

Sturm, Ruger & Company, Inc.

First Quarter Report 2002



TO OUR STOCKHOLDERS:

The first quarter of 2002 offers encouragement for the Company as total firearms shipments improved 22% from the prior year. Our financial results for the first quarter 2002 were net sales of \$48.4 million, net income of \$4.5 million or \$0.17 per share. Comparable amounts for the first quarter of 2001 were net sales of \$43.9 million and net income of \$4.1 million or \$0.15 per share.

Shipments of certain models of our .22 caliber rifles and total pistol shipments increased from the prior year by over 90% and 50%, respectively. Our new product offerings introduced at the February, 2002 industry show have also been received with enthusiastically strong demand. At the National Rifle Association Annual Meetings held last month in Reno, Nevada, Ruger products captured two major product awards. The Ruger Gold Label Side-by-Side Shotgun was named Shooting Industry's "Best Shotgun Product," and the Ruger 77/17 Bolt Action Rifle chambered for the new high velocity .17 HMR cartridge was awarded "Best Rifle Product." In addition, our New Model Single Action "Hunter" revolver was nominated for "Handgun of the Year."

While castings sales decreased 29% from the first quarter of 2001, I am encouraged by their 14% increase in sales over that of the fourth quarter of 2001. There is still much work to be done to bring castings sales back up to parity with the firearms segment, which has experi-

enced robust growth for two consecutive quarters.

To regain the level of sales and profitability that we realized in both investment castings and firearms in 1999, we must continue to parlay our financial strength and technological expertise into innovative and profitable new products and business ventures. Sturm, Ruger has consistently demonstrated its resiliency during the past fifty-two years. I am confident that our management team and loyal employees have the talent and perseverance needed to carry out this mission.

The Company's string of victories in the courtroom continued during the first quarter. The highlight occurred on March 28, when the city of Boston's lawsuit was voluntarily and completely dismissed following a lengthy discovery phase. This marked the first time in this unfortunate chapter of jurisprudence that a city has voluntarily dropped its baseless claims against the Company and much of the firearms industry. It is important to note that Boston's action was unilateral: no concessions were made by the Company. We would once again like to take this opportunity to respectfully invite those few remaining municipalities who have filed similarly misguided lawsuits to likewise reconsider their continuing waste of taxpayer resources, and to voluntarily withdraw their cases.

In other legal news, on January 11, the U.S. Third Circuit Court of Appeals affirmed the District Court's order granting dismissal of all claims in the Philadelphia city case and in so doing affirmed its prior ruling dismissing the Camden County case. Also, the Georgia Appellate Court dismissed the Atlanta suit on February 13. Ten such municipal cases have now been dismissed as a matter of law. On May 2, the United States District Court for the Eastern District of New York dismissed two lawsuits claiming industry-wide liability for the unlawful use of firearms. These developments are the latest examples of judges appropriately applying the law, and ending an unfortunate ill-conceived abuse of the United States legal system.

I am pleased to report that at their May 9th meeting, the Board of Directors declared a quarterly dividend of \$0.20 per share payable on June 15, 2002 to stockholders of record on June 1, 2002. We again thank our loyal stockholders for their support during this period of responding successfully to the challenges of today.

William B. Ruger, Jr.
Chairman and Chief Executive Officer
May 10, 2002

The Company may, from time to time, make forward-looking statements and projections concerning future expectations. Such statements are based on current expectations and are subject to certain qualifying risks and uncertainties, such as market demand, sales levels of firearms, anticipated castings sales and earnings, the need for external financing for operations or capital expenditures, the results of pending litigation against the Company including lawsuits filed by mayors, attorneys general and other governmental entities and membership organizations, and the impact of future firearms control and environmental legislation, any one or more of which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publish revised forward-looking statements to reflect events or circumstances after the date such forward-looking statements are made or to reflect the occurrence of subsequent unanticipated events.

Arms Makers for Responsible Citizens



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Condensed Consolidated Statements of Income

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

	Three Months Ended March 31			
	2002	%	2001	%
Firearms sales	\$42,729	88.2	\$35,837	81.7
Castings sales	<u>5,711</u>	<u>11.8</u>	<u>8,027</u>	<u>18.3</u>
Net sales	48,440	100.0	43,864	100.0
Cost of products sold	<u>36,160</u>	<u>74.6</u>	<u>31,897</u>	<u>72.7</u>
Gross profit	12,280	25.4	11,967	27.3
Expenses:				
Selling	3,532	7.4	4,266	9.7
General and administrative.....	<u>1,713</u>	<u>3.5</u>	<u>1,969</u>	<u>4.5</u>
	5,245	10.9	6,235	14.2
Operating income.....	7,035	14.5	5,732	13.1
Other income – net	<u>419</u>	<u>0.9</u>	<u>1,067</u>	<u>2.4</u>
Income before income taxes	7,454	15.4	6,799	15.5
Income taxes	<u>2,922</u>	<u>6.0</u>	<u>2,665</u>	<u>6.1</u>
Net income.....	<u>\$4,532</u>	<u>9.4</u>	<u>\$4,134</u>	<u>9.4</u>
Basic and diluted earnings per share	\$0.17		\$0.15	
Cash dividends per share	\$0.20		\$0.20	
Average shares outstanding				
Basic	26,911		26,911	
Diluted.....	26,997		26,914	

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Condensed Consolidated Balance Sheet

(unaudited)
(in thousands)

	March 31 2002
Assets	
Cash and cash equivalents	\$2,976
Short-term investments	68,201
Trade receivables, net	18,282
Inventories	45,938
Deferred income taxes	7,676
Prepaid expenses and other assets	<u>1,228</u>
Total current assets	144,301
Property, plant and equipment	151,871
Less depreciation	<u>(116,355)</u>
	35,516
Deferred income taxes	3,446
Other assets	<u>21,612</u>
Total	<u>\$204,875</u>
Liabilities and Stockholders' Equity	
Trade accounts payable and accrued expenses	\$5,721
Product liability	4,000
Employee compensation	11,088
Workers' compensation	4,781
Income taxes	<u>2,874</u>
Total current liabilities	28,464
Deferred income taxes	4,775
Product liability accrual	8,129
Stockholders' equity	163,507
Total	<u>\$204,875</u>