Sturm, Ruger & Company, Inc.

Second Quarter Report 2006

To Our Stockholders:

Our second quarter 2006 financial results were net sales of $35.3 million, compared to $34.4 million in the second quarter of 2005. Our second quarter 2006 net income was $1.4 million, or $0.06 per share, compared to break even results in the second quarter of 2005. For the six months ended June 30, 2006, net sales were $82.7 million and net income was $2.9 million, or $0.11 per share. For the corresponding period in 2005, net sales were $78.7 million and net income was $3.7 million, or $0.14 per share.

Firearms unit shipments decreased 8% from the second quarter 2005 as shipments of our 10/22 rifles were enhanced last year by a dealer-driven rebate program in effect in May and June of 2005. Partially offsetting this decrease was an increase in pistol shipments which benefited from a dealer-driven rebate program announced in June of 2006. A favorable shift in product mix, modest price increases, and modification of our sales discount programs resulted in the 2% increase in sales, despite the reduction in shipments.

In May 2006, two Ruger firearms received NRA Publications "Golden Bullseye" Awards. The .22 caliber Ruger Mark III Hunter Pistol was selected as the "2006 American Hunter Hunting Handgun of the Year", and the Ruger M77 Mark II Frontier Rifle was named the "2006 Shooting Illustrated Rifle of the Year." These awards are additional testaments to the Company's ability to design innovative firearms which are sought after by hunters and firearms enthusiasts.

Our castings segment experienced a 17% increase in sales from the first half of 2005, but continues to operate at a loss. After careful and deliberate evaluation, we have been unable to develop a realistic and achievable strategic plan to return our titanium castings operations to an acceptable level of profitability. To that end, we have informed our titanium customers, sales representatives and vendors that we have targeted a cessation of titanium castings operations no later than the first quarter of 2007. Our commitment to high quality steel castings opportunities and operations, however, remains. In addition to being a major supplier of components to our firearms manufacturing operations, ferrous castings have not been significant contributors to the castings losses we have suffered in recent years.

I am pleased to report little activity related to product liability matters during the second quarter of 2006. The number of "conventional" product liability claims remains near a record low, as do industry accident statistics. We presently have no such pending lawsuits.

I am also pleased to report that Thomas P. Sullivan has joined the Company as the Vice President of Newport Operations, assuming centralized leadership of our entire Newport, New Hampshire firearms manufacturing and foundry operations in order to lead the change to "lean" manufacturing there. Tom has been engaged in the transformation and management of efficient manufacturing operations for over 20 years. His previous experience in lean manufacturing is in direct concert with the top-to-bottom overhaul of all processes that is currently taking place in our Newport, New Hampshire facility. While many changes have already occurred at the facility, Tom's knowledge and familiarity with the 'lean" business concept will spawn additional necessary changes at an accelerated pace, with the goal of rapidly improving the efficiency of all Newport operations. We welcome him aboard and are excited at the prospect of an accelerated pace of positive changes at our Company.

Our cash position remains strong at $32 million. I am disappointed in the growth of our inventory balance during the quarter. However, with our adoption of "lean" manufacturing practices, the impending phase-out of titanium castings, and management's focus on return on assets, I am confident that this trend will be reversed shortly. The changes mandated by our Board of Directors and enthusiastically being undertaken by employees at every level of the Company will enable us to meet the overwhelming consumer demand for our quality Ruger products. We again thank our loyal stockholders and customers for their support during this time of transition, as we strive to grow even stronger as the preeminent American firearms manufacturer."

Stephen L. Sanetti
Vice-Chairman and Interim Chief Executive Officer
August 14, 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 June 30				Six Months Ended June 30			
	2006	%	2005	%	2006	%	2005	%
Firearms sales	$29,222	82.8	$28,720	83.5	$70,047	84.7	$67,820	86.2
Castings sales	6,054	17.2	5,675	16.5	12,656	15.3	10,835	13.8
Net sales	35,276	100.0	34,395	100.0	82,703	100.0	78,655	100.0
Cost of products sold	27,819	78.9	28,750	83.6	66,107	79.9	61,162	77.8
Gross profit	7,457	21.1	5,645	16.4	16,596	20.1	17,493	22.2
Expenses:								
Selling	3,898	11.0	4,149	12.1	8,017	9.7	8,210	10.4
General and administrative	1,780	5.0	1,634	4.7	4,504	5.4	3,262	4.1
	5,678	16.0	5,783	16.8	12,521	15.1	11,472	14.5
Operating income (loss)	1,779	5.1	(138)	(0.4)	4,075	5.0	6,021	7.7
Other income (loss) – net	639	1.8	135	0.4	712	0.8	121	0.1
Income (loss) before income taxes	2,418	6.9	(3)	0.0	4,787	5.8	6,142	7.8
Income taxes	970	2.8	(1)	(0.0)	1,919	2.3	2,463	3.1
Net income (loss)	$1,448	4.1	($2)	0.0	$2,868	3.5	$3,679	4.7
Earnings per share								
Basic	$0.06		$0.00		$0.11		$0.14	
Diluted	$0.06		$0.00		$0.11		$0.14	
Cash dividends per share	$0.00		$0.10		$0.00		$0.20	
Average shares outstanding								
Basic	26,911		26,911		26,911		26,911	
Diluted	26,912		26,911		26,912		26,911	

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Condensed Balance Sheet

(unaudited)
(in thousands)

	June 30, 2006
Assets	
Cash and cash equivalents	$3,314
Short-term investments	28,334
Trade receivables, net	16,128
Inventories	50,403
Deferred income taxes	6,558
Prepaid expenses and other assets	2,273
Total current assets	107,010
Property, plant and equipment	156,653
Less depreciation	(133,979)
	22,674
Deferred income taxes	3,000
Other assets	10,358
Total	$143,042
Liabilities and Stockholders' Equity	
Trade accounts payable and accrued expenses	$3,057
Product liability	988
Employee compensation	8,487
Workers' compensation	5,254
Income taxes	1,192
Total current liabilities	18,978
Accrued pension liability	8,689
Product liability accrual	912
Stockholders' equity	114,463
Total	$143,042