Sturm, Ruger & Company, Inc.

2001 Annual Report

STURM, RUGER & COMPANY, INC.

ARMS MAKERS FOR

The Ruger Side-by-Side Gold Label Shotgun

The first American-designed and -manufactured side-by-side shotgun in decades is by all accounts one of the best ever made. Its revolutionary "round action" styling and slim barrels combine to give this 6 1/3-pound elegant masterpiece unparalleled handling dynamics for the discriminating upland hunter.

R E S P O N S I B L E   C I T I Z E N S®

To Our Stockholders

In my last annual message, I reported that our firearms production was adversely affected during late 2000 and early 2001 by insufficient availability of investment castings. I am pleased to report that by the end of the first half of 2001, this problem had been corrected by management reorganization, and our production of castings and firearms is now satisfactory. In response to disappointing first and second quarter firearms sales, we implemented significant consumer-driven sales incentive programs, such as a retail level rebate program which significantly improved the sales of rim-fire and center-fire pistols in the second half of 2001. This program, and the addition of a significant new wholesale distributor, were factors which, in the latter half of 2001, contributed to improved firearms sales over the comparable period of 2000. We have now focused management attention on our investment castings segment and will continue to report on our progress with this business unit.

The future of our Company depends substantially on the talents and capabilities of our management team. We began a management transition in October 2000 with the promotions of Erle Blanchard and Stephen Sanetti, both veterans of the Company, to President and Senior Executive Vice President, respectively. We have turned significant attention to identifying both the needs of the Company and potential candidates to fill these needs. Where appropriate, we have promoted current employees, and in other instances we have hired experienced individuals from outside the Company. New positions include Chief Information Officer, Assistant Controller, Assistant General Counsel, and Director of Sales and Marketing for our Investment Castings Division. These positions were added at no additional expense as significant savings were realized by streamlining the existing organization. The evolution of our management team is critical to both our short and long term success and will remain a priority in 2002.

With respect to our tradition of new product introductions, we introduced our new Ruger Gold Label side-by-side shotgun at the Shooting, Hunting, and Outdoor Trade (SHOT) Show in Las Vegas in February 2002. We believe that there is no better balanced 12 gauge shotgun in the world at any price. The Gold Label is designed to be carried afield throughout a full day, whether the quarry is grouse in Scotland or pheasant in South Dakota. It represents a significant addition to our shotgun line and is yet another unique and desirable Ruger product offering. In addition, we introduced the Ruger 77/17 rifle in the new .17 Hornady Magnum Rimfire cartridge. This new offering is a natural extension of our range of rotary magazine, bolt-action rifles. We are encouraged by the enthusiastic reception given to both products at the 2002 SHOT show, and we expect significant incremental business from these attractive new products.

Specific financial results for the year 2001 include sales of $174.3 million, net income of $13.5 million, earnings per share of $0.50 and dividends of $0.80. Comparable results for 2000 were sales of $202.7 million, net income of $27.0 million, earnings per share of $1.00 and dividends of $0.80. In light of the reduced earnings, our Directors continue to review our existing dividend policy, carefully considering current and projected earnings, and items such as liquidity, future required capital expenditures, and new research and development commitments. At its January 24, 2002 meeting, the Board approved a $0.20 quarterly dividend, an amount which has been unchanged since 1996.

The year 2001 was eminently successful for the Company in the legal arena. A dramatic series of victories in trial and appellate courts across the country have soundly endorsed the rule of law over the coercive attempts of publicity-seeking politicians and trial lawyers to misuse tort law. Supreme Courts from New York to California and from Connecticut to Florida, and other Federal and State appellate and trial courts around the country, agree that manufacturers of lawfully sold, non-defective firearms cannot be held liable for criminal misuses of their products under any cognizable legal theory. Furthermore, the United States Supreme Court declined to hear New Orleans's appeal of the dismissal of its lawsuit.

A few quotations from some opinions dismissing such claims against firearms manufacturers succinctly state applicable law:

> "The County's request that the trial court use its injunctive powers to mandate the redesign of firearms and declare that appellees' business methods create a public nuisance, is an attempt to regulate firearms and ammunition through the medium of the judiciary...The power to legislate belongs not to the judicial branch of government, but to the legislative branch." *Alexander Penelas and Miami-Dade County v. Arms Technology Inc., et. al.,* Case No. 3D00-113, in the Third District Court of Appeal of Florida, February 14, 2001, *rehearing denied,* Supreme Court of Florida, October 24, 2001.

> "This lawsuit constitutes an indirect attempt to regulate the lawful design, manufacture, marketing and sales of firearms. As such, it squarely conflicts with the reasonable exercise

of the state's police powers and must be dismissed on the grounds that the City lacks a right of action to pursue this suit." *Mayor Marc H. Morial and the City of New Orleans v. Smith & Wesson Corporation et. al.,* in the Supreme Court of Louisiana, No. 00-CA-1132, April 3, 2001.

"The legislature has set California's public policy regarding a gun manufacturer's liability under these circumstances. Given that public policy, plaintiffs may not proceed with their negligence claim." *Merrill et. al. v. Navegar Inc.,* Supreme Court of California, No. S083466, August 6, 2001.

"The parties most directly responsible for the unlawful use of handguns are the individuals who unlawfully use them, i.e., criminals. But for their conduct, the nuisance alleged here would not exist...The relief sought here would have the potential effect of preventing defendants from engaging in activities, i.e., the manufacture and sale of guns, that they are permitted to engage in by law in an area which is strongly controlled by various federal and state statutes..." *People of the State of New York, by Eliot Spitzer, Attorney General of the State of New York v. Sturm, Ruger & Company, Inc., et. al.,* Index No. 402586/00, Supreme Court of the State of New York, County of New York, August 10, 2001.

"We agree with the defendants that the plaintiffs lack standing...because the harms they alleged are too indirect and remote from defendants' conduct, and are derivative of others' injuries. Accordingly, we affirm the judgment of the trial court dismissing their claims..." *Joseph Ganim and the City of Bridgeport et. al. v. Smith & Wesson Corporation et. al.,* No. SC16465, Supreme Court of the State of Connecticut, October 1, 2001.

