



Sturm, Ruger & Company, Inc.
2005 Annual Report



Manufacturer of the Year



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About our Covers

Our front cover shows one of our newest product introductions, the Ruger M77® MKII Target Grey® Model Stainless Frontier Rifle. With its compact 16.5 inch barrel, forward-mounted scope rib, and trim laminated stock, this new stainless steel hunting rifle is ideal for easy carrying and quick shooting in deep, damp woods.

Also on our front cover is the vaunted Shooting Industry Academy of Excellence Award, naming the Company its **2005 Manufacturer of the Year**. It was awarded after a secret-ballot vote by hundreds of members of the Academy,

in recognition of the many new products and model variations designed to meet the requirements of today's hunters and sport shooters.

Our back cover celebrates the fact that Sturm, Ruger is one of the last American manufacturers in one of the first American industries. We treasure the freedoms protected by our Constitution and Bill of Rights, and honor the American way of life in all its diversity and richness. No other firearms manufacturer offers as many American-made products as Sturm, Ruger.



Manufacturer of the Year



2005 was another disappointing year, although not without bright spots which point to an encouraging future. It is clear from the many awards won by the Company for its consistent new product innovation that we enjoy unprecedented support in the marketplace. It is equally clear that meeting the substantial demand for quality Ruger products is an ongoing, vexing challenge.

It became apparent early in the year that some of our newest and most modern automated production equipment was simply not up to the tasks demanded of it. Frustrating delays became the norm, with production only in fits and starts for two of the products most in demand; our 50th Anniversary New Model "Flattop" Blackhawk and our New Vaquero. Diligent study of the situation revealed shortcomings in both equipment and personnel. These were decisively and aggressively addressed, but shipments suffered throughout the year.

I am pleased to report that many needed improvements have been implemented, although much remains to be done. Frank Bonaventura, who was the manager of Southport manufacturing operations, has been retained as a consultant to help guide our Newport manufacturing efforts. He has worked closely with me for many years, and his energy and zest for the job are contagious. A new spirit of upward movement is palpable in the Newport firearms manufacturing division, and we have augmented our existing staff with outstanding manufacturing talent. Due to the hard work of these and hundreds of other hard-working employees, I feel very confident in the future of this division.

A bright spot throughout 2005 was our Prescott Division. Under the direction of Our Newly-Appointed Vice President of Prescott Operations Robert Stutler, this division was able to quickly respond to unprecedented demand for our new MK III and P345® series of pistols, increasing their production three times during the year. Our Prescott foundry also showed significantly improved results. These efforts merit our

sincere appreciation.

We achieved the Shooting Industry's Academy of Excellence Award as "2005 Manufacturer of the Year" due to the innovation shown by our forty-two new products and model variations. We won the National Association of Sporting Goods Wholesalers' highest award for consistently rising to the challenge of today's market through diversity of product, customer service, delivery, innovation, and profitability. *Field & Stream* magazine presented us with their "Best of the Best" Award for our new rifles chambered for the new .204 Ruger cartridge, and the Ruger Gold Label shotgun was awarded the Golden Bullseye Award as "The 2005 *American Rifleman* Shotgun of the Year." This award is given to products "remarkable in terms of innovation, reliability, safety, and providing shooters and hunters genuine value for their hard-earned dollar."

With all this hard-earned recognition, we know that our high-quality Ruger firearms represent precisely what are wanted by American shooting enthusiasts. To facilitate their availability in the marketplace and to further enhance their desirability, we have unilaterally instituted a bold new sales policy. Combined with increased production of quality products, we believe this new sales initiative will point the way to a successful year.

Legislatively, 2005 saw the enactment of "The Protection of Lawful Commerce in Arms Act." It codifies what has become strong case law in our favor. During the last seven years we have soundly defeated the efforts of over thirty cities and counties to hold us liable for the acts of criminals, over which we obviously have no control. While this new law should occasion the dismissal of those few city lawsuits that remain, the law is being challenged by those who would continue to waste taxpayer and industry resources. The new law merely restates fundamental fairness and common sense—manufacturers of lawfully sold, non-defective products should not be held legally responsible for the acts of criminals.



