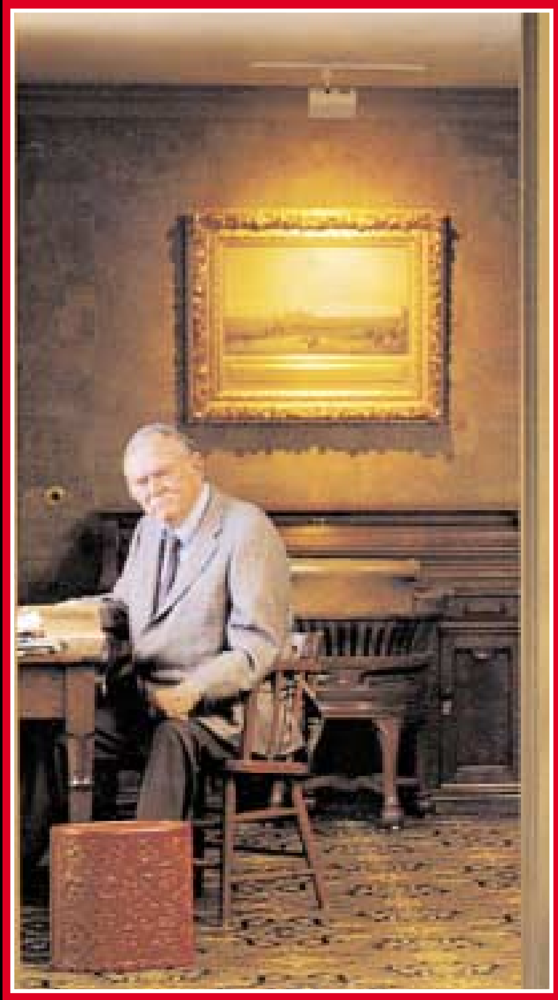
Sturm, Ruger & Company, Inc.



2002 Annual Report

WILLIAM BATTERMAN RUGER
1916 – 2002



Photograph by Thomas Ames, Jr.

William Batterman Ruger, founder and Chairman Emeritus of Sturm, Ruger & Company, Inc., the largest firearms manufacturer in the United States, and widely recognized as one of America's greatest gun designers, died peacefully at home on Saturday, July 6, 2002 at age 86, after a period of failing health. A legend in American industry, Bill Ruger had a hand in the original design and time-honored styling of every firearm the Company has produced, and continued to work on new creations up until his death. Ruger steered the business from "it can't be done" remarks to a New York Stock Exchange corporation which has produced more than 20 million high-quality firearms for hunting, target shooting, collecting, and law enforcement.

Bill Ruger teamed with Alexander McCormick Sturm and established Sturm, Ruger & Company, Inc. in 1949. Subsequent to Sturm's death in 1951, under Ruger's leadership, the Company produced more types of sporting firearms than any commercial firearms manufacturer in the world. His first firearm introduction in 1949, a .22 caliber target pistol, is still one of the most popular target pistols in widespread use. Ruger pioneered the use of precision investment castings in the firearms industry in the 1950's, and later in the popular lines of high-tech titanium golf club heads for Callaway Golf and others.

Born June 21, 1916 in Brooklyn, New York, Ruger first developed his passion for guns when he received his own rifle from his father at age 12. As a student at the University of North Carolina, Chapel Hill in 1938, he came up with initial designs for a light machine gun for the Army. Ordnance officials launched Ruger into becoming a full-time gun designer. He helped invent and patent dozens of models of Ruger sporting firearms during the ensuing 53 years, which have been instant and enduring successes. His creative advertising talents stressed mechanical innovation and safety, and he coined the Company's motto, "Arms Makers for Responsible Citizens," in the 1950's. He retired as Chairman of the Board in October, 2000, at age 84.

Ruger's deep voice commanded respect in its tone and a deliberate sense of thought behind every word spoken. His philanthropy was especially evident through charities in communities where his factories were located, as well as the Naval War College and the Buffalo Bill Historical Center in Cody, Wyoming, where he served as a member of the Board of Trustees for over 15 years. He was a strong supporter of the right of law-abiding citizens to keep and bear arms. His inspirational leadership and guidance will be sincerely missed by all who were privileged to work for him, and by generations of American sportsmen who are profoundly grateful for his genius in designing and manufacturing the quality firearms they value so highly, as a treasured part of our American way of life.

Sturm, Ruger & Company, Inc.

2002 Annual Report

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Arms Makers for Responsible Citizens®

To Our Stockholders

The last year or so has brought many reports of greed and malfeasance, many of them so egregious as to be the subject of some bemusing books and articles. The most publicized of these incidents have involved the private sector.

The resulting political relief at having private, and not public, sector scandals to poke at was manifested in a paroxysm of hastily formulated legislation which may have unintentionally destructive results. For example, the Sarbanes-Oxley Act tends to exclude from certain important roles in corporate governance a corporate director who has employment, pension, significant stock ownership, or any other measurable interest in the consequences of such governance.

These events notwithstanding, I can categorically state that the financial reporting and regular disclosures made by this Company to our shareholders, to government regulators, and to the general public have continuously met the highest standards of accuracy, completeness and ethical correctness. As always, the general public and every member of our constituency can continue to rely upon solid, straightforward reporting concerning our activities.

This Company will continue to be run in the manner which best serves 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. Rather, we strive to produce the highest quality products demanded by our customers as efficiently as possible, which results in maximum long-term value for all concerned.

Unfortunately, the enclosed financial reports depict an unacceptable year. Specific results are sales of $161.6 million and net income of $8.5 million or $0.31 per share. Comparable amounts for 2001 were sales of $174.3 million, net income of $13.5 million or $0.50 per share. In the fourth quarter of 2002, we recorded a $3.3 million charge to earnings to recognize an impairment loss on certain of the investment castings segment assets. The significant decline of castings sales has made it clear that we will be unable to utilize a portion of our casting capacity in the short-term. We are, however, committed to this business and believe it will ultimately benefit the Company.

In spite of these recent setbacks, we can take some solace in the old adage, "Profit is an opinion, cash is a fact." The long-term strength and staying power of a company is best measured by its balance sheet. At December 31, 2002, we remain debt free and have $53.4 million of cash and short-term investments. In a vote of confidence, at their meeting on December 18, 2002, the Board of Directors declared a regular quarterly dividend of $0.20 per share payable on March 15, 2003.

