Sturm, Ruger & Company, Inc.

2003 Annual Report

About our Covers

As 2004 marks the 40th anniversary of the Ruger 10/22 Carbine, our special model commemorating that milestone is a fitting adornment for our cover. It is of traditional styling, much as the 10/22 first appeared in 1964, but is distinguished by a nickel-silver commemorative stock medallion and a unique clear rotary magazine. This shows to great advantage the inventive genius of the Ruger engineering staff, which has since adopted this patented magazine design into an entire range of successful Ruger firearms.

The cover background is of top-grain leather, as can be found in a number of our new accessories and logowear. Details appear in our greatly expanded new 36 page Ruger Sportswear & Accessories Catalog featured on the inside back cover of this annual report.

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To Our Stockholders

2003 was a year of reorganization and revitalization at Sturm, Ruger & Company. In addition to some necessary cost cutting and streamlining to improve efficiencies, we made some significant changes which we believe bode extremely well for the future of our American enterprise.

Early in 2003, the Board of Directors named Stephen L. Sanetti President and Chief Operating Officer. Mr. Sanetti is no stranger to the regular readers of our annual reports. He has had over two decades of experience in the firearms industry with Sturm, Ruger and a wealth of firearms related experience and knowledge. He will help guide the Company in the critical years ahead (see sidebar on page 3).

We have also hired four experienced firearms engineers for our product design staff. We believe that they will help speed many new products to market, and will help enhance our many established products. Watch for new products and product enhancement announcements throughout the year.

You will see within these pages a few of our numerous new product offerings for early 2004. Taking center stage are the new variants of the Ruger 10/22®, perhaps the most popular and well-respected 22 caliber rifle of the last 40 years. Its popularity continues, and we celebrate its unprecedented success with a 40th Anniversary Commemorative Model 10/22 Carbine. However, as with all our products, we are not content to rest upon our laurels. A brand new 10/22 Rifle joins our ranks this year with a sleek, newly designed stock, longer barrel, and stylishly accurate front sight. The long-awaited 10/17 rifle in the tremendously popular 17 HMR caliber is also in production, as is both a New Model Single Six revolver in that chambering, and the New Model Ruger Single Six Hunter single action revolvers. The latter accept the same patented Ruger scope mount system as the popular Ruger New Model Super Blackhawk Hunter and Bisley Hunter models, but are about 2/3 the size and precisely scaled to their 17 HMR and 22LR/ 22 Magnum cylinders.

Also new for 2004 is the exciting, high velocity 204 Ruger cartridge. It propels a 32 grain 20 caliber bullet at an astounding 4,225 feet per second from either our Number 1 single shot or M77MKII short action rifle, and is being met with tremendous enthusiasm by small game hunters. For those seeking deer or elk-sized game, we are offering new short magnum chamberings in our bolt action hunting rifles. Target shooters are not being forgotten; we are now offering new optical sight bases for Weaver-style rings with all our smallbore rifles and target pistols.

I am also pleased to report that many of our newer products which we have previously announced and which regrettably had been delayed for various reasons are now in production. First and foremost among these is our Ruger Gold Label side-by-side double shotgun. Stainless steel New Bearcats, which have been recently introduced, are selling well. Our proven mix of successful established products and constant improvement and innovation will continue.

At the Safari Club International Show in January 2004, we formally announced the opening of the Ruger Studio of Art and Decoration. It has four trained firearms engravers on staff, ready to create exquisitely engraved and gold inlaid works of art to suit the personal requirements, no matter how exacting, of each individual client. Interested shareholders should contact the Company's Southport, CT headquarters for details.

We are making great strides in our efforts toward ongoing improvements in products and services. Please visit our ever-growing website at *www.ruger.com* for an unprecedented level of information about the Company and its expanding product line. We have had over 2,000,000 people visit our new website since it was inaugurated in March 2003. We believe that this website is the finest in the industry and it reflects our commitment to continuous upgrading of our organization. Also, we have considerably upgraded our accessories and Ruger® logo-branded items, which we feel will be of great interest to our firearms customers. All in all, these are exciting times for Sturm, Ruger & Company.

To Our Stockholders

Continued

With all this new activity, our Newport, NH facility has become somewhat capacity constrained. To help alleviate this congestion, in late 2003 we took the twofold steps of selling some non-productive real estate, the Ruger Single Six Ranch in Kirkland, AZ, and purchasing a 200,000 square foot manufacturing facility adjacent to our existing Newport, NH facilities. In this way, we hope to have room to expand both our manufacturing, castings, and office facilities for what we believe will be significant new product ventures.

During the last year, the tide of misguided municipal lawsuits seemed to turn significantly in our favor. Those brought by numerous cities in California were dismissed, but these cities have appealed their dismissals. Detroit and Wayne County's lawsuits were dismissed, and they did not appeal. Cincinnati, Jersey City and Newark all withdrew their lawsuits, and the NAACP withdrew its appeal of the dismissal of its case after a jury found no defendants liable. This brings the total number of such misguided lawsuits which have been fully and finally dismissed to twelve. Both the St. Louis and New York State lawsuits were dismissed, but St. Louis has appealed its dismissal. A number of other such cases have been dismissed in whole or part and are on appeal. The Gary lawsuit dismissal was reversed on appeal and remanded for further proceedings. We are confident that we will ultimately prevail, as the ruinous consequences for all American industry are obvious if courts were to hold manufacturers of non-defective, lawfully sold products liable for subsequent criminal misuse.

The Company also prevailed in one of its few remaining product liability lawsuits. The unanimous jury verdict in the *Whaley* case, in Alaska, found the design of the Ruger M77 rifle to be safe, non-defective, correctly manufactured, and accompanied by adequate warnings. The trial judge struck the plaintiff's claim for punitive damages prior to the case going to the jury. The Company has had complete defense verdicts in all cases tried involving products manufactured during the last thirty years; an enviable result in this era of litigiousness.

Although this Company has always governed itself with the highest regard for corporate ethics, in 2003, the New York Stock Exchange and the SEC mandated that all publicly listed companies must promulgate and publicize a formal code of ethics. We have done this, and have posted it in its entirety on our corporate website. Interested parties may view it there, or may obtain a copy without charge upon request to our Corporate Secretary's office, One Lacey Place, Southport, CT 06890. Also posted on our corporate website or available in printed form free upon request from the same source are our Corporate Governance Guidelines. Furthermore, our Audit, Compensation, and Nominating and Corporate Governance Committees are composed solely of independent outside Directors, another mandate of the regulations implementing the Sarbanes-Oxley Act of 2002. Our shareholders can be assured that oversight of all our fiscal activities remains strong, and our entire Board and management are committed to honesty and integrity.

We look forward to the new year with a renewed sense of optimism and purpose. We would ask you to share in our goals and new directions by attending our Annual Stockholders Meeting in New London, NH on Tuesday, May 4, 2004.