To Our Shareholders

(Continued)

What the new law does not do, despite the misrepresentations of its opponents, is to give blanket immunity from lawsuits. If a firearm is sold by a licensed retail firearms dealer in knowing violation of law or regulation, penalties for the retailer do (and should) exist. If we sell a defective firearm, we can still be held civilly liable in a product liability lawsuit. Such liability provisions have no fears for us, as a responsible manufacturer of quality products for responsible citizens. Indeed, our product liability claims remain at an historic low level, and none of our products manufactured and sold during the last thirty-three years has ever been found to be "defective" in design, manufacture, or warnings by any court or jury in the nation. This speaks well of our commitment to quality, safety, and consumer education.

On February 28, 2006, CEO & Chairman, William B. Ruger, Jr. retired from the Company, ending a long and notable career in the firearms industry. While there will no longer be a Ruger at the head of our Company, our shareholders may rest assured that their ideals of quality and value will be honored and enhanced by those of us who carry on the best Ruger traditions. (see box at right)

The year past was marred by the death after a brief illness of Director Townsend Hornor, a loyal friend and steadfast member of our Board of Directors for over 33 years. His perceptive wit and sound advice were always appreciated. On a positive note, we welcome to our board Mr. John Cosentino. He has a very intensive manufacturing background and is well versed in the most up-to-date processes, and is a perfect fit for our Board. He has already made significant contributions to our efforts to improve our productive capacity, and we welcome him wholeheartedly.

This new Board took the rather bold step of suspending our dividend at its October meeting. We trust this will be a temporary situation as we turn the Company back to sustainable, increased profitability. New products for 2006 include a product which has been repeatedly requested by single action revolver enthusiasts, our 50th Year .44 Magnum "Flattop" New Model Blackhawk.

This joins our newly announced stainless steel M77 MKII Frontier Bolt Action Rifle and new versions of our famous Ruger 10/22 Rifle and Red Label Over-and-Under Shotguns, which have been very well received. Combined with increased production of the many new models announced during the last eighteen months and our genuine cost-containment efforts, we believe that the Company is poised for growth.

We now must strive to make our Company even stronger in the years ahead. Great opportunities abound. We owe our customers and our employees our very best efforts to grow and prosper as America's premier firearms manufacturer.

We invite our shareholders to join us for our Annual Meeting, to be held in Westport, Connecticut on May 24, 2006.

Sincerely,

Stephen L. Sanetti
President and
Interim Chief Executive Officer



Retirement of William B. Ruger, Jr.

On February 28, 2006, William B. Ruger, Jr. retired as Chairman of the Board and Chief Executive Officer of Sturm, Ruger & Co., Inc.

after 42 years of dedicated service. Mr. Ruger's intellect and insights will be missed. We wish him a well-earned and personally satisfying retirement, and we sincerely thank the entire Ruger family for their extraordinary efforts during the last 56 years to create and build a successful foundation for our future successes.

Sturm, Ruger Honored for Design Excellence and Industry Leadership in 2005



Field & Stream magazine's **"Best of the Best"** award went to Sturm, Ruger in February, 2005 for our new rifles chambered in the new .204 Ruger Cartridge, described as "some of the most exciting things to hit the market in years."



The Shooting Industry Academy of Excellence Award for **"2005 Manufacturer of the Year"** went to the Company in April, 2005, honoring extraordinary product design and service to the industry. The secret ballot award was given to Sturm, Ruger "for continued dedication to providing quality American-made products that meet the varying needs of responsible gun owners."



Manufacturer of the Year



The Ruger Gold Label Side-by-Side shotgun received the **"Golden Bullseye Award"** as **"The 2005 American Rifleman Shotgun of the Year."** This award is an acknowledgement of "the finest products available in the shooting sports, which must exceed customer expectations, be innovative in design and function, give extraordinary value, and be styled in a manner befitting the firearms industry and its enthusiasts."

In December, 2005, Field & Stream magazine's **"Best of the Best"** award was given to the Ruger Gold Label Shotgun, with the notation that "It handles like a British best but sells for a price that many ordinary uplanders can afford."