We are committed to using our financial resources, manufacturing expertise and dedicated employees to strengthen the Company during these turbulent economic times. One area in which we have made great strides is the consolidation of our several firearms and castings websites into one state-of-the-art website, *www.ruger.com*. Dozens of our employees brought their unique ideas and knowledge of the Company and its products to this effort. This website, to be launched on March 19, 2003, will offer a wealth of Company and product information to wholesale distributors, Federally licensed retail firearms dealers, lawful customers, and to our shareholders. Please visit us at *www.ruger.com*.

The publication of the enclosed Ruger 2003 Catalogue of Fine Firearms is another such initiative. Employees from sales, marketing, product development, engineering and manufacturing were instrumental in creating a fresh, new look for the catalogue. Readers will be pleased by its enhanced layout featuring detailed product photography and broader product information in an "easy to read" format. Continuing the long-standing Ruger tradition of invention and innovation, the 2003 catalogue introduces several new products to the Company's expansive product lines.

Responding to the continuing overwhelming demand for the Ruger 77/17, four new models also chambered for the popular new high velocity .17 Hornady Magnum Rimfire (.17 HMR) cartridge have been added to the Company's offerings. The .17 HMR cartridge provides higher velocity, flatter trajectory, and superior long-range accuracy than the .22 WMR and .22 Long Rifle.

- The Ruger .17 HMR New Model Single-Six features a target crowned 6½" barrel and chrome-molybdenum blued steel components.
- The Ruger Model 96/17, which offers rugged reliability with classic Old West styling, has been added to the popular lever-action family.
- Two new bolt action rifles, the Ruger Target Grey® Varmint Model 77/17 rifle in our proprietary non-glare stainless steel with a black laminated wood stock; and the Ruger Model 77/17 in blued alloy steel with a synthetic stock, supplement the

Company's bolt action offerings. Both 77/17 rifles incorporate Ruger's patented nine round detachable rotary magazine and Ruger's patented scope mounting system with integral scope bases and medium-height rings.

The twenty-seventh and latest model Ruger Over & Under Shotgun, a Ruger 12 gauge Target Grey® All-Weather Red Label Shotgun, also bears our strikingly unique metal finish which enhances the durable elegance of this classic Ruger model.

I am pleased to report that the 50th anniversary of the Ruger Single-Six .22 caliber revolver occurs in 2003. To commemorate this milestone, a special limited edition revolver will be sold in 2003 which features a $4\frac{5}{8}$" barrel with a "1953-2003" gold filled rollmark, blued steel finish, and Cocobolo wood grips bearing unique red Ruger medallions. The Ruger New Model Single-Six will include both .22 Long Rifle and .22 Rimfire Magnum cylinders, and will be housed in a unique red high-impact case. For more information on these and other new products, please see pages 10 and 11 of this report.

In 2002, two of our exciting new products were awarded "New Product of the Year" honors by the Shooting Industry Academy of Excellence. The new Ruger "Gold Label" side-by-side shotgun won Best New "Shotgun of the Year," and the aforementioned Ruger 77/17 rifle won in the Best New "Rifle of the Year" category. This was a gratifying experience for all our hard-working employees who have been affiliated with the design and manufacture of these products, and we are immensely proud of their tireless efforts. Quantity shipments of our Gold Label side-by-side shotgun will begin in 2003.

Our successful commitment to the defense of this Company and the Second Amendment rights of responsible law-abiding Americans continues. In 2002, Boston became the first city to voluntarily withdraw its municipal lawsuit against the Company, stating after the close of extensive discovery that "members of the firearm industry have a long standing commitment to reducing firearms accidents and to reducing the criminal misuse of firearms." The year also saw the final dismissals of the Philadelphia, Atlanta, and Wilmington cases, the appellate affirmance of the trial court's dismissal of the Gary (Indiana) case, and the dismissal by the trial court of the Washington, D.C. lawsuit. The New Orleans, Bridgeport, Miami, and Camden County cases have also been finally dismissed, with no further appeals possible.

The Chicago dismissal was reversed, but this matter is on further appeal to the Illinois Supreme Court. The Newark trial court also refused to dismiss that case, but an interlocutory appeal has been granted. The Cincinnati dismissal was reversed by a 4-3 decision of the Ohio Supreme Court and remanded to the trial court for discovery proceedings.

On March 7, 2003, the trial court dismissed all manufacturer defendants from the Consolidated California Cities case. The NAACP case is scheduled for trial in 2003, but will be the subject of additional dispositive motions. Only three new traditional product liability cases were filed against the Company in 2002, the lowest number in over 28 years.

These cases dramatically illustrate the significant shortcomings of our current tort system. Firearms accidents and new product liability lawsuits are at record lows, our numerous voluntary product safety efforts continue, and many favorable court decisions have rejected "absolute liability" of firearms manufacturers for the acts of criminals far beyond our control. Yet the Company remains vexed with significant litigation expenses. Remedial legislation seems the only way to fully and finally end the false notion that any manufacturer of lawfully sold products should be liable for their subsequent intentional criminal misuse. Some 30 states have enacted exactly such needed prohibitions against frivolous lawsuits, and this idea enjoys widespread support in the U.S. Congress, where last year federal preemptive legislation had 42 Senate and 235 House co-sponsors. We trust that the new Congress will have the wisdom and fortitude to pass such badly needed lawsuit reforms.

Of course, on both a personal and professional basis, I must mention the passing of the Company's founder and Chairman Emeritus, William B. Ruger, on July 6, 2002. He was a giant in this industry, and starting with nothing more than an idea that responsible American gun owners deserved high-quality, affordable products with elegant design details, built this Company to be the industry leader. He has imbued in all of us the spirit to maintain this tradition and continue to exceed the expectations of our millions of loyal customers. Long before his passing, he put into place the basis for a well-run, responsive organization fully ready and eager to meet the challenges of the 21st Century. This will be his greatest legacy.

I would be remiss if I did not express my gratitude to our 1,500 loyal employees whose talents and dedication are critical to the Company's success. Our annual stockholders meeting will be held on May 6, 2003 in New London, New Hampshire. We hope you will join us.