William B. Ruger, Jr.
Chairman of the Board
and Chief Executive Officer

February 6, 2004

The Board of Directors of Sturm, Ruger & Co., Inc. appointed Stephen L. Sanetti to be its President and Chief Operating Officer, effective May 6, 2003.

Mr. Sanetti is a 23-year veteran of the Company, hired by William B. Ruger, Sr. in 1980 to be the Company's first General Counsel. He has served as its Vice President since 1993. He joined the Sturm, Ruger Board of Directors in 1998, and was named Vice Chairman, Senior Executive Vice President, and General Counsel in 2000.

Steve Sanetti is also well known in the firearms industry. He was Chairman of the Legislative & Legal Affairs Committee of the Sporting Arms and Ammunition Manufacturers' Institute from 1993 to 2001, and presently serves on the Board of Governors of both the National Shooting Sports Foundation and the Hunting and Shooting Sports Heritage Foundation.

He graduated with honors from the Virginia Military Institute in 1971, and received his Juris Doctor degree from the Washington & Lee University School of Law. He served as a Captain in the U.S. Army Judge Advocate General Corps, and was Chief Prosecutor and Chief of Criminal Law for the 1st Cavalry Division at Ft. Hood, Texas. Beginning in 1978, he represented Sturm, Ruger in various product liability cases, and is a former Director of the Product Liability Advisory Council.

Steve is also a lifelong firearms enthusiast, target shooter, gun collector, and amateur gunsmith. He was president of the 1970-71 VMI Rifle and Pistol Club, a 3-year Varsity Rifle Team letter winner, and coach of the VMI Rifle Team while in Law School. He is an NRA Certified Rifle, Pistol, and Home Firearms Safety instructor, and a member of the New Hampshire Firearms Safety Coalition, the Fairfield County Fish and Game Protective Association, and the Arms and Armor Club of New York. He serves as a technical advisor to the Association of Firearms and Toolmark Examiners, and has captained the Ruger pistol team, its Sportsman's Team Challenge Competition Squad, and Ruger's Shooting Industry Masters Team. He has written many letters to editors, testified before a Congressional Subcommittee, and has appeared on *"60 Minutes"* and *"ABC News Nightline,"* all in support of responsible firearms ownership.

Selected Financial Data

(Dollars in thousands, except per share data)

	December 31,				
	2003	2002	2001	2000	1999
Net firearms sales	**$130,558**	$139,762	$147,622	$166,415	$188,564
Net castings sales	**17,359**	21,825	26,708	36,239	53,100
Total net sales	**147,917**	161,587	174,330	202,654	241,664
Cost of products sold	**113,189**	125,376	134,449	144,503	170,650
Gross profit	**34,728**	36,211	39,881	58,151	71,014
Income before income taxes	**20,641**	14,135	22,199	44,474	55,483
Income taxes	**8,277**	5,668	8,702	17,434	21,749
Net income	**12,364**	8,467	13,497	27,040	33,734
Basic and diluted earnings per share	**0.46**	0.31	0.50	1.00	1.25
Cash dividends per share	**$ 0.80**	$ 0.80	$ 0.80	$ 0.80	$ 0.80

	December 31,				
	2003	2002	2001	2000	1999
Working capital	**$102,715**	$103,116	$118,760	$123,020	$118,593
Total assets	**170,013**	183,958	204,378	215,665	215,684
Total stockholders' equity	**133,640**	137,983	164,340	172,358	166,826
Book value per share	**$ 4.97**	$ 5.13	$ 6.11	$ 6.40	$ 6.20
Return on stockholders' equity	**9.3%**	6.1%	8.0%	15.9%	21.0%
Current ratio	**5.7 to 1**	4.8 to 1	6.1 to 1	5.8 to 1	5.2 to 1
Common shares outstanding	**26,910,700**	26,910,700	26,910,700	26,910,700	26,910,700
Number of stockholders of record	**2,036**	2,026	2,064	2,011	2,046
Number of employees	**1,251**	1,418	1,547	1,814	1,952

Selected Financial Data should be read in conjunction with the Consolidated Financial Statements and accompanying notes and Management's Discussion & Analysis of Financial Condition & Results of Operations.

Management's Discussion & Analysis of Financial Condition & 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 its 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 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

Year ended December 31, 2003, as compared to year ended December 31, 2002

Consolidated net sales of $147.9 million were achieved by the Company in 2003 representing a decrease of $13.7 million or 8.5% from net sales of $161.6 million in 2002.

Firearms segment net sales decreased by $9.2 million or 6.6% to $130.6 million in 2003 from $139.8 million in the prior year. Firearms unit shipments for 2003 decreased 2.4% from 2002, as shipments of all product families declined significantly in the first half of the year. Shipments during the latter half of 2003, especially in the fourth quarter, improved due in large part to the introduction of several new product offerings. Revolver shipments benefited from the popularity of the New Model Single Six revolver in the 17 HMR caliber and the 50th Anniversary Ruger New Model Single Six revolver. Pistol shipments reflected strong demand for the MK-4NRA, a 22 caliber pistol commemorating company founder, William B. Ruger, and rifle shipments benefited from the popularity of the Ruger 40th Anniversary 10/22 Carbine. However, a change in mix from higher priced products to lower priced products resulted in the further decline in sales versus unit shipments.

In 2003, the Company instituted a sales incentive program for its distributors which allowed them to earn rebates of up to 1.5% if certain annual overall sales targets were achieved. This program replaced a similar sales incentive program in 2002. From May 1, 2003 to September 30, 2003, the Company offered a consumer-driven sales incentive program for certain centerfire pistols. From August 1, 2002 through November 30, 2002, the Company conducted a similar consumer-driven sales incentive program for certain hunting rifles and revolvers. Sales incentive rebates remained consistent as a percentage of sales in 2003 and 2002.

Casting segment net sales decreased 20.5% to $17.4 million in 2003 from $21.8 million in 2002 as a result of lower unit volume. Shipments of titanium golf club heads to Karsten Manufacturing Corporation decreased $7.4 million in 2003 compared to 2002. There are no future shipments expected to Karsten Manufacturing Corporation. The Company continues to pursue other casting business opportunities.

Consolidated cost of products sold for 2003 was $113.2 million compared to $125.4 million in 2002, representing a decrease of 9.7%. This decrease of $12.2 million was primarily attributable to decreased sales in both the firearms and investment castings segments and decreased product liability expenses, partially offset by a charge related to certain obsolete firearms inventory in 2003.

Gross profit as a percentage of net sales increased to 23.5% in 2003 from 22.4% in 2002. This improvement is due to improved margins in the castings segment compared to 2002 and decreased product liability costs, partially offset by decreased sales in both segments, increased workers' compensation expenses due to increased costs per claim, and an unfavorable adjustment in the firearms segment for a charge related to certain obsolete firearms inventory in 2003.

Selling, general and administrative expenses increased 1.7% to $21.0 million in 2003 from $20.7 million in 2002 due primarily to royalties paid to the William B. Ruger Endowment of the NRA Foundation related to shipments of the MK4-NRA commemorative pistol, as well as increased national advertising expense.