Team Ruger placed **first in the Industry Class** at the **Shooting Industry Masters Tournament** held in Henderson, Nevada in September, 2005. Team Captain & President Stephen L. Sanetti placed second high individual overall, and Vice President of Prescott Operations Robert Stutler took the third high individual award. Media Relations Coordinator Ken Jorgensen and Assistant General Counsel Kevin Reid also helped propel Team Ruger to victory and demonstrated the commitment to the shooting sports shown by all levels of Ruger management.



The **Chairman's Award for Industry Leadership**, the most prestigious award of the National Association of Sporting Goods Wholesalers, was presented to the Company at their Annual Meeting in November, 2005. This award honors those who "consistently rise to the challenge of today's market through diversity of product, customer service, delivery, innovation, profitability, and whose distribution policies support the NASGW."





The Ruger 10/22® Compact Rifle

Following in the tradition of short, easy-to-handle rifles established by the Ruger M77 MKII Compact and Frontier Rifles, the new Ruger 10/22 Compact Rifle joins our line. It has the legendary reliability of the Ruger 10/22 Carbine and the high visibility sights of the Ruger 10/22 Rifle, with a shorter barrel and correctly proportioned compact stock.



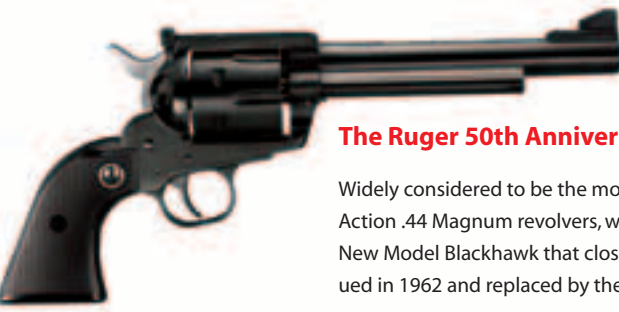
The Ruger Red Label Over-and-Under Shotgun with Realtree® Camouflage Finish

Waterfowlers and upland game hunters will appreciate our field-proven Red Label Shotgun in a new Realtree Hardwoods® HD™ Camouflage Finish. This patented process applies a durable, abrasion- and corrosion-resistant finish to all external components, and helps blend the shotgun with the hunter's environment.



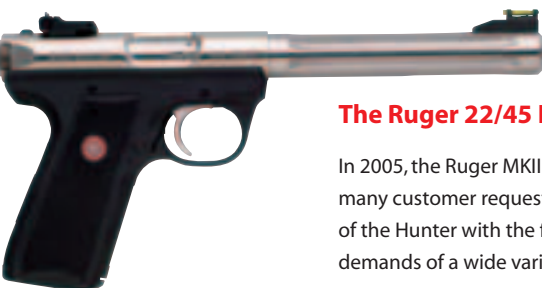
The Ruger M77® MK II Target Grey Stainless Steel Model Frontier Rifle

One of the best choices for hunting big game in heavy cover, the new Ruger M77 MK II Frontier Rifle is now available in non-glare stainless steel for additional weather resistance in damp forest environments.



The Ruger 50th Anniversary™ "Flattop" New Model Blackhawk

Widely considered to be the most handsome and well-balanced of all the Ruger Single Action .44 Magnum revolvers, we are delighted to offer a special Commemorative "Flattop" New Model Blackhawk that closely emulates our original .44 Magnum, which was discontinued in 1962 and replaced by the famous Ruger Super Blackhawk.



The Ruger 22/45 Hunter Model Pistol

In 2005, the Ruger MKIII Hunter was by all accounts the standout .22 pistol. In response to many customer requests, we have mated the fluted target barrel and high visibility sights of the Hunter with the familiar Ruger 22/45 grip frame for a new pistol which meets the demands of a wide variety of today's smallbore pistol shooters.

Directors

James E. Service*
Vice Admiral (USN, Ret.)
Chairman of the Board

Stephen L. Sanetti
Vice Chairman

John A. Cosentino, Jr.*
Partner, Ironwood
Manufacturing Fund

Richard T. Cunniff*
Vice Chairman
Ruane, Cunniff & Goldfarb, Inc.