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

March 10, 2003

Selected Financial Data

(Dollars in thousands, except per share data)

	Year Ended December 31,				
	2002	2001	2000	1999	1998
Net firearms sales	**$139,762**	$147,622	$166,415	$188,564	$144,898
Net castings sales	**21,825**	26,708	36,239	53,100	66,682
Total net sales	**$161,587**	$174,330	$202,654	$241,664	$211,580
Cost of products sold	**$125,376**	$134,449	$144,503	$170,650	$157,048
Gross profit	**36,211**	39,881	58,151	71,014	54,532
Income before income taxes	**14,135**	22,199	44,474	55,483	39,372
Income taxes	**5,668**	8,702	17,434	21,749	15,946
Net income	**8,467**	13,497	27,040	33,734	23,426
Basic and diluted earnings per share	**0.31**	0.50	1.00	1.25	0.87
Cash dividends per share	**$0.80**	$0.80	$0.80	$0.80	$0.80

	December 31,				
	2002	2001	2000	1999	1998
Working capital	**$103,116**	$118,760	$123,020	$118,593	$102,395
Total assets	**183,958**	204,378	215,665	215,684	196,734
Total stockholders' equity	**137,983**	164,340	172,358	166,826	154,564
Book value per share	**$5.13**	$6.11	$6.40	$6.20	$5.74
Return on stockholders' equity	**6.1%**	8.0%	15.9%	21.0%	15.2%
Current ratio	**4.8 to 1**	6.1 to 1	5.8 to 1	5.2 to 1	5.1 to 1
Common shares outstanding	**26,910,700**	26,910,700	26,910,700	26,910,700	26,910,700
Number of stockholders of record	**2,026**	2,064	2,011	2,046	1,974
Number of employees	**1,418**	1,547	1,814	1,952	2,130

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.

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, and steel, nickel and cobalt alloys.

Results of Operations

Year ended December 31, 2002, as compared to year ended December 31, 2001:

Consolidated net sales of $161.6 million were achieved by the Company in 2002 representing a decrease of $12.7 million or 7.3% from net sales of $174.3 million in 2001.

Firearms segment net sales decreased by $7.8 million or 5.3% to $139.8 million in 2002 from $147.6 million in the prior year. Firearms unit shipments for 2002 decreased 9.1% from 2001, as shipments for all product families declined significantly in the latter half of the year. In 2002, the Company instituted a sales incentive program for its distributors which allows them to earn rebates of up to 1.5% if certain annual overall sales targets are achieved. This program replaces a similar sales incentive program in 2001 which allowed rebates of up to 5%. From August 1, 2002 to November 30, 2002, a consumer-driven sales incentive program for certain hunting rifles and revolvers was in effect. Pistol demand may have been enhanced in 2001 by a sales incentive program which was in effect from August 2001 through December 2001.

Casting segment net sales decreased 18.3% to $21.8 million in 2002 from $26.7 million in 2001 as a result of lower unit volume. The downturn in castings sales is due to continuing weakened demand for both steel and titanium castings. The Company continues to actively pursue other casting business opportunities.

Consolidated cost of products sold for 2002 was $125.4 million compared to $134.4 million in 2001, representing a decrease of 6.7%. This decrease of $9.0 million was primarily attributable to decreased sales in both the firearms and investment castings segments, partially offset by increased product liability expenses.

Gross profit as a percentage of net sales decreased to 22.4% in 2002 from 22.9% in 2001. This erosion is due to decreased sales in 2002, partially offset by the reversal of an overaccrual related to a pistol rebate program that ended December 31, 2001.

Selling, general and administrative expenses decreased 1.0% to $20.7 million in 2002 from $20.9 million in 2001.

In 2002, the Company recognized asset impairment charges of $3.3 million related to certain assets in the investment castings segment.

Other income-net decreased from $3.2 million in 2001 to $1.9 million in 2002 primarily reflecting decreased earnings on short-term investments as a result of declining interest rates and reduced principal.

The effective income tax rate of 40.1% in 2002 increased slightly from the income tax rate of 39.2% in 2001.

As a result of the foregoing factors, consolidated net income in 2002 decreased to $8.5 million from $13.5 million in 2001, representing a decrease of $5.0 million or 37.3%.

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 reflects 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 sales incentive program which was in effect from August through December 2001.

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 is due to an apparent weakened demand for both steel and titanium castings.

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 to 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.

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%.

Financial Condition

At December 31, 2002, the Company had cash, cash equivalents and short-term investments of $53.4 million, working capital of $103.1 million and a current ratio of 4.8 to 1.

Cash provided by operating activities was $9.9 million, $23.0 million, and $17.4 million in 2002, 2001, and 2000, respectively. The decrease in cash provided in 2002 is principally the result of decreased income in 2002 and an increase in prepaid and other assets of $6.5 million in 2002 compared with a decrease of $4.6 million 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 $9.0 million and $12.2 million at December 31, 2002 and 2001, 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 $4.6 million per year. In 2003, 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 2002 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 2002. On December 18, 2002, the Company declared a regular quarterly dividend of $.20 per share payable on March 15, 2003. Future dividends depend on many factors, including internal estimates of future performance and the Company's need for funds.

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 2003.

In conjunction with the sale of its Uni-Cast division in June 2000, the Company extended credit to the purchaser in the form of a note and a line of credit, both of which are collateralized by certain of the assets of Uni-Cast. In July 2002, the Company established an additional collateralized line of credit for the purchaser and, as of December 31, 2002, the total amount due from the purchaser was $2.3 million. The Company purchases aluminum castings used in the manufacture of certain models of pistols exclusively from Uni-Cast.

The sale, purchase, ownership, and use of firearms are subject to 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 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 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 a state 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.

The only case against the Company alleging liability for criminal shootings by third-parties to ever 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 to the Appellate Division of the New York State Supreme Court for resolution. 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 U.S. Second Circuit Court of Appeals 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.

Of the lawsuits brought by municipalities or a state Attorney General, twelve have been dismissed as a matter of law. Eight cases are concluded (*Atlanta* – dismissal by intermediate Appellate Court, no further appeal; *Boston* – voluntarily dismissed with prejudice after withdrawal by the city; *Bridgeport* – dismissal affirmed by Connecticut Supreme Court; *County of Camden* – dismissal affirmed by Third Circuit Court of Appeals; *Miami* – dismissal affirmed by intermediate Appellate Court, Florida Supreme Court declined review; *New Orleans* – dismissed by Louisiana Supreme Court, United States Supreme Court declined review; *Philadelphia* – Third Circuit Court of Appeals affirmed dismissal, no further appeal; and *Wilmington* – dismissed by the trial court, no appeal taken). On June 12, 2002, the Ohio Supreme Court voted 4-3 to reverse the dismissals of the *Cincinnati* case by the trial and appellate courts and remanded the case to the trial court for discovery proceedings. On September 20, 2002, the Indiana Court of Appeals affirmed the dismissal of the *Gary* case by the trial court and plaintiffs have filed a request for appeal to the Indiana Supreme Court. *Chicago* was dismissed by the trial court, reversed by the appellate court, and is now on appeal to the Illinois Supreme Court. *New York State* is on appeal from its complete dismissal. *Washington, D.C.* was dismissed by the trial court on December 16, 2002, and the city has filed a notice of appeal. On March 7, 2003, the trial court dismissed all manufacturer defendants from the *Consolidated California Cities* case.