"...the non-defective, lawful products at issue in this case cannot be a nuisance without straining the law to absurdity..." *Camden County Board of Chosen Freeholders v. Beretta et. al.,* No. 01-1051, United States Court of Appeals for the Third Circuit, November 16, 2001.

"The causal connection between the gun manufacturers' conduct and plaintiffs' injuries is attenuated and weak... Accordingly, we will dismiss plaintiff's claim that tort liability should be assessed against gun manufacturers when their legally-sold, non-defective products are criminally used to injure others." *City of Philadelphia et. al. v. Beretta USA Corp. et. al.,* No. 01-1118, United States Court of Appeals for the Third Circuit, January 11, 2002.

"Through this lawsuit, the City seeks to punish the conduct which the State, through its regulatory and statutory schemes, expressly allows and licenses...and the trial court erred in not dismissing the City's complaint and amended complaints against all defendants."

Sturm, Ruger & Company, Inc. et. al. v. City of Atlanta, No. A01A2521, Georgia Court of Appeals, February 13, 2002.

It would appear that this lamentable chapter of the misuse of American jurisprudence may at some point come to an end, but the battle is not over. A few such cases have withstood motions to dismiss at the trial court level and have proceeded into the discovery phase. We will continue to fight these ill-conceived lawsuits whenever they arise. Further to this, it should be noted that we, and our industry, stand as both allies and arsenal of civil society. It is manifestly in the best interest of law-abiding citizens everywhere that these cities immediately cease dissipating their resources on efforts to sue the firearms industry for the results of their failed public policies. Instead, we should work together to battle all true enemies of civilization, peace, and dignity, both foreign and domestic.

We note with immense satisfaction that the most recent National Safety Council statistics show that firearms accidents declined 25% from 1999 to 2000, and dropped an astounding 67% in the decade 1990-2000 to the lowest level ever recorded since 1903. Our own accident claims history mirrors the national trend, which is no doubt due in part to the extensive firearms safety efforts undertaken by the industry and by our Company. These are explained in more detail in our "blue book" entitled *Firearms Safety for Responsible Citizens* which accompanies this annual report; and these programs include ongoing *free* safety conversion for all pre-1973 Ruger "old model" single action revolvers, which is now in its 20th year. Only one product liability lawsuit involving these older products remains open.

I remain tremendously optimistic about the future of our Company and all it stands for. Any temporary unfavorable circumstances alluded to in the foregoing discussion should be regarded merely as passing shadows which are inevitably cast by the strong and wholesome light of the future.

In conclusion, I wish to emphasize the pleasure and honor you would give us if you are able to attend our annual stockholders' meeting on May 9, 2002 in New London, New Hampshire. We hope you will join us.

William B. Ruger, Jr.

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

February 9, 2002

Selected Financial Data

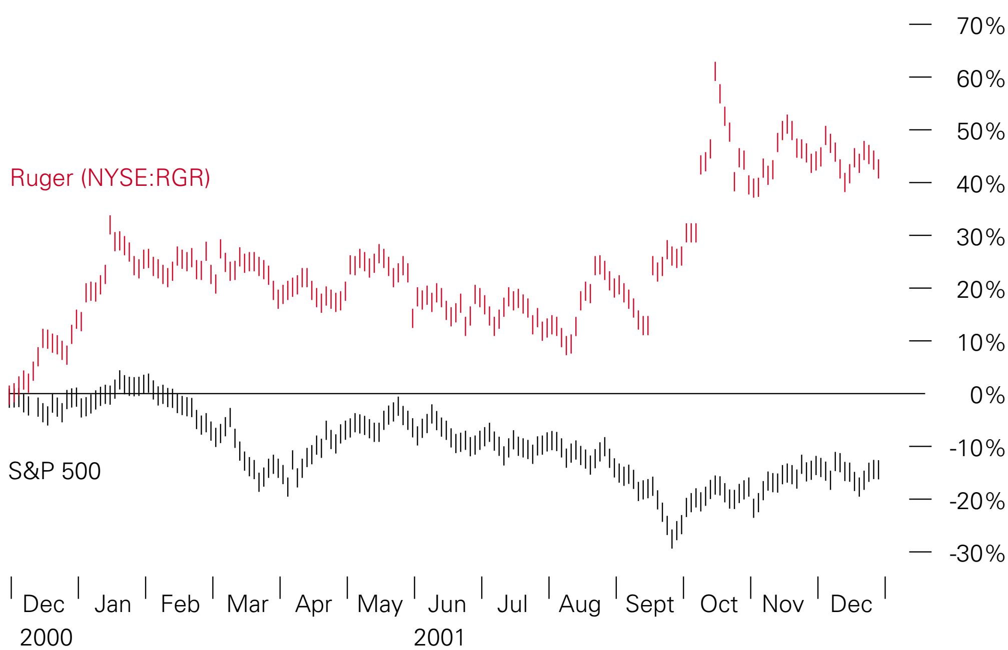
(Dollars in thousands, except per share data)

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Net firearms sales	**$147,622**	$166,415	$188,564	$144,898	$141,863
Net castings sales	**26,708**	36,239	53,100	66,682	67,520
Total net sales	**$174,330**	$202,654	$241,664	$211,580	$209,383
Cost of products sold	**$134,449**	$144,503	$170,650	$157,048	$146,143
Gross profit	**39,881**	58,151	71,014	54,532	63,240
Income before income taxes	**22,199**	44,474	55,483	39,372	46,639
Income taxes	**8,702**	17,434	21,749	15,946	18,889
Net income	**13,497**	27,040	33,734	23,426	27,750
Basic and diluted earnings per share	**0.50**	1.00	1.25	0.87	1.03
Cash dividends per share	**$0.80**	$0.80	$0.80	$0.80	$0.80

	December 31,				
	2001	2000	1999	1998	1997
Working capital	**$115,275**	$123,020	$118,593	$102,395	$ 97,551
Total assets	**204,378**	215,665	211,585	196,734	199,794
Total stockholders' equity	**164,340**	172,358	166,826	154,564	152,920
Book value per share	**$6.11**	$6.40	$6.20	$5.74	$5.68
Return on stockholders' equity	**8.0%**	15.9%	21.0%	15.2%	18.5%
Current ratio	**5.3 to 1**	5.8 to 1	5.2 to 1	5.1 to 1	4.5 to 1
Common shares outstanding	**26,910,700**	26,910,700	26,910,700	26,910,700	26,922,800
Number of stockholders of record	**2,064**	2,011	2,046	1,974	1,971
Number of employees	**1,547**	1,814	1,952	2,130	1,978

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.