John M. Kingsley, Jr.*
Corporate Director

Officers

Stephen L. Sanetti
President and
Interim Chief Executive
Officer

Robert R. Stutler
Vice President of
Prescott Operations

Thomas A. Dineen
Treasurer and
Chief Financial Officer

Leslie M. Gasper
Corporate Secretary

** Audit Committee Member,
Compensation Committee
Member, and Nominating
and Corporate Governance
Committee Member*



Left to right: Dineen, Cosentino, Gasper, Kingsley, Sanetti, Service, Cunniff. Not pictured: Stutler

Selected Financial Data

(Dollars in thousands, except per share data)

	December 31,				
	2005	2004	2003	2002	2001
Net firearms sales	\$132,805	\$124,924	\$130,558	\$139,762	\$147,622
Net castings sales	21,917	20,700	17,359	21,825	26,708
Total net sales	154,722	145,624	147,917	161,587	174,330
Cost of products sold	128,343	115,725	113,189	125,376	134,449
Gross profit	26,379	29,899	34,728	36,211	39,881
Income before income taxes	1,442	8,051	20,641	14,135	22,199
Income taxes	578	3,228	8,277	5,668	8,702
Net income	864	4,823	12,364	8,467	13,497
Basic and diluted earnings per share	0.03	0.18	0.46	0.31	0.50
Cash dividends per share	\$ 0.30	\$ 0.60	\$ 0.80	\$ 0.80	\$ 0.80

	December 31,				
	2005	2004	2003	2002	2001
Working capital	\$ 83,522	\$ 90,947	\$102,715	\$103,116	\$118,760
Total assets	139,639	147,460	162,873	183,958	204,378
Total stockholders' equity	111,578	120,687	133,640	137,983	164,340
Book value per share	\$ 4.15	\$ 4.48	\$ 4.97	\$ 5.13	\$ 6.11
Return on stockholders' equity	0.8%	4.0%	9.3%	6.1%	8.0%
Current ratio	5.5 to 1	5.7 to 1	5.7 to 1	4.8 to 1	6.1 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	1,922	1,977	2,036	2,026	2,064
Number of employees	1,250	1,291	1,251	1,418	1,547

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 and Analysis of Financial Condition and Results of Operations

Company Overview

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 is the only U.S. firearms manufacturer which offers products in all four industry product categories – rifles, shotguns, pistols, and revolvers. The Company's firearms are sold through a select number of independent wholesale distributors principally to the commercial sporting market.

Investment castings manufactured are of steel and titanium alloys. Investment castings are sold either directly to or through manufacturers' representatives to companies in a wide variety of industries.

Because many of the Company's competitors are not subject to public filing requirements and industry-wide data is generally not available in a timely manner, the Company is unable to compare its performance to other companies or specific current industry trends. Instead, the Company measures itself against its own historical results.

The Company does not consider its overall firearms business to be predictably seasonal; however, sales of certain models of firearms are usually lower in the third quarter of the year.

Results of Operations

Year ended December 31, 2005, as compared to year ended December 31, 2004:

Consolidated net sales of \$154.7 million were achieved by the Company in 2005 representing an increase of \$9.1 million or 6.2% from net sales of \$145.6 million in 2004.

Firearms segment net sales increased by \$7.9 million or 6.3% to \$132.8 million in 2005 from \$124.9 million in the prior year. Firearms unit shipments for 2005 increased 1.1% from 2004, as the increase in shipments of pistols and shotguns was largely offset by the decline in shipments of rifles and revolvers. The increase in pistol shipments in 2005 is attributable to the new Mark III pistols and the P345 centerfire pistols. In 2004, rifle shipments benefited from the popularity of the 40th Anniversary 10/22 carbine, which was available only in 2004. A modest price increase and a change in mix from lower priced products to higher priced products resulted in the greater increase in sales versus unit shipments.

In 2005, the Company offered a sales incentive program for its distributors which allowed them to earn rebates of up to 1.5% if certain annual overall sales targets were achieved. This program replaced a similar sales incentive program in 2004. Effective January 1, 2006, the Company instituted a unilateral minimum distributor resale price policy for its firearms. The impact of this policy on the Company's future sales is unknown.

Casting segment net sales increased 5.8% to \$21.9 million in 2005 from \$20.7 million in 2004 as a result of higher unit volume. Increased sales were generated from existing customers as well as several new customers in 2005, in a variety of industries.