Of the remaining cases in which the Company has been served with process, two (*Detroit/Wayne County* and *Newark*) are on appeal from partial dismissal, two (*Cleveland* and *New York City*) are stayed, and two (*Camden City* and *St. Louis*) have pending motions to dismiss at the trial level. The lawsuit filed by the *NAACP* is presently set for trial to begin on March 24, 2003 if dispositive motions are not granted.

Legislation has been passed in approximately 30 states precluding suits of the type brought by the municipalities mentioned above.

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 valuation of the future defined benefit pension obligations at December 31, 2002 indicated that these plans were underfunded. While this estimation has no bearing on the Company's profitability or the actual funded status of the pension plans, it results in the recognition of other comprehensive loss of $7.9 million.

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.

Subsequent to the passage of the Sarbanes-Oxley Act of 2002, the Company extended approximately $35,000 of credit to an officer of the Company. This extension of credit may have been unintentionally contrary to the Sarbanes-Oxley Act of 2002. In recognition of this potential violation, this officer subsequently repaid this balance to the Company.

Critical Accounting Policies

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States, requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses recognized and incurred during the reporting period then ended. Significant estimates in our consolidated financial statements include the product liability accrual, allowance for doubtful accounts, inventory valuation allowance, sales discounts and rebate allowances, employee benefit accruals, deferred tax asset valuation allowance, valuation of long-lived assets and pension liabilities. We base our estimates on prior experience, facts and circumstances and other assumptions, including those reviewed with actuarial consultants and independent counsel, when applicable, that we believe to be reasonable. However, actual results may differ from these estimates.

We believe the determination of our product liability expense is a critical accounting policy. 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.

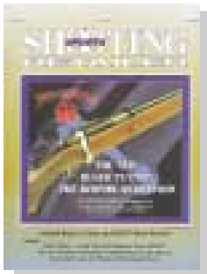
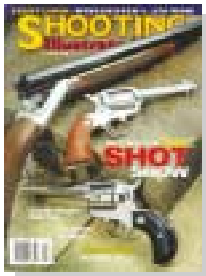
Amounts are charged to product liability expense in the period in which the Company becomes aware that a claim or, in some instances a threat of claim, has been made when potential losses or costs of defense can be reasonably estimated. Such amounts are determined based on the Company's experience in 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.

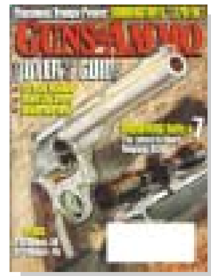
While it is not possible to forecast the outcome of litigation or the timing of costs, in the opinion of management, after consultation with independent and corporate counsel, it is not probable and is unlikely that litigation, including punitive damage claims, will have a material adverse effect on the financial position of the Company, but may have a material impact on the Company's financial results for a particular period.

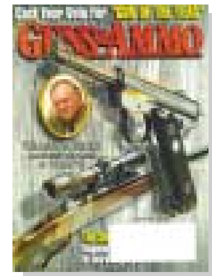
Forward-Looking Statements and Projections

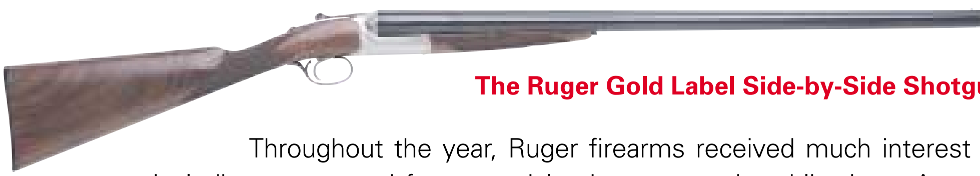
The Company may, from time to time, make forward-looking statements and projections concerning future expectations. Such statements are based on current expectations and are subject to certain qualifying risks and uncertainties, such as market demand, sales levels of firearms, anticipated castings sales 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, a state attorney 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.

Ruger Gold Label Shotgun and 77/17 Rifle Voted 2002's "Best New Products of the Year" by Shooting Industry's "Academy of Excellence"







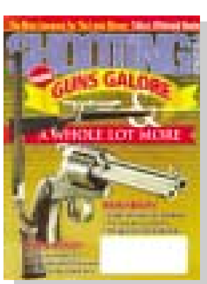
The Ruger Gold Label Side-by-Side Shotgun

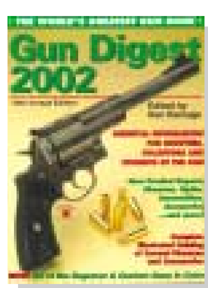
Throughout the year, Ruger firearms received much interest in the outdoor press, including covers and feature articles in many such publications. Among the topics featured was the unparalleled success of new Ruger products in 2002, as exemplified by two major industry awards.

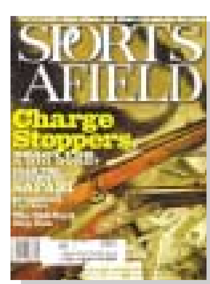
We are gratified that, in 2002, Ruger products won two out of the three firearms category awards. Our new **Ruger Gold Label side-by-side 12 gauge double shotgun** and our new **Ruger 77/17 bolt action rifle** won best shotgun and rifle, respectively; and our Ruger New Model Hunter .44 Magnum single action revolver was one of the three Handgun of the Year finalists.

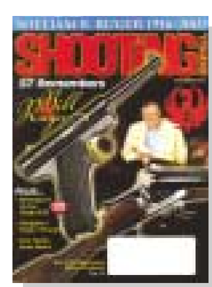
These prestigious awards are unique in that they are the result of closed voting by a large group of outdoor writers, editors, retailers, and firearms enthusiasts. They vote by secret ballot to select "The Best of the Best" each year, and we were delighted to have our products so honored.

