574)</u>
	26,724
Deferred income taxes	1,165
Other assets	<u>8,626</u>
Total	<u><u>\$148,585</u></u>
<b>Liabilities and Stockholders' Equity</b>	
Trade accounts payable and accrued expenses	\$4,013
Product liability	1,902
Employee compensation	6,200
Workers' compensation	5,451
Income taxes	<u>2,349</u>
Total current liabilities	19,915
Accrued pension liability	6,379
Product liability accrual	1,133
Stockholders' equity	<u>121,158</u>
Total	<u><u>\$148,585</u></u>