Consolidated cost of products sold for 2005 was \$128.3 million compared to \$115.7 million in 2004, representing an increase of 10.9%. This increase of \$12.5 million was primarily attributable to increased sales, and increased unitary overhead expenses resulting from a reduction in firearm production volume, and increased product liability costs.

Gross profit as a percentage of net sales decreased to 17.0% in 2005 from 20.5% in 2004. This deterioration was caused by less efficient firearms production due to lower rates of firearm production, increased product liability expenses, and was partially offset by more efficient production in the castings segment.

Selling, general and administrative expenses increased 7.3% to \$24.5 million in 2005 from \$22.9 million in 2004 due principally to severance costs associated with several employee actions taken predominantly in the fourth quarter of 2005.

Total other income decreased from \$1.0 million in 2004 to \$0.1 million in 2005. Included in total other income in 2004 was a \$0.9 million gain from the sale of the property and building that housed the Company's Uni-Cast division prior to its sale in 2000. The Company's earnings on short-term investments increased in 2005 as a result of more favorable interest rates, partially offset by reduced principal.

The effective income tax rate of 40.1% remained consistent in 2005 and 2004.

As a result of the foregoing factors, consolidated net income in 2005 decreased to \$0.9 million from \$4.8 million in 2004, representing a decrease of \$3.9 million or 81.8%.

Results of Operations

Year ended December 31, 2004, as compared to year ended December 31, 2003

Net sales of \$145.6 million were achieved by the Company in 2004 representing a decrease of \$2.3 million or 1.6% from net sales of \$147.9 million in 2003.

Firearms segment net sales decreased by \$5.6 million or 4.3% to \$124.9 million in 2004 from \$130.6 million in the prior year. Firearms unit shipments for 2004 decreased 8.0% from 2003, as shipments of revolvers and pistols declined sharply. Shipments during the latter half of 2003, especially the fourth quarter, improved due in large part to the introduction of several new product offerings. A modest price increase and a change in mix from lower priced products to higher priced products resulted in the lesser decline in sales versus unit shipments. In 2003, revolver shipments benefited from the popularity of the New Model Single Six revolver in .17 HMR caliber and the 50th

Anniversary Ruger New Model Single Six revolver, which was available only in 2003. Similarly, pistol shipments in 2003 reflected strong demand for the MK-4NRA, a .22 caliber pistol commemorating William B. Ruger, the Company's founder.

In 2004, the Company offered a sales incentive program for its distributors which allowed them to earn rebates of up to 1.5% if certain annual overall sales targets were achieved. This program replaced a similar sales incentive program in 2003.

Castings segment net sales increased 19.0% to \$20.7 million in 2004 from \$17.4 million in 2003 as a result of higher unit volume. Increased sales were generated from existing customers as well as several new customers in 2004, in a variety of industries. Much of the increase in sales relates to investment castings sold to other firearms manufacturers.

Cost of products sold for 2004 was \$115.7 million compared to \$113.2 million in 2003, representing an increase of 2.2%. This increase of \$2.5 million was primarily attributable to increased production costs in the castings segment, and increased unitary overhead expenses resulting from a reduction in production volume, and a charge related to certain firearms inventory, partially offset by decreased product liability costs. The Company incurred an expense of \$1.9 million for the relocation of two titanium furnaces from its Arizona foundry to New Hampshire.

Gross profit as a percentage of net sales decreased to 20.5% in 2004 from 23.5% in 2003. This deterioration was caused by less efficient firearms production due to increased unitary overhead expenses resulting from lower rates of production, discounts offered on discontinued firearm models, increased production costs in the castings segment, and the aforementioned relocation expenses related to the two titanium furnaces, partially offset by decreased product liability expenses.

Selling, general and administrative expenses increased 8.9% to \$22.9 million in 2004 from \$21.0 million in 2003 due primarily to additional firearms promotional and advertising expenses as well as increased personnel related expenses.