The Ruger 77/17 .17 HMR Caliber Bolt Action Rifle

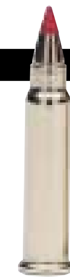








New .17 HMR Caliber Ruger Firearms for 2003



The .17 HMR Rimfire Magnum Cartridge
The new .17 HMR cartridge introduced by Ruger and Hornady Cartridge Company in 2002 was the most successful new ammunition launch since the .44 Magnum in 1956. It is quiet, accurate, flat shooting, and inexpensive; all the attributes of a winning 21st Century cartridge. It efficiently propels a 17 grain .17 caliber synthetic tipped bullet at a remarkable 2,550 feet per second. Demand for both firearms and ammunition far outstrips supply.

New Ruger .17 HMR caliber product introductions for 2003 include:

The Ruger Model 96/17 A lower-cost yet amazingly accurate lever action alternative to the Ruger 77/17 series of .17's.

The Ruger Synthetic Stock Model 77/17 Ruger's exciting new 77/17 bolt action is now mated to a lightweight impervious synthetic stock.

The Ruger Varmint Model 77/17 To fully exploit the long-range capability of the new flat-shooting .17 HMR cartridge, this model features a longer, heavier barrel bedded into a handsome, warp-resistant laminated wood stock.

The Ruger New Model Single-Six .17 HMR Caliber Single-Action Revolver The first single action chambered for this cartridge is a natural to have handy for longer-range varmint hunting around the ranch or farm.

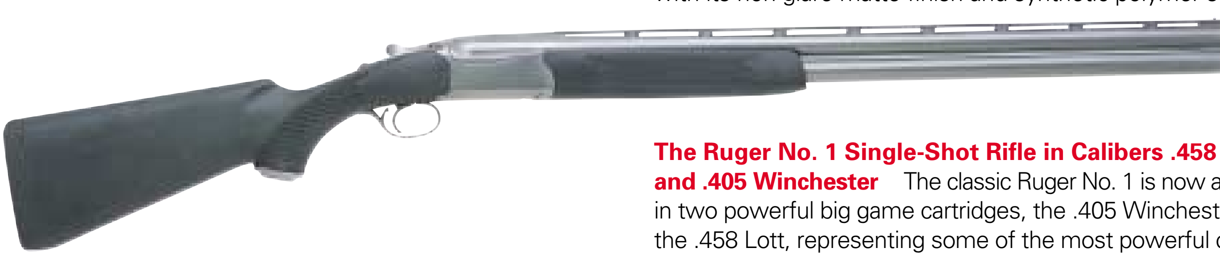
Other New Ruger Firearms for 2003

The 50th Anniversary Ruger New Model Single-Six
This thoroughly modern version of the original groundbreaking Ruger Single-Six evokes memories of the most famous revolver of the 1950's. It proudly bears a special gold-filled commemorative rollmark, stunning cocobolo wood grips, a red Ruger grip medallion, a classic fixed sight frame, and comes in a unique case. It will only be offered in 2003, and is a fitting tribute to its designer, our late founder William B. Ruger.

The Ruger New Model Bisley Hunter Our Ruger New Model Hunter revolver, the first to be factory equipped with rugged scope rings securely mountable on a solid integral top rib, is now available in the popular Ruger Bisley configuration, using a grip frame which many consider the best in handling the recoil of today's magnum hunting cartridges.

The Ruger "Bird's Head" Grip Vaquero with Simulated Ivory Grips Another unique Ruger grip shape, the popular Ruger "Bird's Head" grip Vaquero is now offered with both blued steel and stainless finishes with attractive simulated ivory grips for the western aficionado.

The Ruger Target Grey® All-Weather Model Over and Under Shotgun Waterfowl hunters will appreciate the unique new Target Grey® model of our All-Weather shotgun, with its non-glare matte finish and synthetic polymer stock.



The Ruger No. 1 Single-Shot Rifle in Calibers .458 Lott and .405 Winchester The classic Ruger No. 1 is now available in two powerful big game cartridges, the .405 Winchester and the .458 Lott, representing some of the most powerful chamberings of the turn of both the 20th and 21st centuries.

Consolidated Balance Sheets

(Dollars in thousands, except per share data)

December 31,	**2002**	2001
Assets		
Current Assets		
Cash and cash equivalents	**$ 3,598**	$ 3,838
Short-term investments	**49,776**	63,957
Trade receivables, less allowances for doubtful accounts ($449 and $1,061) and discounts ($783 and $1,145)	**14,026**	15,121
Inventories:		
Finished products	**16,999**	12,333
Materials and products in process	**34,629**	37,460
	51,628	49,793
Deferred income taxes	**6,985**	7,922
Prepaid expenses and other current assets	**4,536**	1,566
Total Current Assets	**130,549**	142,197
Property, Plant, and Equipment		
Land and improvements	**1,797**	1,779
Buildings and improvements	**30,824**	30,782
Machinery and equipment	**94,841**	93,478
Dies and tools	**26,270**	25,448
	153,732	151,487
Allowances for depreciation	**(124,538)**	(114,535)
	29,194	36,952
Deferred income taxes	**9,594**	3,671
Other assets	**14,621**	21,893
Total Assets	**$183,958**	$204,713

See accompanying notes to consolidated financial statements.

December 31,	**2002**	2001
Liabilities and Stockholders' Equity		
Current Liabilities		
Trade accounts payable and accrued expenses	**$ 5,080**	$ 6,893
Product liability	**4,000**	4,000
Employee compensation and benefits	**7,324**	7,220
Workers' compensation	**4,765**	4,620
Dividends payable	**5,382**	–
Income taxes	**882**	704
Total Current Liabilities	**27,433**	23,437
Accrued pension liability	**6,423**	3,820
Deferred income taxes	**5,886**	4,654
Product liability	**6,233**	8,462
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	**2,508**	2,492
Retained earnings	**116,649**	135,093
Accumulated other comprehensive income	**(8,085)**	(156)
Total Stockholders' Equity	**137,983**	164,340
Total Liabilities and Stockholders' Equity	**$183,958**	$204,713

Consolidated Statements of Income

(In thousands, except per share data)

Year ended December 31,	**2002**	2001	2000
Net firearms sales	**$139,762**	$147,622	$166,415
Net castings sales	**21,825**	26,708	36,239
Total net sales	**161,587**	174,330	202,654
Cost of products sold	**125,376**	134,449	144,503
Gross profit	**36,211**	39,881	58,151
Expenses:			
Selling	**14,777**	14,473	14,021
General and administrative	**5,885**	6,392	5,886
Impairment of long-lived assets	**3,311**	–	–
	23,973	20,865	19,907
Operating profit	**12,238**	19,016	38,244
Other income-net	**1,897**	3,183	6,230
Income before income taxes	**14,135**	22,199	44,474
Income taxes	**5,668**	8,702	17,434
Net Income	**$ 8,467**	$ 13,497	$ 27,040
Basic and Diluted Earnings Per Share	**$ 0.31**	$ 0.50	$ 1.00
Cash Dividends Per Share	**$ 0.80**	$ 0.80	$ 0.80

See accompanying notes to consolidated financial statements.