In 2002, the Company recognized asset impairment charges of $3.3 million related to certain assets in the investment castings segment.

Total other income increased from $1.9 million in 2002 to $6.9 million in 2003 primarily due to the pretax gain of $5.9 million from the sale of certain non-manufacturing real estate in Arizona, known as the Single Six Ranch. The Company's earnings on short-term investments declined in 2003 as a result of declining interest rates.

The effective income tax rate of 40.1% remained consistent in 2003 and 2002.

As a result of the foregoing factors, consolidated net income in 2003 increased to $12.4 million from $8.5 million in 2002, representing an increase of $3.9 million or 46.0%.

Results of Operations

Year ended December 31, 2002, as compared to year ended December 31, 2001

Consolidated net sales of $161.6 million were achieved by the Company in 2002 representing a decrease of $12.7 million or 7.3% from net sales of $174.3 million in 2001.

Firearms segment net sales decreased by $7.8 million or 5.3% to $139.8 million in 2002 from $147.6 million in the prior year. Firearms unit shipments for 2002 decreased 9.1% from 2001, as shipments for all product families declined significantly in the latter half of the year. In 2002, the Company instituted a sales incentive program for its distributors which allowed them to earn rebates of up to 1.5% if certain annual overall sales targets were achieved. This program replaced a similar sales incentive program in 2001 which allowed rebates of up to 5%. From August 1, 2002 to November 30, 2002, a consumer-driven sales incentive program for certain hunting rifles and revolvers was in effect. The greater discounts offered in 2001 resulted in the further decline in unit shipments versus sales.

Casting segment net sales decreased 18.3% to $21.8 million in 2002 from $26.7 million in 2001 as a result of lower unit volume. Shipments of titanium golf club heads to Karsten Manufacturing Corporation decreased $3.8 million in 2002 compared to 2001. The downturn in castings sales was due to an apparent weakened demand for both steel and titanium castings.

Consolidated cost of products sold for 2002 was $125.4 million compared to $134.4 million in 2001, representing a decrease of 6.7%. This decrease of $9.0 million was primarily attributable to decreased sales in both the firearms and investment castings segments, partially offset by increased product liability expenses.

Gross profit as a percentage of net sales decreased to 22.4% in 2002 from 22.9% in 2001. This erosion was due to decreased sales in 2002, partially offset by the reversal of an overaccrual related to a pistol rebate program that ended December 31, 2001.

Selling, general and administrative expenses decreased 1.0% to $20.7 million in 2002 from $20.9 million in 2001.

In 2002, the Company recognized asset impairment charges of $3.3 million related to certain assets in the investment castings segment.

Other income-net decreased from $3.2 million in 2001 to $1.9 million in 2002 primarily reflecting decreased earnings on short-term investments as a result of declining interest rates and reduced principal.

The effective income tax rate of 40.1% in 2002 increased slightly from the income tax rate of 39.2% in 2001.

As a result of the foregoing factors, consolidated net income in 2002 decreased to $8.5 million from $13.5 million in 2001, representing a decrease of $5.0 million or 37.3%.

Financial Condition

Operations

At December 31, 2003, the Company had cash, cash equivalents and short-term investments of $53.4 million, working capital of $102.7 million and a current ratio of 5.7 to 1.

Cash provided by operating activities was $14.7 million, $9.9 million, and $23.0 million in 2003, 2002, and 2001, respectively. The increase in cash provided in 2003 is principally the result of a reduction in prepaid and other assets in 2003 of $1.7 million compared with an increase in prepaid and other assets of $6.5 million in 2002, and a decrease in inventories of $3.1 million in 2003 compared with an increase of $1.8 million in 2002. The fluctuations in prepaid and other assets is attributable to the utilization in 2003 of a prepaid income tax asset at December 31, 2002, and the decrease in inventories in 2003 resulted from a planned reduction in firearms production levels.

The Company follows a common industry practice of offering a "dating plan" to its firearms customers on selected products, which allows 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 are offered for early payment. The dating plan provides a revolving payment plan under which payments for all shipments made during the period December through February must be made by April 30. Shipments made in subsequent months must be paid for within a maximum of 120 days. Dating plan receivable balances were $8.8 million and $9.0 million at December 31, 2003 and 2002, respectively. The Company has reserved the right to discontinue the dating plan at any time and has been able to finance this plan from internally generated funds provided by operating activities.

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, the Company's results could be adversely affected.

In conjunction with the sale of its Uni-Cast division in June 2000, the Company extended credit to the purchaser in the form of a note and a line of credit, both of which are collateralized by certain of the assets of Uni-Cast. In July 2002, the Company established an additional collateralized line of credit for the purchaser and, as of December 31, 2003, the total amount due from the purchaser was $2.0 million. The Company purchases aluminum castings used in the manufacture of certain models of pistols exclusively from Uni-Cast.

Investing and Financing

Capital expenditures during the past three years averaged $3.6 million per year. In 2004, the Company expects to spend approximately $8 million on capital expenditures to continue to upgrade and modernize equipment at each of its manufacturing facilities. 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.

In 2003, the Company paid dividends of $21.5 million. This amount reflects the regular quarterly dividend of $.20 per share paid in March, June, September, and December 2003. On January 22, 2004, the Company declared a regular quarterly dividend of $.20 per share payable on March 15, 2004. Future dividends depend 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 cash flow and 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 in 2004.

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." 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, on October 21, 2003 the New York Court of Appeals 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 the Hamilton decision 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, fifteen have been dismissed with no appeal pending. Twelve of those cases are 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; and New York State – Court of Appeals denied plaintiff's petition for leave to appeal the Intermediate Appellate Court's dismissal, no further appeal.

Camden City was dismissed on July 7, 2003 due to the bankruptcy of one of the parties. No further action has been taken by the city. On November 13, 2003, plaintiffs in the Jersey City case voluntarily dismissed the matter. It is unknown whether plaintiffs will re-file. On December 5, 2003, plaintiffs in the Newark case also voluntarily dismissed the matter. It is unknown whether plaintiffs will re-file.

Washington, D.C. is on appeal from its complete dismissal. On March 7, 2003, the consolidated California Cities case involving nine cities and three counties was dismissed as to all manufacturer defendants, and plaintiffs appealed on June 9, 2003. The Chicago dismissal was reversed in part on appeal, and an appeal to the Illinois Supreme Court is pending. On October 20, 2003, the St. Louis Circuit Court dismissed the St. Louis case, and the city has filed a notice of appeal.

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. Cleveland and New York City are open cases and could proceed to trial. 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 defendants are pending.

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 has over 54 co-sponsors in the Senate. It may be considered by the Senate during 2004.

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 its business.

The valuation of the future defined benefit pension obligations at December 31, 2003 indicated that these plans were underfunded. While this estimation has no bearing on the actual funding of the pension plans, it results in the recognition of a cumulative other comprehensive loss of $8.6 million at December 31, 2003 from $8.1 million at December 31, 2002.