Ruger Stock Performance vs the Standard & Poor's 500 Index



Management's Discussion & Analysis of Financial Condition & Results of Operations

Introduction

The Company's sales are comprised of the sales of firearms and investment castings. The Company is the only U.S. firearms manufacturer which offers products in all four industry product categories – rifles, shotguns, pistols, and revolvers. Investment castings manufactured are of titanium, steel, nickel and cobalt alloys.

Results of Operations

Year ended December 31, 2001, as compared to year ended December 31, 2000:

Consolidated net sales of $174.3 million were achieved by the Company in 2001 representing a decrease of $28.4 million or 14.0% from net sales of $202.7 million in 2000.

Firearms segment net sales decreased by $18.8 million or 11.3% to $147.6 million in 2001 from $166.4 million in the prior year. Firearms unit shipments for 2001 decreased 12.6% from 2000, as pistol, rifle and shotgun shipments declined. The unit decrease reflected a decline in overall market demand during the first six months of the year, partially offset by a resurgence in demand during the latter half of the year. Pistol demand may have been enhanced by a consumer-driven sales incentive program which was in effect from August through December 2001. In 2001, the Company instituted a sales incentive program for its distributors which allowed them to earn rebates of up to 5% if certain annual overall sales targets were achieved. This program replaced a similar sales incentive program in 2000.

Casting segment net sales decreased 26.3% to $26.7 million in 2001 from $36.2 million in 2000 as a result of lower unit volume. The downturn in castings sales was due to weakened demand for both steel and titanium castings. The Company continues to actively pursue potential investment castings applications and customers in a variety of titanium and steel markets.

Consolidated cost of products sold for 2001 was $134.4 million compared to $144.5 million in 2000, representing a decrease of 7.0%. This decrease of $10.1 million was primarily attributable to decreased sales in both the firearms and investment castings segments.

Gross profit as a percentage of net sales decreased to 22.9% in 2001 from 28.7% in 2000. This erosion is due to decreased sales in 2001, partially offset by pricing increases for selected models effective December 1, 2000 and 2001.

Selling, general and administrative expenses increased 4.8% to $20.9 million in 2001 from $19.9 million in 2000 due to costs related to a voluntary firearms lock exchange program that began during the first quarter of 2001 and increased personnel-related expenses.

Other income-net decreased from $6.2 million in 2000 to $3.2 million in 2001 primarily reflecting a gain on the sale of non-manufacturing real estate in the second quarter of 2000 and decreased earnings on short-term investments as a result of declining interest rates in 2001.

The effective income tax rate remained consistent at 39.2% in 2001 and 2000.

As a result of the foregoing factors, consolidated net income in 2001 decreased to $13.5 million from $27.0 million in 2000, representing a decrease of $13.5 million or 50.0%.

Year ended December 31, 2000, as compared to year ended December 31, 1999:

Consolidated net sales of $202.7 million were achieved by the Company in 2000 representing a decrease of $39.0 million or 16.1% from net sales of $241.7 million in 1999.

Firearms segment net sales decreased by $22.2 million or 11.8% to $166.4 million in 2000 from $188.6 million in the prior year. Firearms unit shipments for 2000 decreased 18.8% from 1999. The unit decrease reflected weakened overall market demand and the absence of the Company's Fiftieth Anniversary commemorative models, which were available exclusively in 1999. In 2000, shipments of all four major product categories, pistols, revolvers, shotguns, and rifles, decreased from 1999.

Casting segment net sales decreased 31.8% to $36.2 million in 2000 from $53.1 million in 1999 as a result of lower unit volume. This was primarily attributable to a decrease in the shipment of titanium golf club heads. A long-term contract with Callaway Golf Company, Inc. ("Callaway Golf") was substantially completed during the fourth quarter of 1999. Shipments to Callaway Golf in 2000 were minimal.

Consolidated cost of products sold for 2000 was $144.5 million compared to $170.7 million in 1999, representing a decrease of 15.3%. This decrease of $26.2 million was primarily attributable to decreased sales in both the firearms and investment castings segments and decreased product liability expenses.

Gross profit as a percentage of net sales decreased to

28.7% in 2000 from 29.4% in 1999. This erosion was due to decreased sales in 2000, partially offset by pricing increases for selected models effective December 1, 2000 and reduced product liability costs compared to 1999.

Selling, general and administrative expenses increased slightly to $19.9 million in 2000 from $19.3 million in 1999 due to increased national advertising initiatives incurred in the first half of 2000.

Other income-net increased from $3.8 million in 1999 to $6.2 million in 2000 primarily reflecting a gain on the sale of non-manufacturing real estate in the second quarter of 2000.

The effective income tax rate remained consistent at 39.2% in 2000 and 1999.

As a result of the foregoing factors, consolidated net income in 2000 decreased to $27.0 million from $33.7 million in 1999, representing a decrease of $6.7 million or 19.8%.

Financial Condition

At December 31, 2001, the Company had cash, cash equivalents and short-term investments of $67.8 million, working capital of $115.3 million and a current ratio of 5.3 to 1.

Cash provided by operating activities was $23.0 million, $17.4 million, and $56.7 million in 2001, 2000, and 1999, respectively. The increase in cash provided in 2001 is principally the result of a modest decrease in inventories in 2001 compared to the increase in inventories of $13.8 million in 2000, partially offset by lower net income in 2001.