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, 1999	$26,911	$2,434	$137,614	$(133)	$166,826
Net income			27,040		27,040
Additional minimum pension liability, net of deferred taxes of $14				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, net of deferred taxes of $29				(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
Net income			**8,467**		**8,467**
Additional minimum pension liability, net of deferred taxes of $5,287				**(7,929)**	**(7,929)**
Comprehensive income					**538**
Stock options compensation		**16**			**16**
Cash dividends			**(21,529)**		**(21,529)**
Unpaid dividends declared			**(5,382)**		**(5,382)**
Balance at December 31, 2002	**$26,911**	**$2,508**	**$116,649**	**$(8,085)**	**$137,983**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)

Year ended December 31,	**2002**	2001	2000
Operating Activities			
Net income	**$ 8,467**	$ 13,497	$ 27,040
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	**7,490**	8,151	8,751
Impairment of long-lived assets	**3,311**	–	–
Gain on sale of assets	**(209)**	–	(1,068)
Gain on sale of Uni-Cast assets	**–**	–	(626)
Deferred income taxes	**1,533**	1,302	3,542
Changes in operating assets and liabilities:			
Trade receivables	**1,095**	(767)	5,916
Inventories	**(1,835)**	1,571	(13,761)
Trade accounts payable and accrued expenses	**(1,813)**	1,038	(304)
Product liability	**(2,229)**	(3,846)	(3,191)
Prepaid expenses, other assets, and other liabilities	**(6,048)**	2,843	(7,541)
Income taxes	**178**	(808)	(1,393)
Cash provided by operating activities	**9,940**	22,981	17,365
Investing Activities			
Property, plant, and equipment additions	**(3,155)**	(3,605)	(7,023)
Purchases of short-term investments	**(145,392)**	(165,183)	(156,700)
Proceeds from sales or maturities of short-term investments	**159,574**	167,101	161,436
Net proceeds from sale of assets	**322**	–	1,978
Net proceeds from sale of Uni-Cast assets	**–**	–	382
Cash provided (used) by investing activities	**11,349**	(1,687)	73
Financing Activities			
Dividends paid	**(21,529)**	(21,529)	(21,529)
Cash used by financing activities	**(21,529)**	(21,529)	(21,529)
Decrease in cash and cash equivalents	**(240)**	(235)	(4,091)
Cash and cash equivalents at beginning of year	**3,838**	4,073	8,164
Cash and Cash Equivalents at End of Year	**$ 3,598**	$ 3,838	$ 4,073

See accompanying notes to consolidated financial statements.

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 estimated 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 $47.2 million and $45.4 million at December 31, 2002 and 2001, 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.

In October 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which requires the use of a specific accounting model to determine the valuation of long-lived assets. Long-lived assets are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable.

In performing this review, the carrying value of the assets is compared to the projected undiscounted cash flows to be generated from the assets. If the sum of the undiscounted expected future cash flows is less than the carrying value of the assets, the assets are considered to be impaired. Impairment losses are measured as the amount by which carrying value of the assets exceeds the fair value of the assets. When fair value estimates are not available, the Company estimates fair value using the estimated future cash flows discounted at a rate commensurate with the risks associated with the recovery of the assets. The Company adopted SFAS No. 144 on January 1, 2002.

Income Taxes

Income taxes are accounted for using the asset and liability method in accordance with 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, 2002, 2001, and 2000 were $2.2 million, $2.1 million, and $2.6 million, respectively.

Shipping Costs

Costs incurred related to the shipment of products are included in selling expense. Such costs totaled $1.6 million in 2002, 2001, and 2000.

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," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure."

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 2002, 2001, and 2000. Diluted earnings per share reflect the impact of options outstanding using the treasury stock method. This results in diluted weighted-average shares outstanding of 27,002,200 in 2002, 26,922,800 in 2001, and 26,910,700 in 2000.

Recent Accounting Pronouncements

SFAS No. 143, "Accounting for Asset Retirement Obligations," requires the recognition of an asset and a liability equal to the present value of the estimated costs associated with the retirement of long-lived assets where a legal or contractual obligation exists.

FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," requires a guarantor to recognize a liability with respect to a non-contingent obligation to stand ready to perform under the guarantee even if the probability of future payments under the conditions of a guarantee is remote, for periods beginning after December 15, 2002, and requires certain related disclosures as of December 31, 2002.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, as opposed to when management is committed to an exit plan.

The Company will adopt these statements effective January 1, 2003. The Company does not expect the adoption of these statements to have a material impact on its financial statements.

2. Income Taxes

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

Year ended December 31,	**2002**		2001		2000	
	Current	**Deferred**	Current	Deferred	Current	Deferred
Federal	**$3,190**	**$1,303**	$6,009	$1,072	$11,621	$2,944
State	**945**	**230**	1,391	230	2,271	598
	$4,135	**$1,533**	$7,400	$1,302	$13,892	$3,542

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

December 31,	**2002**	2001
Deferred tax assets:		
Product liability	**$ 4,103**	$ 4,885
Employee compensation and benefits	**3,553**	3,398
Allowances for doubtful accounts and discounts	**887**	1,704
Inventories	**1,109**	1,111
Additional minimum pension liability	**5,391**	104
Other	**1,536**	391
Total deferred tax assets	**16,579**	11,593
Deferred tax liabilities:		
Depreciation	**1,428**	1,584
Pension plans	**4,458**	3,070
Total deferred tax liabilities	**5,886**	4,654
Net deferred tax assets	**$10,693**	$ 6,939

In accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pension Plan Costs," changes in deferred tax assets relating to the additional minimum pension liability are not charged to expense and are therefore not included in the deferred tax provision, instead they are charged to other comprehensive income.