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. 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.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States, requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses recognized and incurred during the reporting period then ended. We base our estimates on prior experience, facts and circumstances and other assumptions, including those reviewed with actuarial consultants and independent counsel, when applicable, that we believe to be reasonable. However, actual results may differ from these estimates.

We believe the determination of our product liability accrual is a critical accounting policy. The Company's management reviews every lawsuit and claim at the outset and is in contact with independent and corporate counsel on an ongoing basis. The provision for product liability claims is based upon many factors, which vary for each case. These factors include the type of claim, nature and extent of injuries, historical settlement ranges, jurisdiction where filed, and advice of counsel. An accrual is established for each lawsuit and claim, when appropriate, based on the nature of each such lawsuit or claim.

Amounts are charged to product liability expense in the period in which the Company becomes aware that a claim or, in some instances a threat of claim, has been made when potential losses or costs of defense can be reasonably estimated. Such amounts are determined based on the Company's experience in defending similar claims. Occasionally, charges are made for claims made in prior periods because the cumulative actual costs incurred for that claim, or reasonably expected to be incurred in the future, exceed amounts already provided. Likewise credits may be taken if cumulative actual costs incurred for that claim, or reasonably expected to be incurred in the future, are less than amounts previously provided.

While it is not possible to forecast the outcome of litigation or the timing of costs, in the opinion of management, after consultation with independent 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.

Recent Accounting Pronouncements

The Company is not aware of any recent accounting pronouncements that are expected to have a material effect on its financial position or financial results.

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, a state attorney 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.

Other New Initiatives in 2004

The Ruger Studio of Art and Decoration — Custom Engraved Ruger Firearms

At the Safari Club International Show in January, we proudly introduced an entirely new undertaking for Ruger. Our on-staff engravers can now embellish any new Ruger firearm with unlimited degrees and styles of custom engraving and gold inlay. The pride of ownership of Ruger firearms has never been exhibited to greater effect than will be felt by those fortunate enough to own a factory custom-engraved Ruger shotgun, rifle, pistol, or revolver.

Enhanced Ruger Website

Acclaimed as the most comprehensive firearms manufacturer's website, we have continually updated the user's viewing experience with a wealth of easy-to-use, visually attractive information about the Company, its products, castings, accessories, logowear, safety information, and links to other sites of interest to those who share our affinity for the shooting sports.

New Ruger Gun Safe

A newly restyled Ruger gun safe is now available to help our responsible customers meet their serious obligation to store firearms safely. It holds up to 12 long guns and is fire-resistant up to 1250° for 45 minutes. This is a California-approved safety device which meets the requirements of California Penal Code Section 12088 and regulations issued thereunder.

www.ruger.com

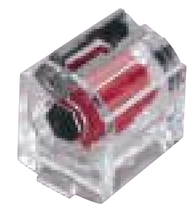
New Ruger 10/22® Products for 2004

The Ruger 40th Anniversary 10/22 Carbine and Special Clear Magazine

First introduced in 1964, the Ruger 10/22 has been the most popular 22 autoloading carbine of the ensuing 40 years. To commemorate this milestone, we are offering a special limited edition 40th Anniversary 10/22 for 2004 with a handsome nickel-silver medallion inlaid into its traditional carbine-style stock.

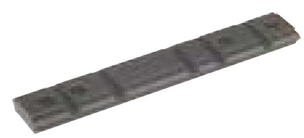
2004 is also the 40th Anniversary of the Ruger rotary magazine, considered the most reliable feeding mechanism ever invented for rimmed cartridges. Originally introduced in 22 LR with the 10/22 Carbine, the Ruger rotary magazine has been subsequently redesigned to handle a wide variety of cartridges, from the smallbore 17 HMR up to the mighty 44 Magnum.

The Ruger 40th Anniversary 10/22 Carbine comes with a special *clear* rotary magazine and a red internal magazine rotor, so that shooters can understand and appreciate the engineering excellence that goes into every Ruger rotary magazine rifle—the original 10/22, the 10/17, and the 10/22 Magnum; the 77/22, the 77/22 Magnum, and the 77/44 bolt actions; the 96/22 and 96/44 lever actions; and the Deerfield autoloader.



Clear Magazine

The New Ruger 10/22 Rifle



Scope Base Adapter

The first major restyling of the Ruger 10/22 in 40 years, this new rifle sports a handsome 20" barrel with a new ramped Patridge-style front and square notch rear sights. It also features a trim rifle-style stock with a gracefully tapered forend and rifle-style flat buttpad. Another exclusive feature is its new scope base, which accomodates both conventional “tip-off” scope mounts or “Weaver-style” rings, to accept a wide variety of today’s optical sights.

The New Ruger 10/17 Rifle

17 HMR

One of the most asked-for rifles since the high velocity 17 HMR cartridge was announced in 2002, the new Ruger 10/17 combines the latest in 10/22 restyling along with the legendary reliability of its 22 caliber predecessors. It has a steel receiver with integral bases for Ruger scope rings to exploit the full potential of this flat shooting cartridge, a 9-shot rotary magazine for quick repeat shots when needed, and a luxurious centerfire rifle-style banded front sight gracing its 20" tapered blued steel barrel.

Other New Ruger Products for 2004

The New 204 Ruger Cartridges and Rifles

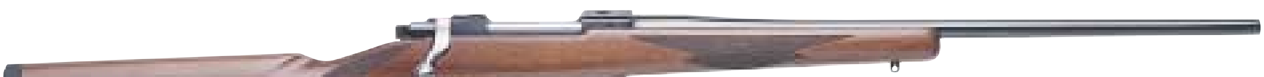
Number 1 Single Shot

M77MKII

In another collaborative effort with the Hornady Manufacturing Company following on the heels of the powerful 480 Ruger, we are proud to introduce the highest velocity centerfire cartridge in commercial use—the 204 Ruger. From a standard-diameter cartridge case, this modern wonder propels a 32 grain 20 caliber bullet at an astounding 4,225 feet per second! For 2004, we are making our initial offerings of this cartridge in our Number 1 single shot and M77MKII bolt action rifles, with other models to follow.

204 Ruger

New Ruger Short Action Magnum Rifles



New for 2004, Ruger is proud to announce its short action rifles chambered for the 270 WSM, 7mm WSM, 300 WSM, and 350 Remington Magnum cartridges. These accurate and proven rifles now provide magnum power in smaller, lighter versions which are sure to please those who hunt in demanding conditions.

Short Magnum

Ruger New Model Single Six Hunters

A perfect companion to our extremely successful New Model Super Blackhawk Hunter and Bisley Hunter, these new smaller-framed revolvers feature precision details available only from Ruger. All stainless steel construction, a solid integral barrel rib cut to accomodate patented Ruger scope rings, handsome black-and-grey laminated wood grips, and high visibility sights complement the small game hunter's need for a long-range revolver. Now available in 17 HMR or in 22 LR/22 Magnum versions.