The Company follows an industry-wide practice of offering a "dating plan" to its firearms customers on selected products, which allows the purchasing distributor 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 approximately 90 days. Dating plan receivable balances were $12.2 million and $10.7 million at December 31, 2001 and 2000, 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.

Capital expenditures during the past three years averaged $5.0 million per year. In 2002, 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.

In 2001 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 2001. On January 24, 2002, the Company declared a regular quarterly dividend of $.20 per share payable on March 15, 2002. Future dividends depend on many factors, including internal estimates of future performance and the Company's need for cash.

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 2002.

The sale, purchase, ownership, and use of firearms are subject to many 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 (a position adopted by the U.S. Court of Appeals for the Fifth Circuit in the case of *U.S. v. Emerson* on October 16, 2001) 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.

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 firearm 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 State Attorneys 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 ever to be permitted to go before a 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. The Court upheld the verdict of the jury and dismissed each case as to the Company in its later opinion. The three defendants found liable filed a notice of appeal from the Court's decision. On August 16, 2000, the U.S. Second Circuit Court of Appeals certified certain questions involving the appeal to the Appellate Division of the New York State Supreme Court for resolution. Oral argument on those certified questions was heard in the New York Appellate Division on February 8, 2001. On April 26, 2001, the Appellate Division of the New York State Supreme Court responded to the U.S. Second Circuit Court of Appeals' certified questions. The questions involved whether firearms manufacturers have a legal duty to prevent criminal misuses of their lawfully-sold products and whether any liability of the firearms manufacturers should be apportioned by a market share theory. The New York State Appellate Division answered both questions in the negative. On August 30, 2001, the United States Court of Appeals for the Second Circuit vacated and remanded the case with instructions for the trial court to enter a final judgment of dismissal. The trial court finally dismissed the case on its merits on September 17, 2001.

On October 7, 1999 a lawsuit brought against the Company and numerous firearms manufacturers and distributors by the mayor of Cincinnati, *City of Cincinnati v. Beretta U.S.A. Corp. et. al.,* was dismissed. This was the first dismissal of one of the lawsuits which have been filed by certain cities, municipalities and counties. The Ohio Court of Appeals affirmed this decision on August 11, 2000. Such lawsuits filed by the cities of Bridgeport (affirmed by the Connecticut Supreme Court on October 1, 2001), Miami (affirmed by the District Court of Appeal Third District on February 14, 2001, review denied by the Florida Supreme Court on October 26, 2001), Chicago, Camden County (affirmed by the U.S. Third Circuit Court of Appeals on

November 16, 2001), Philadelphia, (affirmed by the U.S. Third Circuit Court of Appeals on January 11, 2002) and Gary, and that filed by the State of New York have been completely dismissed, and those filed by the cities of Wilmington, and Newark have been partially dismissed. The Atlanta suit was dismissed on February 13, 2002. The Cleveland suit has withstood an initial motion to dismiss in the trial court, and in New Orleans the Court declared legislation passed to prohibit such suits unconstitutional. However, on April 3, 2001, the Louisiana Supreme Court reversed this decision, finding the statute to be constitutional, and it dismissed the case. The Detroit/Wayne County case was also partially dismissed, and the Michigan legislature has also passed legislation precluding such suits, as have at least twenty-seven other states. The Boston case and the California city (consolidated into one case) claims have been permitted to proceed into the discovery phase. Appeals of all trial court decisions are pending or will be filed when appropriate. Motions to dismiss other such lawsuits are pending or will be filed when timely.

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.

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 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.

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, 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.

Award Winning New Ruger Product

The Professional Gun Retailers Association, in partnership with *American Firearms* magazine, presented its 2001-2002 Award for Excellence to the Company for the Ruger .480 revolver.

Our new .480 Ruger Super Redhawk has received widespread acclaim from hunters and has recently garnered high praise from these influential sources.

Won *Field and Stream* magazine's annual "Best of the Best" awarded as the "Ultimate Hunting Handgun" in December, 2001.

Voted "Best New Handgun Product of 2001" at a dealer poll at the National Shooting Sports Foundation's Shooting, Hunting, and Outdoor Trade Show.

Given *Shooting Industry* magazine's "Academy of Excellence" award for 2001's "Handgun of the Year."

Won *Guns & Ammo Magazine's* "Handgun of the Year" award for 2001 based upon a poll of their readers.

New Products for 2002

The Ruger Gold Label Side-by-Side Double Shotgun
The first American-designed and -manufactured side-by-side shotgun in decades is by all accounts one of the best ever made. Its revolutionary "round action" styling and slim barrels combine to give this 6 1/3-pound elegant masterpiece unparalleled handling dynamics for the discriminating upland hunter.

The Ruger M77MKII Short Magnum Rifle
The proven Ruger M77MKII rifle now features chamberings for both Winchester and Remington's new "Short Magnum" cartridges, for magnum performance in shorter actions. A natural choice when power, handiness and overall length are at a premium, as when hunting big game in dense cover.

The Ruger "All Weather" 10/22
This latest version of our "All Weather" series of rifles features a new "full form" synthetic stock, stainless steel components, and a clear hard-coat finished aircraft quality aluminum alloy receiver and trigger housing for maximum corrosion resistance in harsh hunting environments.

The Ruger 77/17
A completely new concept in rimfire magnum rifles, the new Ruger 77/17 bolt action fires a flat-shooting .17 caliber, 17 grain bullet at an astonishing 2,500 feet per second. It will set the new standard for small game hunting rifles.

The Ruger Stainless Steel New Bearcat

Outdoorsmen have clamored for a rust-resistant stainless-steel version of this lightweight .22 caliber single-action revolver since the 1960's. By popular demand, we now proudly offer such an updated version of this "camp gun", with a patented Ruger transfer-bar safety mechanism, as a companion for treks into the back country.