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

Year ended December 31,	**2002**	2001	2000
Statutory Federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of Federal tax benefit	**5.4**	4.7	4.2
Other items	**(0.3)**	(0.5)	–
Effective income tax rate	**40.1%**	39.2%	39.2%

The Company made income tax payments of approximately $6.4 million, $4.7 million, and $18.9 million during 2002, 2001, and 2000, 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	**2002**	2001
Benefit obligation at January 1	**$41,370**	$35,420
Service cost	**1,414**	1,321
Interest cost	**2,879**	2,659
Actuarial loss	**3,807**	3,570
Benefits paid	**(1,682)**	(1,600)
Benefit obligation at December 31	**47,788**	41,370
Change in Plan Assets		
Fair value of plan assets at January 1	**36,723**	33,297
Actual return on plan assets	**(721)**	1,984
Employer contributions	**4,486**	3,042
Benefits paid	**(1,682)**	(1,600)
Fair value of plan assets at December 31	**38,806**	36,723
Funded status	**(8,982)**	(4,647)
Unrecognized net actuarial loss	**15,734**	8,310
Unrecognized prior service cost	**2,629**	3,110
Unrecognized transition obligation (asset)	**33**	(88)
Net amount recognized	**$ 9,414**	$ 6,685

Amounts Recognized on the Balance Sheet	**2002**	2001
Prepaid benefit cost	**$ –**	$ 9,563
Accrued benefit liability	**(6,423)**	(3,820)
Intangible asset	**2,361**	682
Accumulated other comprehensive income	**8,085**	156
Deferred tax asset	**5,391**	104
	$ 9,414	$ 6,685
Weighted Average Assumptions as of December 31,		
Discount rate	**6.50%**	7.00%
Expected return on plan assets	**8.00%**	9.00%
Rate of compensation increases	**5.00%**	5.00%

Components of Net Periodic Pension Cost	**2002**	2001
Service cost	**$ 1,414**	$ 1,321
Interest cost	**2,879**	2,659
Expected return on assets	**(3,344)**	(3,019)
Amortization of unrecognized transition asset	**(121)**	(121)
Recognized gains	**329**	92
Prior service cost recognized	**600**	591
Net periodic pension cost	**$ 1,757**	$ 1,523

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 $47.8 million, $45.2 million, and $38.8 million, respectively, as of December 31, 2002 and $11.8 million, $9.3 million and $6.3 million, respectively, as of December 31, 2001. Intangible assets are included in other assets in the consolidated balance sheet.

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 $1.6 million, $1.5 million, and $1.4 million in 2002, 2001, and 2000, respectively.

In 2002 and 2001 the Company changed the weighted-average discount rates which increased the projected benefit obligation by approximately $3.2 million and $2.7 million, respectively.

In accordance with SFAS No. 87, "Employers' Accounting for Pension Costs," the Company recorded an additional minimum pension liability which decreased comprehensive income by $7.9 million and $44,000 in 2002 and 2001, respectively, and increased comprehensive income by $21,000 in 2000.

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, 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
Granted	–	–
Exercised	–	–
Canceled	**(160,000)**	**11.94**
Outstanding at December 31, 2002	**1,330,000**	**$11.62**

There were 962,000 exercisable options at December 31, 2002, with a weighted average exercise price of $11.79 and an average contractual life remaining of 6.2 years. At December 31, 2002, an aggregate of 870,000 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" as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." 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):

	2002	2001	2000
Net Income:			
As reported	**$8,467**	$13,497	$27,040
Add: Recognized stock-based employee compensation, net of tax	**10**	35	_
Deduct: Employee compensation expense determined under fair value method, net of tax	**(387)**	(366)	(340)
Pro forma	**$8,090**	$13,166	$26,700
Earnings per Share (Basic and Diluted):			
As reported	**$0.31**	$0.50	$1.00
Pro forma	**$0.30**	$0.49	$0.99

The weighted average fair value of options granted under the Plans was estimated at $1.88 on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions in 2001, respectively: dividend yield of 8.0%, expected volatility of 34.3%, risk free rate of return of 2.0%, and expected lives of 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, 2002, 502,000 shares of Common Stock were reserved for future awards.

5. Contingent Liabilities

As of December 31, 2002 the Company was a defendant in approximately 28 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 $837 million and $865 million at December 31, 2002 and 2001, 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. Asset Impairment Charges

In 2002 the Company recognized asset impairment charges of $3.3 million related to certain assets in the investment castings segment. As a result of the significant reduction in sales and substantial losses incurred by this segment, in the fourth quarter the Company evaluated the recoverability of certain assets and wrote off $1.0 million of a building and $2.3 million of machinery and equipment. The Company was required to reduce the carrying value of the assets to fair value and recognized asset impairment charges, because the carrying value of the affected assets exceeded the projected future undiscounted cash flows. The fair value of the building was based on available market data and the fair value of the machinery and equipment was based on estimated discounted cash flows from the assets.

7. Related Party Transactions

In 2002 and 2001, the Company paid Newport Mills, of which William B. Ruger, Jr., Chairman and Chief Executive Officer of the Company, is the sole proprietor, $206,250 and $243,750, respectively, for storage rental. In addition, the Company paid $16,500 and $19,500 in 2002 and 2001, respectively, for the rental of office space owned by Mr. Ruger, Jr.

8. 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 licensed independent wholesale distributors primarily located in the United States. The investment castings 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 $3.3 million asset impairment charges recorded in 2002 are included in the investment castings segment.

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

Revenues from one customer in the firearms segment totaled $24.0 million, $30.4 million and $33.3 million in 2002, 2001, and 2000, respectively. Revenues from an additional customer in the firearms segment totaled $20.1 million and $22.8 million in 2001 and 2000, respectively. Revenues from a third customer in the firearms segment totaled $20.7 million in 2000.