(Scope not included) 17 HMR 22 Magnum/22 LR

- Other new products will be introduced throughout the year -

Consolidated Balance Sheets

(Dollars in thousands, except per share data)

December 31,	**2003**	2002
Assets		
Current Assets		
Cash and cash equivalents	**$ 3,446**	$ 3,598
Short-term investments	**50,026**	49,776
Trade receivables, less allowances for doubtful accounts ($441 and $449) and discounts ($772 and $783)	**13,284**	14,026
Inventories:		
Finished products	**15,243**	16,999
Materials and products in process	**33,286**	34,629
	48,529	51,628
Deferred income taxes	**7,284**	6,985
Prepaid expenses and other current assets	**1,985**	4,536
Total Current Assets	**124,554**	130,549
Property, Plant, and Equipment		
Land and improvements	**1,801**	1,797
Buildings and improvements	**32,094**	30,824
Machinery and equipment	**94,787**	94,841
Dies and tools	**27,007**	26,270
	155,689	153,732
Allowances for depreciation	**(128,525)**	(124,538)
	27,164	29,194
Deferred income taxes	**8,248**	9,594
Other assets	**10,047**	14,621
Total Assets	**$170,013**	$183,958

See accompanying notes to consolidated financial statements.

December 31,	**2003**	2002
Liabilities and Stockholders' Equity		
Current Liabilities		
Trade accounts payable and accrued expenses	**$ 4,386**	$ 5,080
Product liability	**4,000**	4,000
Employee compensation and benefits	**6,177**	7,324
Workers' compensation	**6,057**	4,765
Dividends payable	**–**	5,382
Income taxes	**1,219**	882
Total Current Liabilities	**21,839**	27,433
Accrued pension liability	**4,729**	6,423
Deferred income taxes	**7,140**	5,886
Product liability	**2,665**	6,233
Contingent liabilities (Note 5)	**–**	–
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 shares – 26,910,700	**26,911**	26,911
Additional paid-in capital	**2,508**	2,508
Retained earnings	**112,866**	116,649
Accumulated other comprehensive income (loss)	**(8,645)**	(8,085)
Total Stockholders' Equity	**133,640**	137,983
Total Liabilities and Stockholders' Equity	**$170,013**	$183,958

Consolidated Statements of Income

(In thousands, except per share data)

Year ended December 31,	**2003**	2002	2001
Net firearms sales	**$130,558**	$139,762	$147,622
Net castings sales	**17,359**	21,825	26,708
Total net sales	**147,917**	161,587	174,330
Cost of products sold	**113,189**	125,376	134,449
Gross profit	**34,728**	36,211	39,881
Expenses:			
Selling	**15,189**	14,777	14,473
General and administrative	**5,827**	5,885	6,392
Impairment of long-lived assets	**–**	3,311	–
	21,016	23,973	20,865
Operating profit	**13,712**	12,238	19,016
Gain on sale of real estate	**5,922**	–	–
Other income-net	**1,007**	1,897	3,183
Total other income	**6,929**	1,897	3,183
Income before income taxes	**20,641**	14,135	22,199
Income taxes	**8,277**	5,668	8,702
Net Income	**$ 12,364**	$ 8,467	$ 13,497
Basic and Diluted Earnings Per Share	**$ 0.46**	$ 0.31	$ 0.50
Cash Dividends Per Share	**$ 0.80**	$ 0.80	$ 0.80

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance at December 31, 2000	$26,911	$2,434	$143,125	$ (112)	$172,358
Net income			13,497		13,497
Additional minimum pension liability, net of deferred taxes of $29				(44)	(44)
Comprehensive income					13,453
Stock options compensation		58			58
Cash dividends declared and paid			(21,529)		(21,529)
Balance at December 31, 2001	26,911	2,492	135,093	(156)	164,340
Net income			8,467		8,467
Additional minimum pension liability, net of deferred taxes of $5,287				(7,929)	(7,929)
Comprehensive income					538
Stock options compensation		16			16
Cash dividends declared and paid			(21,529)		(21,529)
Unpaid dividends declared			(5,382)		(5,382)
Balance at December 31, 2002	26,911	2,508	116,649	(8,085)	137,983
Net income			**12,364**		**12,364**
Additional minimum pension liability, net of deferred taxes of $373				**(560)**	**(560)**
Comprehensive income					**11,804**
Cash dividends declared and paid			**(16,147)**		**(16,147)**
Balance at December 31, 2003	**$26,911**	**$2,508**	**$112,866**	**$(8,645)**	**$133,640**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)

Year ended December 31,	**2003**	2002	2001
Operating Activities			
Net income	**$ 12,364**	$ 8,467	$ 13,497
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	**5,923**	7,490	8,151
Impairment of long-lived assets	**–**	3,311	–
Gain on sale of real estate	**(5,922)**	(209)	–
Deferred income taxes	**2,674**	1,533	1,302
Changes in operating assets and liabilities:			
Trade receivables	**742**	1,095	(767)
Inventories	**3,099**	(1,835)	1,571
Trade accounts payable and accrued expenses	**(549)**	(1,813)	1,038
Product liability	**(3,568)**	(2,229)	(3,846)
Prepaid expenses, other assets, and other liabilities	**(386)**	(6,048)	2,843
Income taxes	**337**	178	(808)
Cash provided by operating activities	**14,714**	9,940	22,981
Investing Activities			
Property, plant, and equipment additions	**(3,996)**	(3,155)	(3,605)
Purchases of short-term investments	**(148,620)**	(145,392)	(165,183)
Proceeds from sales or maturities of short-term investments	**148,370**	159,574	167,101
Net proceeds from sale of real estate	**10,909**	322	–
Cash provided (used) by investing activities	**6,663**	11,349	(1,687)
Financing Activities			
Dividends paid	**(21,529)**	(21,529)	(21,529)
Cash used by financing activities	**(21,529)**	(21,529)	(21,529)
Decrease in cash and cash equivalents	**(152)**	(240)	(235)
Cash and cash equivalents at beginning of year	**3,598**	3,838	4,073
Cash and Cash Equivalents at End of Year	**$ 3,446**	$ 3,598	$ 3,838

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Organization

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'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 to 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 consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain prior year balances may have been reclassified to conform with current year presentation.

Revenue Recognition

Revenue is recognized, net of any estimated discounts, sales incentives, or rebates, upon the shipment of products.

Cash Equivalents

The Company considers interest-bearing deposits with financial institutions with remaining maturities of three months or less at the time of acquisition to be cash equivalents.

Short-term Investments

Short-term investments are recorded at cost plus accrued interest, which approximates market, and are principally United States Treasury instruments, all maturing within one year. The income from short-term investments is included in other income – net. The Company intends to hold these investments until maturity.

Inventories

Inventories are stated at the lower of cost, principally determined by the last-in, first-out (LIFO) method, or market. If inventories had been valued using the first-in, first-out method, inventory values would have been higher by approximately $49.4 million and $47.2 million at December 31, 2003 and 2002, respectively. During 2003, inventory quantities were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the current cost of purchases, the effect of which decreased costs of products sold by approximately $0.2 million.