The Ruger New Model Super Blackhawk Hunter

At the opposite end of the power spectrum from the Bearcat, the mighty Hunter is a powerful .44 Magnum hunting revolver, the only single-action which comes factory-equipped with scope bases permanently machined into an integral barrel rib. For unfailing accuracy on big game, the Hunter is back.

Scope not included

The Ruger Vaquero "Bird's Head" Grip Models

Single Action revolver shooters will appreciate the classic "Bird's Head" grips on the Ruger Vaquero and New Model Single Six frames. They combine rakish styling with a comfortable grip that allows the revolver to roll in the hand during recoil, for increased shooting comfort.

The Ruger P-97

A blued steel version of this reliable and popular .45 caliber pistol is now available, featuring a mechanism which allows the user to decock the pistol by pressing a lever without touching the hammer or trigger.

Ruger Gun Safe

Ruger now offers a new gun safe to help our customers meet their responsibility to store firearms safely. It has a 23 cubic foot storage capacity, Class I fire protection, and meets all current state requirements for firearms safes.

Consolidated Balance Sheets

(Dollars in thousands, except per share data)

December 31,	**2001**	2000
Assets		
Current Assets		
Cash and cash equivalents	**$ 3,838**	$ 4,073
Short-term investments	**63,957**	65,875
Trade receivables, less allowances for doubtful accounts ($1,061 and $1,252) and discounts ($1,145 and $1,130)	**15,121**	14,354
Inventories:		
Finished products	**12,333**	13,779
Materials and products in process	**37,460**	37,585
	49,793	51,364
Deferred income taxes	**7,922**	7,061
Prepaid expenses and other current assets	**1,566**	5,728
Total Current Assets	**142,197**	148,455
Property, Plant, and Equipment		
Land and improvements	**3,606**	3,276
Buildings and improvements	**30,782**	30,551
Machinery and equipment	**93,478**	93,043
Dies and tools	**25,448**	24,661
	153,314	151,531
Allowances for depreciation	**(114,535)**	(108,206)
	38,779	43,325
Deferred income taxes	**3,567**	5,640
Other assets	**19,835**	18,245
Total Assets	**$204,378**	$215,665

See accompanying notes.

December 31,	**2001**	2000
Liabilities and Stockholders' Equity		
Current Liabilities		
Trade accounts payable and accrued expenses	**$ 6,893**	$ 5,917
Product liability	**4,000**	3,000
Employee compensation and benefits	**10,705**	10,170
Workers' compensation	**4,620**	4,836
Income taxes	**704**	1,512
Total Current Liabilities	**26,922**	25,435
Deferred income taxes	**4,654**	4,564
Product liability	**8,462**	13,308
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	**2,492**	2,434
Retained earnings	**135,093**	143,125
Accumulated other comprehensive income	**(156)**	(112)
Total Stockholders' Equity	**164,340**	172,358
Total Liabilities and Stockholders' Equity	**$204,378**	$215,665

Consolidated Statements of Income

(In thousands, except per share data)

Year ended December 31,	**2001**	2000	1999
Net firearms sales	**$147,622**	$166,415	$188,564
Net castings sales	**26,708**	36,239	53,100
Total net sales	**174,330**	202,654	241,664
Cost of products sold	**134,449**	144,503	170,650
Gross profit	**39,881**	58,151	71,014
Expenses:			
Selling	**14,473**	14,021	13,367
General and administrative	**6,392**	5,886	5,930
	20,865	19,907	19,297
	19,016	38,244	51,717
Other income-net	**3,183**	6,230	3,766
Income before income taxes	**22,199**	44,474	55,483
Income taxes	**8,702**	17,434	21,749
Net Income	**$ 13,497**	$ 27,040	$ 33,734
Basic and Diluted Earnings Per Share	**$ 0.50**	$ 1.00	$ 1.25
Cash Dividends Per Share	**$ 0.80**	$ 0.80	$ 0.80

See accompanying notes.

Consolidated Statements of Stockholders' Equity

(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 1998	$26,911	$2,434	$125,409	$(190)	$154,564
Net income			33,734		33,734
Additional minimum pension liability				57	57
Comprehensive income					33,791
Cash dividends			(21,529)		(21,529)
Balance at December 31, 1999	26,911	2,434	137,614	(133)	166,826
Net income			27,040		27,040
Additional minimum pension liability				21	21
Comprehensive income					27,061
Cash dividends			(21,529)		(21,529)
Balance at December 31, 2000	26,911	2,434	143,125	(112)	172,358
Net income			**13,497**		**13,497**
Additional minimum pension liability				**(44)**	**(44)**
Comprehensive income					**13,453**
Stock options compensation		**58**			**58**
Cash dividends			**(21,529)**		**(21,529)**
Balance at December 31, 2001	**$26,911**	**$2,492**	**$135,093**	**$(156)**	**$164,340**

See accompanying notes.

Consolidated Statements of Cash Flows

(In thousands)

Year ended December 31,	**2001**	2000	1999
Operating Activities			
Net income	**$ 13,497**	$ 27,040	$ 33,734
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	**8,151**	8,751	8,734
Gain on sale of land	**–**	(1,068)	(169)
Gain on sale of Uni-Cast assets	**–**	(626)	–
Deferred income taxes	**1,302**	3,542	(280)
Changes in operating assets and liabilities:			
Trade receivables	**(767)**	5,916	2,776
Inventories	**1,571**	(13,761)	9,567
Trade accounts payable and accrued expenses	**1,038**	(304)	1,533
Product liability	**(3,846)**	(3,191)	(451)
Prepaid expenses, other assets, and other liabilities	**2,843**	(7,541)	551
Income taxes	**(808)**	(1,393)	728
Cash provided by operating activities	**22,981**	17,365	56,723
Investing Activities			
Property, plant, and equipment additions	**(3,605)**	(7,023)	(4,515)
Purchases of short-term investments	**(165,183)**	(156,700)	(184,807)
Proceeds from sales or maturities of short-term investments	**167,101**	161,436	157,443
Net proceeds from sale of land	**–**	1,978	169
Net proceeds from sale of Uni-Cast assets	**–**	382	–
Cash provided (used) by investing activities	**(1,687)**	73	(31,710)
Financing Activities			
Dividends paid	**(21,529)**	(21,529)	(21,529)
Cash used by financing activities	**(21,529)**	(21,529)	(21,529)
Increase (decrease) in cash and cash equivalents	**(235)**	(4,091)	3,484
Cash and cash equivalents at beginning of year	**4,073**	8,164	4,680
Cash and Cash Equivalents at End of Year	**$ 3,838**	$ 4,073	$ 8,164

See accompanying notes.

