

# Sturm, Ruger & Company, Inc.

## Third Quarter Report 2002



### TO OUR STOCKHOLDERS:

Our financial results for the third quarter 2002 were net sales of \$38.0 million and net income of \$1.4 million, or \$0.05 per share. Comparable amounts for the third quarter of 2001 were net sales of \$41.1 million and net income of \$2.7 million, or \$0.10 per share. For the nine months ended September 30, 2002, net sales were \$126.3 million and net income was \$8.8 million, or \$0.33 per share. For the corresponding period in 2001, net sales were \$122.7 million and net income was \$8.6 million, or \$0.32 per share.

The 15% decline in third quarter 2002 shipments reflects a softness in firearms demand in that quarter, compared to an unusually strong demand in the third quarter of 2001. For the nine months ended September 30, however, shipments are 5% ahead of last year, with shipments of several of our "classic" models, such as our 10/22 rifles, single-action revolvers, and both rimfire and centerfire pistols increasing over 2001. Demand for our new Ruger 77/17 Bolt Action Rifle chambered for the new high velocity .17 HMR cartridge remains strong, and our highly-acclaimed Gold Label side-by-side shotgun has been the subject of much interest since it was awarded "Shotgun of the Year" at the SHOT Show in February. Shipments of the side-by-side shotgun are expected to begin in early 2003. A fall hunting rebate program was also put into effect on August 1st.

Although quarterly castings sales increased by 5%, the investment casting segment continues to suffer from sluggish economic conditions, as evidenced by the year-to-date sales decline of 17%. While these short-term results are clearly unacceptable, we are thoroughly

revamping this once flourishing segment. I am confident that we have the expertise and ability to successfully challenge foreign competition in the American market.

The Company's success in the courtroom continues. On September 20, 2002, the Indiana Court of Appeals affirmed last year's dismissal of the City of Gary's complaint as to all firearms manufacturers on all counts, including allegations of public nuisance, negligent distribution and marketing, failure to warn, and negligent design. We continue to steadily make progress in the remaining municipal lawsuits. As evidenced by this latest decision in Indiana, when established law is appropriately applied and politics is removed from the equation, we are vindicated. Firearms accidents continue to decline to record lows, and our long-standing firearms safety programs continue to show positive results.

With regard to recently-publicized events involving other companies which have caused concern among the financial community, we are pleased to report that our Company's financial reporting and regular disclosures to its shareholders and government regulators have continuously met the highest ethical standards, even before those required by recent legislation. We have run the Company in the way we sincerely believe best meets the interests of our shareholders, our employees, and of course, our loyal customers. We do not have the burden of servicing any debt; nor do we attempt to manage the Company's affairs to maximize today's short-term share price. In the spirit which our late Founder and Chairman Emeritus William B. Ruger counseled, we strive to produce the high quality products demanded by our customers as efficiently as possible, resulting in maximum long-term value for all concerned. Our shareholders can continue to rely upon solid, straightforward disclosure of their operating results as seen in this report.

To enhance our relationship with our distributors, customers and shareholders, we will launch a newly-designed website in the first quarter of 2003. This website will provide up-to-the-minute information on Ruger products, news and events. Our firearms catalogs, instruction manuals, SEC filings and press releases will also be available. Be sure to visit us at [www.ruger.com](http://www.ruger.com).

While the Company's earnings have not supported the \$0.20 dividend in the past several quarters, in light of the Company's current liquidity, at their October 24th meeting the Board approved a quarterly dividend of \$0.20 per share payable on December 15, 2002 to stockholders of record on December 1, 2002. We again thank our stockholders for their loyal support as we continue to successfully meet the challenges to American business today.

William B. Ruger, Jr.  
Chairman and Chief Executive Officer  
November 11, 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



Sturm, Ruger & Company, Inc.  
One Lacey Place  
Southport  
Connecticut 06890  
203 259 7843  
[www.ruger.com](http://www.ruger.com)

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			
	2002	%	2001	%	2002	%	2001	%
Firearms sales .....	\$32,210	84.7	\$35,609	86.6	\$108,366	85.8	\$100,989	82.3
Castings sales .....	5,830	15.3	5,529	13.4	17,898	14.2	21,681	17.7
Net sales .....	38,040	100.0	41,138	100.0	126,264	100.0	122,670	100.0
Cost of products sold .....	31,115	81.8	32,946	80.1	97,114	76.9	95,292	77.7
Gross profit .....	6,925	18.2	8,192	19.9	29,150	23.1	27,378	22.3
Expenses:								
Selling .....	3,696	9.7	3,076	7.5	11,111	8.8	10,781	8.8
General and administrative .....	1,504	4.0	1,326	3.2	4,720	3.7	5,001	4.1
	5,200	13.7	4,402	10.7	15,831	12.5	15,782	12.9
Operating income .....	1,725	4.5	3,790	9.2	13,319	10.6	11,596	9.4
Other income – net .....	545	1.5	624	1.5	1,367	1.1	2,586	2.1
Income before income taxes .....	2,270	6.0	4,414	10.7	14,686	11.7	14,182	11.5
Income taxes .....	910	2.4	1,730	4.2	5,889	4.7	5,559	4.5
Net income .....	\$1,360	3.6	\$2,684	6.5	\$8,797	7.0	\$8,623	7.0
Earnings per share								
Basic .....	\$0.05		\$0.10		\$0.33		\$0.32	
Diluted .....	\$0.05		\$0.10		\$0.33		\$0.32	
Cash dividends per share .....	\$0.20		\$0.20		\$0.60		\$0.60	
Average shares outstanding								
Basic .....	26,911		26,911		26,911		26,911	
Diluted .....	27,093		26,911		27,062		26,911	

Sturm, Ruger & Company, Inc.

Condensed Consolidated Balance Sheet

(unaudited)  
(in thousands)

	September 30 2002
<b>Assets</b>	
Cash and cash equivalents	\$3,644
Short-term investments	58,715
Trade receivables, net	18,630
Inventories	46,864
Deferred income taxes	7,712
Prepaid expenses and other assets	2,306
Total current assets	137,871
Property, plant and equipment	153,337
Less depreciation	(120,063)
	33,274
Deferred income taxes	2,797
Other assets	22,193
Total	\$196,135
<b>Liabilities and Stockholders' Equity</b>	
Trade accounts payable and accrued expenses	\$7,219
Product liability	4,000
Employee compensation	11,181
Workers' compensation	4,634
Income taxes	1,105
Total current liabilities	28,139
Deferred income taxes	4,677
Product liability accrual	6,311
Stockholders' equity	157,008
Total	\$196,135