Property, Plant, and Equipment

Property, plant, and equipment are stated on the basis of cost. Depreciation is computed by the straight-line and declining balance methods predominately over 15, 10, and 3 years for buildings, machinery and equipment, and tools and dies, respectively.

In October 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which requires the use of a specific accounting model to determine the valuation of long-lived assets. Long-lived assets are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable.

In performing this review, the carrying value of the assets is compared to the projected undiscounted cash flows to be generated from the assets. If the sum of the undiscounted expected future cash flows is less than the carrying value of the assets, the assets are considered to be impaired. Impairment losses are measured as the amount by which the carrying value of the assets exceeds the fair value of the assets. When fair value estimates are not available, the Company estimates fair value using the estimated future cash flows discounted at a rate commensurate with the risks associated with the recovery of the assets. The Company adopted SFAS No. 144 on January 1, 2002.

Income Taxes

Income taxes are accounted for using the asset and liability method in accordance with SFAS No. 109. Under this method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of the Company's assets and liabilities.

Product Liability

The Company provides for product liability claims including estimated legal costs to be incurred defending such claims. The provision for product liability claims is charged to cost of products sold.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expenses for the years ended December 31, 2003, 2002, and 2001 were $2.3 million, $2.2 million, and $2.1 million, respectively.

Shipping Costs

Costs incurred related to the shipment of products are included in selling expense. Such costs totaled $1.7 million, $1.6 million, and $1.6 million in 2003, 2002, and 2001, respectively.

Stock Options

The Company accounts for employee stock options under APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has adopted the disclosure-only provisions of 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, 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):

	2003	2002	2001
Net Income			
As reported	**$12,364**	$8,467	$13,497
Add: Recognized stock-based employee compensation, net of tax	**–**	10	35
Deduct: Employee compensation expense determined under fair value method, net tax	**(387)**	(387)	(366)
Pro forma	**$11,977**	$8,090	$13,166
Earnings per share (basic and diluted):			
As reported	**$ 0.46**	$ 0.31	$ 0.50
Pro forma	**$ 0.44**	$ 0.30	$ 0.49

Earnings Per Share

Basic earnings per share is based upon the weighted-average number of shares of Common Stock outstanding during the year, which was 26,910,700 in 2003, 2002, and 2001. Diluted earnings per share reflect the impact of options outstanding using the treasury stock method. This results in diluted weighted-average shares outstanding of 26,919,400 in 2003, 27,002,200 in 2002, and 26,922,800 in 2001.

Recent Accounting Pronouncements

The Company is not aware of any recent accounting pronouncements that are expected to have a material effect on its financial position or financial results.

2. Income Taxes

The Federal and state income tax provision consisted of the following (in thousands):

Year ended December 31,	**2003**		2002		2001	
	Current	**Deferred**	Current	Deferred	Current	Deferred
Federal	**$4,286**	**$2,286**	$3,190	$1,303	$6,009	$1,072
State	**1,317**	**388**	945	230	1,391	230
	$5,603	**$2,674**	$4,135	$1,533	$7,400	$1,302

Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

December 31,	**2003**	2002
Deferred tax assets:		
Product liability	**$ 2,673**	$ 4,103
Employee compensation and benefits	**4,025**	3,553
Allowances for doubtful accounts and discounts	**677**	887
Inventories	**1,248**	1,109
Additional minimum pension liability	**5,764**	5,391
Other	**1,145**	1,536
Total deferred tax assets	**15,532**	16,579
Deferred tax liabilities:		
Depreciation	**1,416**	1,428
Pension plans	**5,724**	4,458
Total deferred tax liabilities	**7,140**	5,886
Net deferred tax assets	**$ 8,392**	$10,693

In accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pension Plan Costs," changes in deferred tax assets relating to the additional minimum pension liability are not charged to expense and are therefore not included in the deferred tax provision, instead they are charged to other comprehensive income.

The effective income tax rate varied from the statutory Federal income tax rate as follows:

Year ended December 31,	**2003**	2002	2001
Statutory Federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of Federal tax benefit	**5.4**	5.4	4.7
Other items	**(0.3)**	(0.3)	(0.5)
Effective income tax rate	**40.1%**	40.1%	39.2%

The Company made income tax payments of approximately $2.8 million, $6.4 million, and $4.7 million during 2003, 2002, and 2001, respectively. The Company expects to realize its deferred tax assets through tax deductions against future taxable income or carry back against taxes previously paid.

3. Pension Plans

The Company and its subsidiaries sponsor two defined benefit pension plans which cover substantially all employees. A third defined benefit pension plan is non-qualified and covers certain executive officers of the Company.

The cost of these defined benefit plans and the balances of plan assets and obligations are shown below (in thousands).

Change in Benefit Obligation	**2003**	2002
Benefit obligation at January 1	**$47,788**	$41,370
Service cost	**1,507**	1,414
Interest cost	**3,011**	2,879
Actuarial loss	**3,033**	3,807
Benefits paid	**(1,741)**	(1,682)
Benefit obligation at December 31	**53,598**	47,788
Change in Plan Assets		
Fair value of plan assets at January 1	**38,806**	36,723
Actual return on plan assets	**4,549**	(721)
Employer contributions	**4,826**	4,486
Benefits paid	**(1,741)**	(1,682)
Fair value of plan assets at December 31	**46,440**	38,806
Funded status	**(7,158)**	(8,982)
Unrecognized net actuarial loss	**16,679**	15,734
Unrecognized prior service cost	**2,063**	2,629
Unrecognized transition obligation	**22**	33
Net amount recognized	**$11,606**	$ 9,414

Weighted Average Assumptions for the year ended December 31,	**2003**	2002
Discount rate	**6.5%**	7.0%
Expected long-term return on plan assets	**8.0%**	8.0%
Rate of compensation increases	**5.0%**	5.0%

Components of Net Periodic Pension Cost		
Service cost	**$ 1,507**	$ 1,414
Interest cost	**3,011**	2,879
Expected return on assets	**(3,231)**	(3,344)
Amortization of unrecognized transition asset	**11**	(121)
Recognized gains	**770**	329
Prior service cost recognized	**566**	600
Net periodic pension cost	**$ 2,634**	$ 1,757

Amounts Recognized on the Balance Sheet	**2003**	2002
Accrued benefit liability	**$ (4,729)**	$ (6,423)
Intangible asset	**1,926**	2,361
Accumulated other comprehensive income	**8,645**	8,085
Deferred tax asset	**5,764**	5,391
	$11,606	$ 9,414

Weighted Average Assumptions as of December 31,		
Discount rate	**6.00%**	6.50%
Rate of compensation increases	**5.00%**	5.00%

Information for Pension Plans with an Accumulated Benefit Obligation in excess of plan assets (in millions)	**2003**	2002
Projected benefit obligation	**$53,598**	$47,788
Accumulated benefit obligation	**51,169**	45,229
Fair value of plan assets	**$46,440**	$38,806

Pension Weighted Average Asset Allocations as of December 31,		
Debt securities	**70%**	68%
Equity securities	**27%**	28%
Money market funds	**3%**	4%
	100%	100%

The accumulated benefit obligation for all the defined benefit pension plans was $51.2 million and $45.2 million as of December 31, 2003 and 2002, respectively. Intangible assets are included in other assets in the consolidated balance sheet.