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 have been reclassified to conform with current year presentation.

Revenue Recognition

Revenue is recognized, net of any 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 $45.4 million and $42.6 million at December 31, 2001 and 2000, respectively.

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. Long-lived assets are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable.

Income Taxes

Income taxes are accounted for using the asset and liability method in accordance with Statement of Financial Accounting Standards ("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, 2001, 2000, and 1999 were $2.1 million, $2.6 million, and $1.7 million, respectively.

Shipping Costs

Costs incurred related to the shipment of products are included in selling expense. Such costs totaled $1.6 million in 2001, 2000, and 1999.

Stock Options

The Company records stock option compensation on an intrinsic value basis in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The Company also provides pro forma disclosures of stock option compensation recorded on a fair value basis in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation."

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 2001, 2000, and 1999. Diluted earnings per share reflect the impact of options outstanding using the treasury stock method. This results in diluted weighted-average shares outstanding of 26,922,800 in 2001, and 26,910,700 in 2000 and 1999.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which modifies the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. The Company will adopt this Statement effective January 1, 2002. The Company does not expect the adoption of this standard to have a material impact on its financial statements.

In October 2001, FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale, and requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. SFAS No. 144 is effective for the Company's fiscal year beginning January 1, 2002. The Company does not expect the adoption of this standard to have a material impact on its financial statements.

2. Income Taxes

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

Year ended December 31,	**2001**		2000		1999	
	Current	**Deferred**	Current	Deferred	Current	Deferred
Federal	**$6,009**	**$1,072**	$11,621	$2,944	$18,421	$ (234)
State	**1,391**	**230**	2,271	598	3,608	(46)
	$7,400	**$1,302**	$13,892	$3,542	$22,029	$ (280)

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

December 31,	**2001**	2000
Deferred tax assets:		
Product liability	**$ 4,885**	$ 6,393
Employee compensation and benefits	**3,398**	3,557
Allowances for doubtful accounts and discounts	**1,704**	1,198
Inventories	**1,111**	1,553
Other	**391**	–
Total deferred tax assets	**11,489**	12,701
Deferred tax liabilities:		
Depreciation	**1,584**	1,936
Pension plans	**3,070**	2,628
Total deferred tax liabilities	**4,654**	4,564
Net deferred tax assets	**$ 6,835**	$ 8,137

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

Year ended December 31,	**2001**	2000	1999
Statutory Federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of Federal tax benefit	**4.7**	4.2	4.1
Other items	**(0.5)**	–	.1
Effective income tax rate	**39.2%**	39.2%	39.2%

The Company made income tax payments of approximately $4.7 million, $18.9 million, and $22.0 million during 2001, 2000, and 1999, 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	**2001**	2000
Benefit obligation at January 1	**$35,420**	$33,052
Service cost	**1,321**	1,237
Interest cost	**2,659**	2,439
Actuarial loss (gain)	**3,570**	134
Benefits paid	**(1,600)**	(1,442)
Benefit obligation at December 31	**41,370**	35,420
Change in Plan Assets		
Fair value of plan assets at January 1	**33,297**	30,120
Actual return on plan assets	**1,984**	1,650
Employer contributions	**3,042**	2,969
Benefits paid	**(1,600)**	(1,442)
Fair value of plan assets at December 31	**36,723**	33,297
Funded status	**(4,647)**	(2,123)
Unrecognized net actuarial loss	**8,310**	5,846
Unrecognized prior service cost	**3,110**	1,652
Unrecognized transition obligation	**(88)**	(209)
Net amount recognized	**$ 6,685**	$ 5,166

Amounts Recognized on the Balance Sheet	**2001**	2000
Prepaid benefit cost	**$ 9,563**	$ 7,828
Accrued benefit liability	**(3,820)**	(3,812)
Intangible asset	**682**	963
Accumulated other comprehensive income	**156**	112
Deferred tax asset	**104**	75
	$ 6,685	$ 5,166
Weighted-Average Assumptions as of December 31,		
Discount rate	**7.00%**	7.50%
Expected return on plan assets	**9.00%**	9.00%
Rate of compensation increases	**5.00%**	5.00%
Components of Net Periodic Pension Cost		
Service cost	**$ 1,321**	$ 1,237
Interest cost	**2,659**	2,439
Expected return on assets	**(3,019)**	(2,734)
Amortization of unrecognized transition asset	**(121)**	(122)
Recognized gains	**92**	133
Prior service cost recognized	**591**	451
Net periodic pension cost	**$ 1,523**	$ 1,404

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets were $11.8 million, $9.3 million, and $6.3 million, respectively, as of December 31, 2001 and $10.8 million, $8.5 million, and $5.8 million, respectively, as of December 31, 2000.

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, $1.4 million, and $1.2 million in 2001, 2000, and 1999, respectively.

In 2001 the Company changed the weighted-average discount rates which increased the projected benefit obligation by approximately $2.7 million.

In accordance with SFAS No. 87, "Employers' Accounting for Pension Costs," the Company recorded an additional minimum pension liability which decreased comprehensive income by $44,000 in 2001 and increased comprehensive income by $21,000 and $57,000 in 2000 and 1999, 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, 1998	1,470,000	$ 11.94
Granted	–	–
Exercised	–	–
Canceled	(50,000)	11.94
Outstanding at December 31, 1999	1,420,000	11.94
Granted	–	–
Exercised	–	–
Canceled	(50,000)	11.94
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**

There were 787,000 exercisable options at December 31, 2001, with a weighted average exercise price of $11.87 and an average contractual life remaining of 7.1 years. At December 31, 2001, an aggregate of 710,000 shares remain available for grant under the Plans.

