

Sturm, Ruger & Company, Inc.

First Quarter Report 2001



TO OUR STOCKHOLDERS:

As shown in the attached summary of our first quarter 2001 financial results, net sales for the quarter were \$43.9 million and net income was \$4.1 million, or \$0.15 per share. Comparable results for the first quarter 2000 were net sales of \$59.9 million and net income of \$9.0 million, or \$0.34 per share. The 30% decline in firearms sales reflects the subdued demand in the overall firearms market, which, to all indications, is significantly weaker for many of our competitors. The continuing success of our new products, including the Ruger Deerfield Carbine and the Ruger Super Redhawk revolver chambered for the new 480 Ruger cartridge, could not offset the reduced demand for other products during the quarter. We are encouraged, however, by indications of reduced inventories at the wholesale and retail level, which may signal that the firearms market is readying itself for some recovery during the latter half of the year when seasonal demand generally increases.

The investment castings segment may have suffered from generally slower economic conditions, as sales decreased by 9%. We are intensely pursuing opportunities in the titanium and steel investment casting markets to augment our golf club business and to further diversify our customer base for these products. By demonstrating

our ability to provide castings of the highest quality, we expect to strengthen our relationship with new and existing customers, and believe that our efforts to significantly expand this segment of our business will be successful.

For the third consecutive quarter, the Company was not served with any additional municipal lawsuits. Recently, the *City of Gary (IN)* lawsuit was dismissed in its entirety by the trial court, and the *New Orleans (LA)* case, which was the first lawsuit filed by a city against the firearms industry, became the first city lawsuit to be dismissed by a state Supreme Court. The Louisiana Supreme Court subsequently denied the city's request for a rehearing. Also, the highest New York State court recently ruled in the *Hamilton* case that firearms manufacturers have no legal duty or ability to control criminal misuses of their lawfully manufactured and sold products. Even though the jury in the *Hamilton* case had exonerated Sturm, Ruger's sales and marketing practices, it is gratifying for the appellate court to rule correctly that product manufacturers can bear no legal responsibility for the intentional wrongdoing of others beyond their control. We are hopeful and confident that other courts considering such important matters will follow these correct legal precedents.

The Company's Annual Meeting of Stockholders was held on May 3, 2001 in New London, New Hampshire, and we are pleased to report that all proposals presented by management were approved by our Stockholders, including the election of all nominated Directors. The Stockholder proposal for a "Report on Gun Policies and Procedures" was overwhelmingly defeated, demonstrating your support and belief that this Company has responsibly addressed firearms safety, and that our Stockholders and responsible firearms owners should not be considered culpable for criminal misuse of our products. We are also pleased to report that at their May 3rd meeting, the Board of Directors declared a quarterly dividend of \$0.20 per share payable on June 15, 2001 to Stockholders of record on June 1, 2001.

William B. Ruger, Jr.
Chairman and Chief Executive Officer
May 7, 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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Condensed Consolidated Statements of Income

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

	Three Months Ended March 31			
	2001	%	2000	%
Firearms sales	\$35,837	81.7	\$51,095	85.3
Castings sales	<u>8,027</u>	<u>18.3</u>	<u>8,794</u>	<u>14.7</u>
Net sales	43,864	100.0	59,889	100.0
Cost of products sold	<u>31,897</u>	<u>72.7</u>	<u>41,437</u>	<u>69.2</u>
Gross profit	11,967	27.3	18,452	30.8
Expenses:				
Selling	4,266	9.7	3,648	6.1
General and administrative	<u>1,969</u>	<u>4.5</u>	<u>1,418</u>	<u>2.3</u>
	6,235	14.2	5,066	8.4
Operating income	5,732	13.1	13,386	22.4
Other income – net	<u>1,067</u>	<u>2.4</u>	<u>1,459</u>	<u>2.4</u>
Income before income taxes	6,799	15.5	14,845	24.8
Income taxes	<u>2,665</u>	<u>6.1</u>	<u>5,819</u>	<u>9.7</u>
Net income	<u>\$4,134</u>	<u>9.4</u>	<u>\$9,026</u>	<u>15.1</u>
Basic and diluted earnings per share	\$0.15		\$0.34	
Cash dividends per share	\$0.20		\$0.20	
Average shares outstanding	26,911		26,911	

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Condensed Consolidated Balance Sheet

(unaudited)
(in thousands)

	March 31 2001
Assets	
Cash and cash equivalents	\$3,272
Short-term investments	59,215
Trade receivables, net	17,035
Inventories	58,758
Deferred income taxes	7,086
Prepaid expenses and other assets	<u>3,022</u>
Total current assets	148,388
Property, plant and equipment	152,745
Less depreciation	<u>(110,128)</u>
	42,617
Deferred income taxes	562
Other assets	<u>18,208</u>
Total	<u>\$209,775</u>
Liabilities and Stockholders' Equity	
Trade accounts payable and accrued expenses	\$5,877
Product safety modifications	467
Product liability	3,000
Employee compensation	11,347
Workers' compensation	<u>4,895</u>
Income taxes	1,125
Total current liabilities	26,711
Product liability accrual	11,954
Stockholders' equity	171,110
Total	<u>\$209,775</u>

Front Cover:

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