

Sturm, Ruger & Company, Inc.

Third Quarter Report 2001



TO OUR STOCKHOLDERS:

The management and employees of Sturm, Ruger & Company, Inc. wish to extend our heartfelt sympathy and support to those who have been affected by the recent acts of terrorism against the United States and its citizens. As our nation draws together at this crucial time, we are proud to share in the resolve and spirit being shown by our fellow Americans. Sturm, Ruger stands ready to help responsible citizens, law enforcement and our government defend the American way of life.

Our third quarter 2001 financial results are as follows: net sales for the quarter were \$41.1 million and net income was \$2.7 million, or \$0.10 per share. Comparable results for the third quarter 2000 were net sales of \$43.0 million and net income of \$4.6 million, or \$0.17 per share. For the nine months ended September 30, 2001, net sales were \$122.7 million and net income was \$8.6 million, or \$0.32 per share. For the corresponding period in 2000, net sales were \$151.9 million and net income was \$19.6 million, or \$0.73 per share.

After enduring a period of decreased overall demand in the firearms market, I am pleased to report that there was a 13% increase in firearms shipments in the third quarter 2001 caused by an improved demand for our rifles, revolvers and pistols. Firearms sales for each month of the third quarter 2001 exceeded sales for the comparable month in 2000. This improvement was noted for our "classic" models as well as our new offerings for 2001, including the Ruger Super Redhawk Revolver chambered for the new .480 Ruger cartridge and the Ruger Compact M77 Mark II hunting rifle. In addition, our recently-

instituted rebate program for the third and fourth quarters of 2001 enhanced sales of our autoloading pistol line. We continue to focus on plans for 2002, which include several new or improved firearms products.

The investment castings segment continued to suffer from sluggish economic conditions, as sales decreased by 39% for the third quarter 2001, and 26% for the nine months ended September 30, 2001. Returning to normal levels of profitability for this segment is one of management's primary initiatives. Toward that end, we have recently hired an experienced Director of Sales and Marketing for our Investment Castings Division.

The Company's success in the courtroom continues. The quarter ended September 30, 2001 was the fifth consecutive quarter in which the Company was not served with any additional municipal lawsuits, and both intentional and accidental misuses of firearms continue to decrease. During the quarter, the Supreme Court of the State of New York dismissed all claims against the Company and all other firearms manufacturers in the *New York State* lawsuit, and the U.S. Court of Appeals for the Second Circuit vacated the *Hamilton* decision, ordering the trial court to dismiss that case, from which Sturm, Ruger had previously been dismissed. On October 1, 2001, the Connecticut Supreme Court unanimously affirmed the earlier dismissal of the *Bridgeport* city lawsuit against Sturm, Ruger and other firearms manufacturers. On October 9, 2001, the U.S. Supreme Court declined to hear an appeal of the *New Orleans* case, which had been previously dismissed by the Louisiana Supreme Court, and on October 24, the Florida Supreme Court refused to hear Miami's appeal of the dismissal of the *Miami* case.

These latest decisions reaffirm our belief that there is no legal basis for cities to sue America's firearms manufacturers. We are, and always have been, proud to be one of the cities' strongest allies in the fight against criminals, foreign or domestic, who attack law-abiding citizens. At this critical moment in our nation's history, our cities must no longer misdirect their time and money to attack those companies which have honorably armed our police, military and law-abiding Americans in times of peril.

I am also pleased to report that at their October 23rd meeting, the Board of Directors declared a quarterly dividend of \$0.20 per share payable on December 15, 2001 to stockholders of record on December 1, 2001.

We thank our stockholders and customers for their continued support as we remain America's "Arms Makers for Responsible Citizens" in these times of vigilance for our nation.

William B. Ruger, Jr.
Chairman and Chief Executive Officer
November 9, 2001

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 and circumstances after the date such forward-looking statements are made or to reflect the occurrence of subsequent unanticipated events.

Arms Makers for Responsible Citizens



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Sturm, Ruger & Company, Inc.

Condensed Consolidated Statements of Income

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2001	%	2000	%	2001	%	2000	%
Firearms sales	\$35,609	86.6	\$33,985	79.0	\$100,989	82.3	\$122,674	80.8
Castings sales	5,529	13.4	9,049	21.0	21,681	17.7	29,184	19.2
Net sales.....	41,138	100.0	43,034	100.0	122,670	100.0	151,858	100.0
Cost of products sold	32,946	80.1	31,949	74.2	95,292	77.7	109,762	72.3
Gross profit	8,192	19.9	11,085	25.8	27,378	22.3	42,096	27.7
Expenses:								
Selling.....	3,076	7.5	3,544	8.2	10,781	8.8	10,466	6.9
General and administrative.....	1,326	3.2	1,360	3.2	5,001	4.1	4,309	2.8
	4,402	10.7	4,904	11.4	15,782	12.9	14,775	9.7
	3,790	9.2	6,181	14.4	11,596	9.4	27,321	18.0
Other income – net	624	1.5	1,382	3.2	2,586	2.1	4,833	3.2
Income before income taxes	4,414	10.7	7,563	17.6	14,182	11.5	32,154	21.2
Income taxes	1,730	4.2	2,964	6.9	5,559	4.5	12,604	8.3
Net income	\$2,684	6.5	\$4,599	10.7	\$8,623	7.0	\$19,550	12.9
Basic and diluted earnings per share.....	\$0.10		\$0.17		\$0.32		\$0.73	
Cash dividends per share	\$0.20		\$0.20		\$0.60		\$0.60	
Average shares outstanding	26,911		26,911		26,911		26,911	

Sturm, Ruger & Company, Inc.

Condensed Consolidated Balance Sheet

(unaudited)
(in thousands)

	September 30 2001
Assets	
Cash and cash equivalents	\$3,093
Short-term investments	51,891
Trade receivables, net	22,471
Inventories	58,707
Deferred income taxes	7,803
Prepaid expenses and other assets	2,244
Total current assets	146,209
Property, plant and equipment	152,952
Less depreciation	(112,531)
	40,421
Deferred income taxes	599
Other assets	18,062
Total	\$205,291
Liabilities and Stockholders' Equity	
Trade accounts payable and accrued expenses	\$8,535
Product safety modifications	436
Product liability	3,000
Employee compensation	10,757
Workers' compensation	4,631
Income taxes	2,155
Total current liabilities	29,514
Product liability accrual	10,894
Stockholders' equity	164,883
Total	\$205,291

Front Cover:

"Canyon of the Coppermine, N.M. 1855" by Henry Cheever Pratt 1803-1880