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." 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):

	2001	2000	1999
Net Income:			
As reported	**$13,497**	$27,040	$33,734
Pro forma	**$13,033**	$26,700	$33,394
Earnings per Share (Basic and Diluted):			
As reported	**$0.50**	$1.00	$1.25
Pro forma	**$0.48**	$0.99	$1.24

The weighted-average fair value of options granted under the Plans was estimated at $2.66 on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions in 1998 and 2001, respectively: dividend yield of 6.7% and 8.0%, expected volatility of 30.3% and 206.5%, risk free rate of return of 5.5% and 2.0%, and expected lives of 5 years and 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, 2001, 502,000 shares of Common Stock were reserved for future awards.

5. Contingent Liabilities

As of December 31, 2001 the Company was a defendant in approximately 37 lawsuits involving its products and is aware of certain other such claims. These lawsuits and claims fall within 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, individuals (including certain putative class actions) and one state Attorney General against numerous 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. None of these cases allege a specific injury to a specific individual as a result of the misuse or use of any of the Company's products.

In many of these cases punitive damages, as well as compensatory damages, are demanded. Aggregate claimed amounts presently exceed product liability accruals and, if applicable, insurance coverage. 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 $865 million and $867 million at December 31, 2001 and 2000, 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. Operating Segment Information

The Company has two reportable segments: firearms and investment castings. The firearms segment manufactures and sells rifles, pistols, revolvers, and shotguns principally to a select number of distributors primarily located in the United States. The investment casting segment consists of two operating divisions which manufacture and sell titanium and steel investment castings.

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

Revenues from two customers in the firearms segment totaled $30.4 million and $20.1 million in 2001. Revenues from three customers in the firearms segment totaled $33.3 million, $22.8 million, and $20.7 million, and $35.3 million, $27.1 million, and $25.1 million in 2000 and 1999, respectively. Revenues from one customer in the castings segment totaled $31.0 million in 1999.

Year ended December 31, (in thousands)	**2001**	2000	1999
Net Sales			
Firearms	**$147,622**	$166,415	$188,564
Castings			
Unaffiliated	**26,708**	36,239	53,100
Intersegment	**27,282**	31,645	24,604
	53,990	67,884	77,704
Eliminations	**(27,282)**	(31,645)	(24,604)
	$174,330	$202,654	$241,664
Income Before Income Taxes			
Firearms	**$ 22,800**	$ 39,137	$ 48,404
Castings	**(3,473)**	546	4,741
Corporate	**2,872**	4,791	2,338
	$ 22,199	$ 44,474	$ 55,483
Identifiable Assets			
Firearms	**$ 78,774**	$ 79,230	$ 71,756
Castings	**27,351**	33,043	35,753
Corporate	**98,253**	103,392	108,175
	$204,378	$215,665	$215,684
Depreciation			
Firearms	**$ 3,395**	$ 3,468	$ 3,733
Castings	**4,756**	5,283	5,001
	$ 8,151	$ 8,751	$ 8,734
Capital Expenditures			
Firearms	**$ 2,073**	$ 3,693	$ 3,165
Castings	**1,532**	3,330	1,350
	$ 3,605	$ 7,023	$ 4,515

7. Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 2001 (in thousands, except per share data):

	Three Months Ended			
	3/31/01	**6/30/01**	**9/30/01**	**12/31/01**
Net sales	**$43,864**	**$37,668**	**$41,138**	**$51,660**
Gross profit	**11,967**	**7,219**	**8,192**	**12,503**
Net income	**4,134**	**1,805**	**2,684**	**4,874**
Basic and diluted earnings per share	**0.15**	**0.07**	**0.10**	**0.18**

	Three Months Ended			
	3/31/00	6/30/00	9/30/00	12/31/00
Net sales	$59,889	$48,935	$43,034	$50,795
Gross profit	18,452	12,559	11,085	16,055
Net income	9,026	5,925	4,599	7,490
Basic and diluted earnings per share	0.34	0.22	0.17	0.27

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 sheet of Sturm, Ruger & Company, Inc. and subsidiaries as of December 31, 2001, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended. 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 audit. The accompanying financial statements of Sturm, Ruger & Company, Inc. as of December 31, 2000 and for the years ended December 31, 2000 and 1999 were audited by other auditors whose report thereon dated February 9, 2001, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2001 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, 2001, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 8, 2002

Stockholder Information

Common Stock Data

The Company's Common Stock is traded on the New York Stock Exchange under the symbol "RGR." At February 15, 2002, the Company had 2,060 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
2001:			
First Quarter	**$ 10.94**	**$ 9.38**	**$ .20**
Second Quarter	**10.50**	**9.10**	**.20**
Third Quarter	**10.98**	**8.88**	**.20**
Fourth Quarter	**13.40**	**10.15**	**.20**
2000:			
First Quarter	$ 10.69	$ 8.69	$ .20
Second Quarter	10.44	8.50	.20
Third Quarter	9.75	8.06	.20
Fourth Quarter	9.44	7.13	.20

Items of Interest to Stockholders

Annual Meeting
The Annual Meeting of Stockholders will be held on May 9, 2002 at the Lake Sunapee Country Club, New London, New Hampshire, at 10:30 a.m.

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 60690-3504
312-360-5190

Form 10-K Report Available
A copy of the Sturm, Ruger & Company, Inc. Annual Report on Form 10-K filed with the Securities and Exchange Commission for 2001 can be obtained free of charge by writing to:

Corporate Secretary
Sturm, Ruger & Company, Inc.
One Lacey Place
Southport, Connecticut 06490
Telephone: 203-259-7843
Fax: 203-254-2195

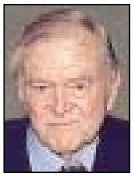
Facilities
Southport, Connecticut
Corporate Headquarters

Newport, New Hampshire
Firearms Division
Pine Tree Castings Division

Prescott, Arizona
Firearms Division
Ruger Investment Casting Division
Antelope Hills, LLC

Free Lock Exchange Program for Red Cable Locks and Ruger Padlocks
In 2001, the Company announced a free program to replace its red cable locks and older padlocks bearing the word "Ruger" with a newer, more tamper-resistant yellow cable lock. Owners should ship any of these older locks to us at Sturm, Ruger & Company, Inc., 411 Sunapee St., Dept. LK, Newport, NH 03773 for a free replacement yellow cable lock.