The measurement dates of the assets and liabilities of all plans presented for 2003 and 2002 were December 31, 2003 and December 31, 2002, respectively.

The Company expects to contribute $2.5 million in the form of cash payments to its pension plans in 2004. None of this contribution is required by funding regulations or laws. The investment objective is to produce income and long-term appreciation through a target asset allocation of 75% debt securities and other fixed income investments including cash and short-term instruments, and 25% of equity investments, to provide for the current and future benefit payments of the plans. The pension plans are not invested in the common stock of the Company.

The Company determines the expected return on plan assets based on the target asset allocations. In addition, the historical returns of the plan assets are also considered in arriving at the expected rate of return.

The Company also sponsors two defined contribution plans which cover substantially all of its hourly and salaried employees and a non-qualified defined contribution plan which covers certain of its salaried employees. Expenses related to the defined contribution plans were $1.5 million, $1.6 million, and $1.5 million in 2003, 2002, and 2001, respectively.

In accordance with SFAS No. 87, “Employers’ Accounting for Pension Costs,” the Company recorded an additional minimum pension liability which decreased comprehensive income by $0.6 million, $7.9 million, and $44,000 in 2003, 2002, and 2001, respectively.

4. Stock Incentive and Bonus Plans

In 1998, the Company adopted, and in May 1999 the shareholders approved, the 1998 Stock Incentive Plan (the “1998 Plan”) under which employees may be granted options to purchase shares of the Company’s Common Stock and stock appreciation rights. The Company has reserved 2,000,000 shares for issuance under the 1998 Plan. These options have an exercise price equal to the fair market value of the shares of the Company at the date of grant, become vested ratably over five years, and expire ten years from the date of grant. To date, no stock appreciation rights have been granted.

On December 18, 2000 the Company adopted, and in May 2001 the shareholders approved, the 2001 Stock Option Plan for Non-Employee Directors (the “2001 Plan”) under which non-employee directors are granted options to purchase shares of the Company’s authorized but unissued stock. The Company has reserved 200,000 shares for issuance under the 2001 Plan. Options granted under the 2001 Plan have an exercise price equal to the fair market value of the shares of the Company at the date of grant and expire ten years from the date of grant. Twenty-five percent of the options vest immediately and the remaining options vest ratably over three years.

The following table summarizes the activity of the Plans:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2000	1,370,000	$11.94
Granted	220,000	9.99
Exercised	–	–
Canceled	(100,000)	11.94
Outstanding at December 31, 2001	1,490,000	11.65
Granted	–	–
Exercised	–	–
Canceled	(160,000)	11.94
Outstanding at December 31, 2002	1,330,000	11.62
Granted	–	–
Exercised	–	–
Canceled	**(235,000)**	**11.94**
Outstanding at December 31, 2003	**1,095,000**	**$11.55**

There were 1,023,000 exercisable options at December 31, 2003, with a weighted average exercise price of $11.65 and an average contractual life remaining of 5.3 years. At December 31, 2003, an aggregate of 1,105,000 shares remain available for grant under the Plans.

The weighted average fair value of options granted under the Plans was estimated at $1.86 on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions in 2001: 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.

The Company's Stock Bonus Plan, as amended, covers its key employees excluding members of the Ruger family. Pursuant to the Plan, awards are made of Common Stock and a cash bonus approximating the estimated income tax on the awards. At December 31, 2003, 502,000 shares of Common Stock were reserved for future awards.

5. Contingent Liabilities

As of December 31, 2003, the Company is a defendant in approximately 21 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, associations, individuals and one state Attorney General 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, counties, and the 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.

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 the Company's 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 the Company's 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 $436 million and $837 million at December 31, 2003 and 2002, respectively, are 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.

While it is not possible to forecast the outcome of litigation or the timing of costs, in the opinion of management, after consultation with independent 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.

6. Asset Impairment Charges

In 2002 the Company recognized asset impairment charges of $3.3 million related to certain assets in the investment castings segment. As a result of the significant reduction in sales and substantial losses incurred by this segment, in the fourth quarter of 2002 the Company evaluated the recoverability of certain assets and wrote off $1.0 million of a building and $2.3 million of machinery and equipment. The Company was required to reduce the carrying value of the assets to fair value and recognized asset impairment charges, because the carrying value of the affected assets exceeded the projected future undiscounted cash flows. The fair value of the building was based on available market data and the fair value of the machinery and equipment was based on estimated discounted cash flows from the assets.

A similar evaluation of the recoverability of other certain assets in the investment castings segment was performed in the fourth quarter of 2003. This evaluation did not result in the recognition of an asset impairment charge.

7. Related Party Transactions

In 2003, 2002, and 2001, the Company paid Newport Mills, of which William B. Ruger, Jr., Chairman and Chief Executive Officer of the Company, is the sole proprietor, $243,000, $222,750, and $263,250, respectively, for storage rental and office space. On July 17, 2003, the Company sold two automobiles to Mr. Ruger, Jr. for $60,000.

8. Operating Segment Information

The Company has two reportable operating segments: firearms and investment castings. The firearms segment manufactures and sells rifles, pistols, revolvers, and shotguns principally to a select number of licensed 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.

Corporate segment income relates to interest income on short-term investments, the sale of non-operating assets, and other non-operating activities. Corporate segment assets consist of cash and short-term investments and other non-operating assets.

The Company evaluates performance and allocates resources, in part, based on profit or loss before taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies (see Note 1).

Intersegment sales are recorded at the Company's cost plus a fixed profit percentage. The $3.3 million asset impairment charges recorded in 2002 are included in the investment castings segment.

The Company's assets are located entirely in the United States and export sales are insignificant.

Revenues from one customer in the firearms segment totaled $24.8 million, $24.0 million and $30.4 million in 2003, 2002, and 2001, respectively. Revenues from an additional customer in the firearms segment totaled $15.5 million in 2003. Revenues from a third customer in the firearms segment totaled $20.1 million in 2001.

