



Sturm, Ruger & Company, Inc.

First Quarter Report 2006



TO OUR STOCKHOLDERS:

Our first quarter 2006 financial results were net sales of \$47.4 million, compared to \$44.3 million in the first quarter of 2005. Our first quarter 2006 net income was \$1.4 million, or \$0.05 per share, compared to net income of \$3.7 million, or \$0.14 per share in the first quarter of 2005. Firearms unit shipments increased 1% from the prior year as increased revolver and rifle shipments were offset by a comparative reduction in pistol shipments, as we shipped 5,000 KP95D 9 mm pistols in January, 2005 to the United States Army Tank-Automotive and Armaments Command. Modest price increases and the modification of our sales discount programs resulted in the further increase in sales to 4%.

Our castings sales increased by 28% from the first quarter in 2005, but unfortunately, this segment of our business continues to operate at a loss. We will continue to evaluate the role that the castings business will play in our future.

In February, 2006, William B. Ruger, Jr. announced his retirement as Chairman of the Board and Chief Executive Officer. Subsequently, VADM James E. Service was appointed non-executive Chairman of the Board, and Company President Stephen L. Sanetti was named as Interim Chief Executive Officer. On May 24, 2006, the Board appointed three additional members, C. Michael Jacobi, Stephen T. Merkel, and Ronald C. Whitaker, each with strong business experience and skills to complement the already excellent leadership capabilities of the

Board. In addition, the Board recently promoted Robert R. Stutler from General Manager of the Company's Prescott Operations to Vice President of Prescott Operations, and named Thomas A. Dineen as Vice President in addition to his titles of Treasurer and Chief Financial Officer.

At the Company's Annual Stockholder's Meeting on May 24, 2006, I addressed our stockholders regarding the Company's current operational situation. Some of my remarks follow.

"Our highly energized Board of Directors is mandating the changes needed to meet the overwhelming demand for our quality Ruger products. Our cadre of skilled leaders, who are ready to aggressively and intelligently direct these changes, is rapidly being augmented by searches for experienced manufacturing talent at all levels. We have interviewed a number of extremely well-qualified candidates to assume centralized leadership of our entire Newport, New Hampshire operation, where the need to replace valuable resources in skilled personnel and manufacturing capacities is most evident. All these candidates have been through this sort of industrial renovation before. They assure me that we are not alone...to the contrary, we are quite typical of an established American manufacturer of desirable consumer products that simply clung to the "we've always succeeded by doing it OUR own way" manufacturing philosophy and eschewed fundamental changes. That is in the process of changing.

We will be, in current phraseology, "going lean". Very simply, that means a complete top-to-bottom overhaul of all Company operations to reduce or eliminate waste, scrap, rework, or unneeded inventories. The Board has spoken quite clearly...there are no "sacred cows." We have already begun this seismic shift in the way we do things. It will continue at an accelerated pace through the foreseeable future. There have been significant personnel changes, reorganizations, equipment and machinery overhauls, cutbacks in most discretionary spending programs, movement of a complete product line to more appropriate production facilities in our Prescott manufacturing plant, an inventory reduction task force, an innovative sales and pricing program which has greatly increased the desirability of Ruger firearms for independent wholesale distributors, and much more. And there will be many, many more fundamental changes in the coming months. This is truly an exciting time to be at Sturm, Ruger.

Ruger products are extremely well thought of in the marketplace. We remain #1 in pistols, #2 in revolvers, either #1 or #2 in rifles, and #8 in shotguns (due to the fact we only produce limited numbers of expensive double-barreled shotguns). We are without debt, have adequate cash to fund needed improvements, and have a solid balance sheet. And now, we have the will to make those changes that will solidly ensure that we remain #1 in the challenging days ahead. Our innovative new product development programs continue at full speed. We have delayed some new product introductions until late this year or

possibly next year to permit our production facilities to catch up with demand. We will not intentionally announce products before we are genuinely prepared to ship them. Our products continue to win awards from our industry and praise from our customers. The quality, while perhaps not the quantity, of our production has never been better. Our main problem is that our customers really want a lot more of our products than we now make. We will fix this, but it is not the worst problem in the world to have! We will never compromise that cornerstone value of Ruger's reputation for quality simply to increase output. I am so proud of the integrity of our employees as I meet with them and share our thoughts. They know we must all change together to succeed in an increasingly competitive world. We will be better and stronger for it, while remaining faithful to Bill Ruger's vision of Sturm, Ruger & Company, Inc. as the premier American firearms manufacturer."

Stephen L. Sanetti
Vice-Chairman and Interim Chief Executive Officer
June 9, 2006

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 turnover of members of the Board of Directors, officers, and other key personnel, 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®



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Condensed Statements of Income

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended March 31			
	2006	%	2005	%
Firearms sales	\$40,825	86.1	\$39,100	88.3
Castings sales	6,602	13.9	5,160	11.7
Net sales	<u>47,427</u>	<u>100.0</u>	<u>44,260</u>	<u>100.0</u>
Cost of products sold	<u>38,288</u>	<u>80.7</u>	<u>32,412</u>	<u>73.2</u>
Gross profit	9,139	19.3	11,848	26.8
Expenses:				
Selling	4,119	8.8	4,061	9.2
General and administrative	<u>2,724</u>	<u>5.7</u>	<u>1,628</u>	<u>3.7</u>
	<u>6,843</u>	<u>14.5</u>	<u>5,689</u>	<u>12.9</u>
Operating income	2,296	4.8	6,159	13.9
Other income (loss) – net	<u>73</u>	<u>0.2</u>	<u>(14)</u>	<u>(0.0)</u>
Income before income taxes	2,369	5.0	6,145	13.9
Income taxes	<u>949</u>	<u>2.0</u>	<u>2,464</u>	<u>5.6</u>
Net income	<u>\$1,420</u>	<u>3.0</u>	<u>\$3,681</u>	<u>8.3</u>
Earnings per share				
Basic	\$0.05		\$0.14	
Diluted	\$0.05		\$0.14	
Cash dividends per share	\$0.00		\$0.10	
Average shares outstanding				
Basic	26,911		26,911	
Diluted	26,911		26,911	

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Condensed Balance Sheet

(unaudited)

(in thousands)

	March 31 2006
Assets	
Cash and cash equivalents	\$4,291
Short-term investments	25,850
Trade receivables, net	20,759
Inventories	44,728
Deferred income taxes	5,983
Prepaid expenses and other assets	<u>3,071</u>
Total current assets	104,682
Property, plant and equipment	155,759
Less depreciation	<u>(132,978)</u>
	22,781
Deferred income taxes	3,289
Other assets	<u>10,348</u>
Total	<u>\$141,100</u>
Liabilities and Stockholders' Equity	
Trade accounts payable and accrued expenses	\$3,278
Product liability	864
Employee compensation	8,581
Workers' compensation	5,221
Income taxes	<u>528</u>
Total current liabilities	18,472
Accrued pension liability	8,669
Product liability accrual	956
Stockholders' equity	<u>113,003</u>
Total	<u>\$141,100</u>