Directors and Officers

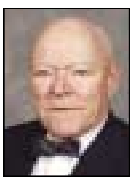

Ruger


Ruger, Jr.


Blanchard


Sanetti


Cunniff


Hornor


Kelley


Kingsley


Service


Terhune


Gasper


Dineen

Directors

William B. Ruger
Chairman Emeritus

William B. Ruger, Jr.
Chairman and Chief Executive Officer

Erle G. Blanchard
Vice Chairman, President, Chief Operating Officer and Treasurer

Stephen L. Sanetti
Vice Chairman, Senior Executive Vice President and General Counsel

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

*Townsend Hornor
Corporate Director

*Paul X. Kelley
**Partner, J.F. Lehman & Company

John M. Kingsley, Jr.
Corporate Director

**James E. Service
Consultant, Invesmart

Stanley B. Terhune
Consultant

Officers

William B. Ruger, Jr.
Chairman and Chief Executive Officer

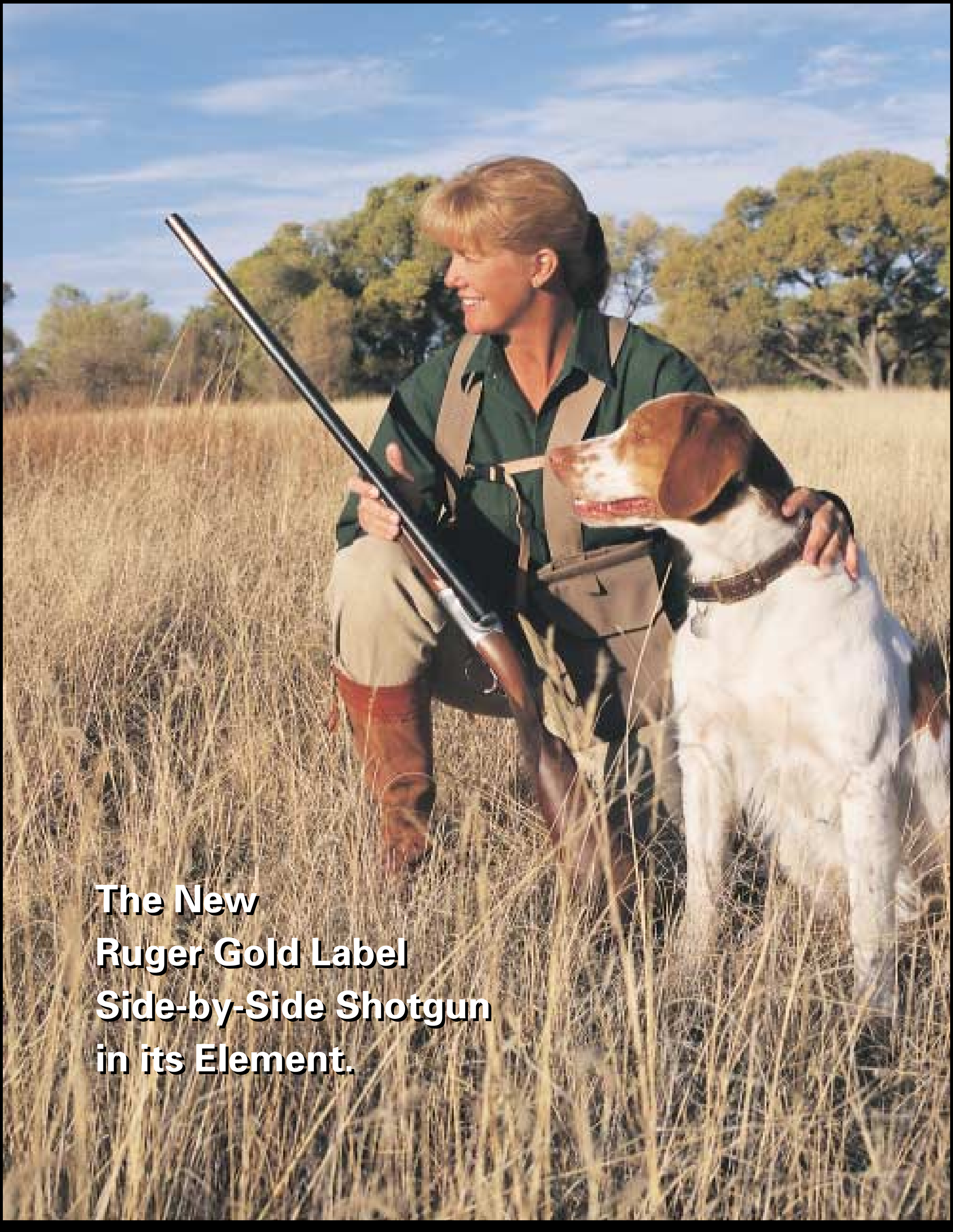
Erle G. Blanchard
Vice Chairman, President, Chief Operating Officer and Treasurer

Stephen L. Sanetti
Vice Chairman, Senior Executive Vice President and General Counsel

Leslie M. Gasper
Corporate Secretary

Thomas A. Dineen
Assistant Controller

*Audit Committee Member
**Compensation Committee Member


The New
Ruger Gold Label
Side-by-Side Shotgun
in its Element.

"We have it in our power to begin the world anew… America shall make a stand, not for itself alone, but for the world."

From Common Sense
published in 1776
by Thomas Paine

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Southport, Connecticut 06490
(203) 259-7843
www.ruger.com