Year ended December 31, (in thousands)	**2002**	2001	2000
Net Sales			
Firearms	**$139,762**	$147,622	$166,415
Castings			
Unaffiliated	**21,825**	26,708	36,239
Intersegment	**17,679**	27,282	31,645
	39,504	53,990	67,884
Eliminations	**(17,679)**	(27,282)	(31,645)
	$161,587	$174,330	$202,654
Income (Loss) Before Income Taxes			
Firearms	**$ 23,673**	$ 22,800	$ 39,137
Castings	**(11,230)**	(3,473)	546
Corporate	**1,692**	2,872	4,791
	$ 14,135	$ 22,199	$ 44,474
Identifiable Assets			
Firearms	**$ 79,301**	$ 78,774	$ 79,230
Castings	**19,394**	27,351	33,043
Corporate	**85,263**	98,588	103,392
	$183,958	$204,713	$215,665
Depreciation			
Firearms	**$ 3,448**	$ 3,395	$ 3,468
Castings	**4,042**	4,756	5,283
	$ 7,490	$ 8,151	$ 8,751
Capital Expenditures			
Firearms	**$ 2,767**	$ 2,073	$ 3,693
Castings	**388**	1,532	3,330
	$ 3,155	$ 3,605	$ 7,023

9. Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 2002 (in thousands, except per share data):

	Three Months Ended			
	3/31/02	**6/30/02**	**9/30/02**	**12/31/02**
Net sales	**$48,440**	**$39,784**	**$ 38,040**	**$ 35,323**
Gross profit	**12,280**	**9,945**	**6,925**	**7,061**
Net income (loss)	**4,532**	**2,905**	**1,360**	**(330)**
Basic and diluted earnings (loss) per share	**0.17**	**0.11**	**0.05**	**(0.02)**

	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

Report of Independent Auditors

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 sheets of Sturm, Ruger & Company, Inc. and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity and cash flows for the years 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 audits. The accompanying financial statements of Sturm, Ruger & Company, Inc. for the year ended December 31, 2000 were audited by other auditors whose report thereon dated February 9, 2001, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the 2002 and 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, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 10, 2003

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, 2003, the Company had 2,023 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
2002:			
First Quarter	**$ 13.40**	**$ 11.40**	**$ .20**
Second Quarter	**14.80**	**12.15**	**.20**
Third Quarter	**14.24**	**10.75**	**.20**
Fourth Quarter	**12.90**	**8.96**	**.20**
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

Items of Interest to Stockholders

Annual Meeting

The Annual Meeting of Stockholders will be held on May 6, 2003 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
www.computershare.com

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 2002 can be obtained free of charge at our website (*www.ruger.com*) or by writing to:

Corporate Secretary
Sturm, Ruger & Company, Inc.
One Lacey Place
Southport, Connecticut 06890
Telephone: 203-259-7843
Fax: 203-256-3367

Facilities

Southport, Connecticut
Corporate Headquarters

Newport, New Hampshire
Firearms Division
Ruger Investment Casting – Newport

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

Directors and Officers

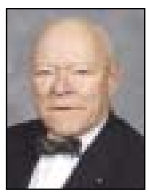
DIRECTORS

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

Erle G. Blanchard
Vice Chairman
President
Chief Operating Officer
Treasurer

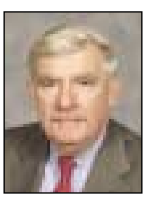
Stephen L. Sanetti
Vice Chairman
Senior Executive Vice President
General Counsel

***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.

Erle G. Blanchard

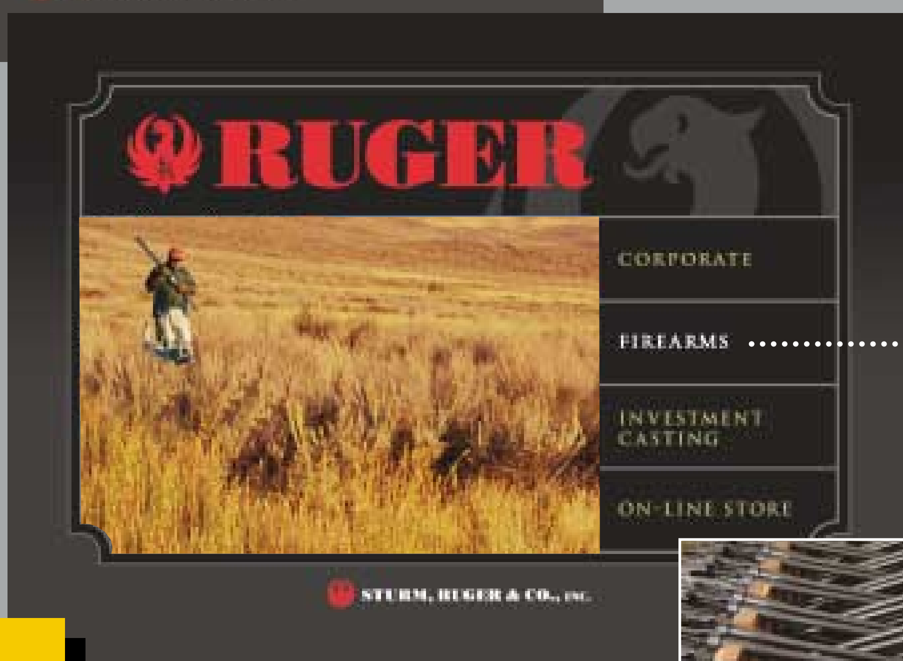
Stephen L. Sanetti

Leslie M. Gasper
Corporate Secretary

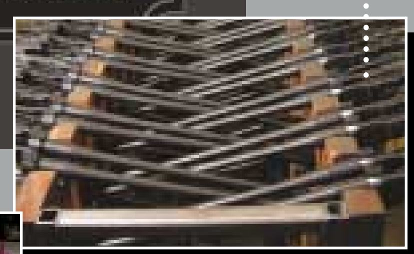
Thomas A. Dineen
Assistant Controller

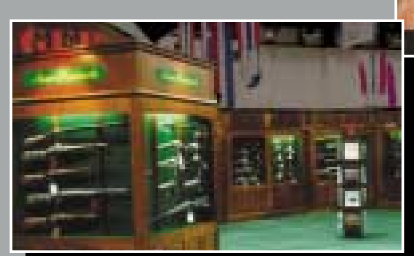
*Audit Committee Member **Compensation Committee Member

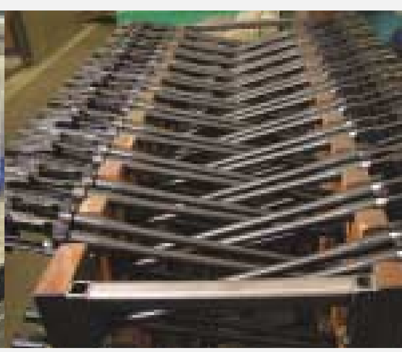
Our Latest Web Presence www.ruger.com



Our latest communication medium, launched in March 2003, complements Ruger product catalogues and trade show displays with detailed information about the Company and its high quality products.






STURM, RUGER & CO., INC.
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