Notes to Consolidated Financial Statements

(Continued)

Year ended December 31, (in thousands)	**2003**	2002	2001
Net Sales			
Firearms	**$ 130,558**	$139,762	$147,622
Castings			
Unaffiliated	**17,359**	21,825	26,708
Intersegment	**15,653**	17,679	27,282
	33,012	39,504	53,990
Eliminations	**(15,653)**	(17,679)	(27,282)
	$ 147,917	$161,587	$174,330
Income (Loss) Before Income Taxes			
Firearms	**$ 18,392**	$ 23,673	$ 22,800
Castings	**(4,439)**	(11,230)	(3,473)
Corporate	**6,688**	1,692	2,872
	$ 20,641	$ 14,135	$ 22,199
Identifiable Assets			
Firearms	**$ 72,600**	$ 79,301	$ 78,774
Castings	**17,939**	19,394	27,351
Corporate	**79,474**	85,263	98,588
	$ 170,013	$183,958	$204,713
Depreciation			
Firearms	**$ 3,301**	$ 3,448	$ 3,395
Castings	**2,622**	4,042	4,756
	$ 5,923	$ 7,490	$ 8,151
Capital Expenditures			
Firearms	**$ 3,215**	$ 2,767	$ 2,073
Castings	**781**	388	1,532
	$ 3,996	$ 3,155	$ 3,605

9. Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 2003 (in thousands, except per share data):

	Three Months Ended			
	3/31/03	**6/30/03**	**9/30/03**	**12/31/03**
Net sales	**$41,132**	**$31,801**	**$36,820**	**$38,164**
Gross profit	**12,437**	**6,507**	**5,718**	**10,066**
Net income	**4,527**	**1,035**	**3,852**	**2,950**
Basic and diluted earnings per share	**$ 0.17**	**$ 0.04**	**$ 0.14**	**$ 0.11**

	Three Months Ended			
	3/31/02	6/30/02	9/30/02	12/31/02
Net sales	$48,440	$39,784	$38,040	$35,323
Gross profit	12,280	9,945	6,925	7,061
Net income (loss)	4,532	2,905	1,360	(330)
Basic and diluted earnings (loss) per share	$ 0.17	$ 0.11	$ 0.05	$ (0.02)

Report of Independent Auditors

KPMG

Stamford Square
3001 Summer Street
Stamford, CT 06905

INDEPENDENT AUDITORS' REPORT

Stockholders and Board of Directors
Sturm, Ruger & Company, Inc:

We have audited the accompanying consolidated balance sheets of Sturm, Ruger & Company, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sturm, Ruger & Company, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 6, 2004

Stockholder Information

Common Stock Data

The Company's Common Stock is traded on the New York Stock Exchange under the symbol "RGR." At February 1, 2004, the Company had 2,033 stockholders of record.

The following table sets forth, for the periods indicated, the high and low sales prices for the Common Stock as reported on the New York Stock Exchange and dividends paid on Common Stock.

	High	Low	Dividends Per Share
2003:			
First Quarter	**$11.20**	**$ 8.76**	**$ .20**
Second Quarter	**10.29**	**8.24**	**.20**
Third Quarter	**11.97**	**10.06**	**.20**
Fourth Quarter	**11.75**	**10.40**	**.20**
2002:			
First Quarter	$13.40	$11.40	$ .20
Second Quarter	14.80	12.15	.20
Third Quarter	14.24	10.75	.20
Fourth Quarter	12.90	8.96	.20

Corporate Governance Information

Our Corporate Code of Business Conduct and Ethics, Corporate Board Governance Guidelines, and charters for our Nominating and Corporate Governance, Audit, and Compensation Committees are posted on our Stockholder Relations section of our corporate website at **www.ruger.com**. Simply click on "Corporate Governance Documents." Written copies may also be obtained by telephoning our Corporate Secretary's office at 203-259-7843, or by written request to the Corporate Headquarters at One Lacey Place, Southport, CT 06890.

Shareholders, employees, or other persons wishing to anonymously report to the Board of Directors' Audit Committee any suspected accounting irregularities, auditing fraud, violations of our corporate Compliance Program, or violations of the Company's Code of Business Conduct and Ethics, may do so by telephoning 1-800-826-6762. This service is independently monitored 24 hours a day, 7 days a week.

Annual Meeting
The Annual Meeting of Stockholders will be held on May 4, 2004 at the Lake Sunapee Country Club, New London, New Hampshire, at 10:30am.

Principal Banks
Fleet Bank, Southport, Connecticut
Lake Sunapee Savings Bank, Newport, New Hampshire
Sugar River Savings Bank, Newport, New Hampshire
Bank One, Arizona, NA, Prescott, Arizona

Independent Auditors
KPMG LLP, Stamford, Connecticut

Transfer Agent
Computershare Investor Services, L.L.C.
Attention: Shareholder Communications
2 North LaSalle Street
P.O. Box A3504
Chicago, IL 60690-5190
www.computershare.com

Corporate Address
To correspond with the Company or to request a copy of the Annual Report on Form 10-K for 2003 free of charge, please visit our website *www.ruger.com* or write to:

Corporate Secretary
Sturm, Ruger & Company, Inc.
One Lacey Place
Southport, Connecticut 06890
Telephone: 203-259-7843
Fax: 203-256-3367

Facilities
All Ruger firearms and investment castings are proudly designed and manufactured by American workers at Ruger facilities in Newport, New Hampshire and Prescott, Arizona. Corporate Headquarters is located in Southport, Connecticut U.S.A.

Directors

William B. Ruger, Jr.
Chairman

Stephen L. Sanetti
Vice Chairman

Richard T. Cunniff*
Vice Chairman
Ruane, Cunniff & Co., Inc.**

Townsend Hornor*†
Corporate Director

Paul X. Kelley*†
Partner of J.F. Lehman & Company**

John M. Kingsley, Jr.
Corporate Director

James E. Service†**
Consultant
Director

Officers

William B. Ruger, Jr.
Chief Executive Officer

Stephen L. Sanetti
President and
Chief Operating Officer

Thomas A. Dineen
Treasurer and
Chief Financial Officer

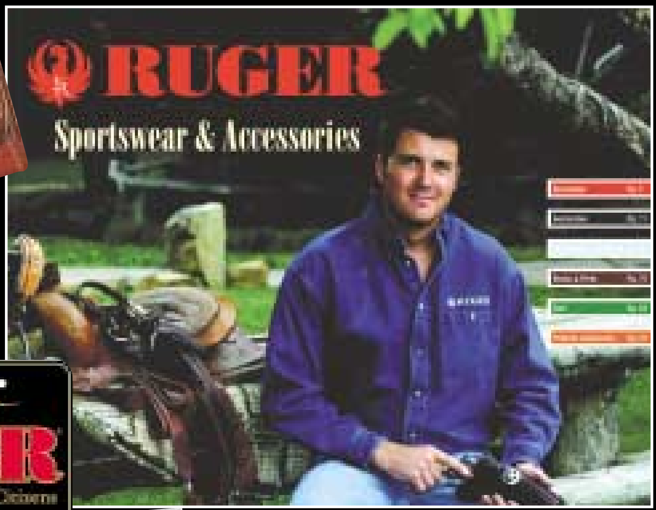
Leslie M. Gasper
Corporate Secretary

* Audit Committee Member
** Compensation Committee Member
† Nominating and Corporate Governance Committee Member

New Ruger Logowear for 2004

A wide variety of Ruger® branded logowear and accessories are now available. Please order your copy of our *FREE* new 36 page Sportswear & Accessories catalog at www.ruger.com

A few samples are shown on this page.



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Arms Makers for
Responsible Citizens

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