

Sturm, Ruger & Company, Inc.

Second Quarter Report 2001



To OUR STOCKHOLDERS:

Attached please find our second quarter 2001 financial results. Net sales for the quarter were \$37.7 million and net income was \$1.8 million, or \$0.07 per share. Comparable results for the second quarter 2000 were net sales of \$48.9 million and net income of \$5.9 million, or \$0.22 per share. For the six months ended June 30, 2001, net sales were \$81.5 million and net income was \$5.9 million, or \$0.22 per share. For the corresponding period in 2000, net sales were \$108.8 million and net income was \$15.0 million, or \$0.56 per share.

While the decline in firearms sales in the first half of 2001 continued to reflect the subdued demand in the overall firearms market, we are encouraged by the success of our new products for 2001, including the Ruger Deerfield Carbine, the Ruger Super Redhawk revolver chambered for the new 480 Ruger cartridge, and the Ruger Compact M77 Mark II rifle. We recently instituted a rebate program for the third and fourth quarters of 2001 in an effort to further stimulate sales of our pistol products. We are now focused on plans for 2002, which include several new or improved firearms products.

The investment castings segment continued to react

to sluggish economic conditions, as sales decreased by 28% for the second quarter 2001, and 20% for the six months ended June 30, 2001. We remain confident in the potential growth of the titanium and steel investment casting markets through diversification of our customer base and expansion into new industries.

On the legal front, we believe that the tide continues to turn in our favor. The quarter ended June 30, 2001 was the fourth consecutive quarter in which the Company was not served with any additional municipal lawsuits. During the quarter, 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 absence of any new municipal lawsuits in the last year is a testament to our successful efforts to ensure that courts throughout this country appropriately apply established law, and demonstrates that these suits have been based on ill-founded and legally baseless theories. Also, firearms accidents continue to decline to record lows, due in part to firearms industry safety efforts and the tireless efforts of firearms safety instructors across the nation.

In light of what we believe is a temporary market downturn, it is important to note that our financial strength, as evidenced by our robust, debt-free balance sheet, provides the stability which enables us to make the best decisions for the long-term success of the Company. For the benefit of our loyal Stockholders, we are pleased to report that at their July 31st meeting, the Board of Directors declared a quarterly dividend of \$0.20 per share payable on September 15, 2001 to Stockholders of record on September 1, 2001.

William B. Ruger, Jr.
Chairman and Chief Executive Officer
August 6, 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 June 30				Six Months Ended June 30				<u>June 30 2001</u>
	2001	%	2000	%	2001	%	2000	%	
Firearms sales	\$29,543	78.4	\$37,594	76.8	\$65,380	80.2	\$88,689	81.5	
Castings sales	8,125	21.6	11,341	23.2	16,152	19.8	20,135	18.5	
Net sales.....	37,668	100.0	48,935	100.0	81,532	100.0	108,824	100.0	
Cost of products sold.....	30,449	80.8	36,376	74.3	62,346	76.5	77,813	71.5	
Gross profit	7,219	19.2	12,559	25.7	19,186	23.5	31,011	28.5	
Expenses:									
Selling.....	3,439	9.2	3,274	6.7	7,705	9.5	6,922	6.4	
General and administrative.....	1,706	4.5	1,531	3.1	3,675	4.5	2,949	2.7	
	5,145	13.7	4,805	9.8	11,380	14.0	9,871	9.1	
Operating income	2,074	5.5	7,754	15.9	7,806	9.5	21,140	19.4	
Other income – net	895	2.4	1,992	4.0	1,962	2.4	3,451	3.2	
Income before income taxes	2,969	7.9	9,746	19.9	9,768	11.9	24,591	22.6	
Income taxes	1,164	3.1	3,821	7.8	3,829	4.6	9,640	8.9	
Net income	<u>\$1,805</u>	<u>4.8</u>	<u>\$5,925</u>	<u>12.1</u>	<u>\$ 5,939</u>	<u>7.3</u>	<u>\$14,951</u>	<u>13.7</u>	
Basic and diluted earnings per share.....	\$0.07		\$0.22		\$0.22		\$0.56		
Cash dividends per share.....	\$0.20		\$0.20		\$0.40		\$0.40		
Average shares outstanding.....	26,911		26,911		26,911		26,911		

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Condensed Consolidated Balance Sheet

(unaudited)
(in thousands)

Assets	
Cash and cash equivalents	\$3,734
Short-term investments	55,603
Trade receivables, net	12,846
Inventories	64,104
Deferred income taxes	7,098
Prepaid expenses and other assets	2,653
Total current assets	146,038
Property, plant and equipment	153,838
Less depreciation	(112,026)
	41,812
Deferred income taxes	1,302
Other assets	18,171
Total	<u>\$207,323</u>
 Liabilities and Stockholders' Equity	
Trade accounts payable and accrued expenses	\$6,136
Product safety modifications	449
Product liability	3,000
Employee compensation	12,305
Workers' compensation	5,023
Income taxes	1,371
Total current liabilities	28,284
Product liability accrual	11,468
Stockholders' equity	167,571
Total	<u>\$207,323</u>

Front Cover:

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