Total other income decreased from \$6.9 million in 2003 to \$1.0 million in 2004. Included in total other income in 2003 was the pretax gain of \$5.9 million from the sale of certain non-manufacturing real estate in Arizona, known as the Single Six Ranch. Included in total other income in 2004 was a \$0.9 million gain from the sale of the property and building that housed the Company's Uni-Cast division prior to its sale in 2000. The Company's earnings on short-term investments declined in 2004 as a result of reduced principal.

The effective income tax rate of 40.1% remained consistent in 2004 and 2003.

As a result of the foregoing factors, consolidated net income in 2004 decreased to \$4.8 million from \$12.4 million in 2003, representing a decrease of \$7.6 million or 60.1%.

Financial Condition

Operations

At December 31, 2005, the Company had cash, cash equivalents and short-term investments of \$26.0 million, working capital of \$83.5 million and a current ratio of 5.5 to 1.

Cash provided by operating activities was \$5.2 million, \$1.3 million, and \$14.7 million in 2005, 2004, and 2003, respectively. The increase in cash provided by operations in 2005 is primarily attributable to the decrease in inventories and trade receivables in 2005 compared to an increase in inventories and receivables in 2004, partially offset by the decline in net income. The decrease in cash provided in 2004 is principally the result of a reduction in net income and increases in trade receivables, prepaid expenses and other assets, and inventories compared with reductions in trade receivables, prepaid expenses and other assets, and inventories in 2003. The fluctuations in prepaid and other assets reflects a prepaid income tax asset at December 31, 2005 and 2004, and the increase in trade receivables in 2004 is attributable to timing of certain customer payments, and the increase in inventories in 2004 resulted from decreased firearm sales.

Until November 30, 2004, the Company followed a common industry practice of offering a "dating plan" to its firearms customers on selected products, which allowed the customer to buy the products commencing in December, the start of the Company's marketing year, and pay for them on extended terms. Discounts were offered for early payment. The dating plan provided a revolving payment plan under which payments for all shipments made during the period December through February were made by April 30. Shipments made in subsequent months were paid for within a maximum of 120 days. On December 1, 2004, the Company modified the payment terms on these selected products whereby payment is now due 45 days after shipment. Discounts were offered for early payment. On December 1, 2005, the Company effectively discontinued the dating plan. Dating plan receivable balances were \$6.3 million at December 31, 2004.

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 then-current market cost without interruption of its manufacturing operations. However, if market conditions result in a significant prolonged inflation of certain prices, the Company's results would be adversely affected.



Management's Discussion and Analysis of Financial Condition and Results of Operations

(Continued)

Investing and Financing

Capital expenditures during the past three years averaged \$5.3 million per year. In 2006, the Company expects to spend approximately \$4.0 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 and current cash and short-term investments.

In 2005 the Company paid dividends of \$8.1 million. This amount reflects a quarterly dividend of \$.10 per share paid in March, June and September 2005. On October 20, 2005, the Company's Board of Directors voted to forego the fourth quarter dividend. On January 31, 2006, the Company's Board of Directors voted to forego the first quarter dividend for 2006. Future dividends depend on many factors, including internal estimates of future performance, then-current cash and short-term investments, 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 a need for significant external financing in 2006.

Contractual Obligations

The table below summarizes the Company's significant contractual obligations at December 31, 2005, and the effect such obligations are expected to have on our liquidity and cash flows in future periods. This table excludes amounts already recorded on the Company's balance sheet as current liabilities at December 31, 2005.

"Purchase Obligations" as used in the below table includes all agreements to purchase goods or services that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Certain of the Company's

purchase orders or contracts for the purchase of raw materials and other goods and services that may not necessarily be enforceable or legally binding on the Company, are also included in "Purchase Obligations" in the table. Certain of the Company's purchase orders or contracts therefore included in the table may represent authorizations to purchase rather than legally binding agreements. The Company expects to fund all of these commitments with cash flows from operations and current cash and short-term investments.

The expected timing of payment of the obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations.

Firearms Legislation

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 nation wide 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

Contractual Obligations	Total	Payment due by period (in thousands)			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations	-	-	-	-	-
Capital Lease Obligations	-	-	-	-	-
Operating Lease Obligations	-	-	-	-	-
Purchase Obligations	\$20,197	\$20,197	-	-	-
Other Long-Term Liabilities Not Reflected on the Registrant's Balance Sheet under GAAP	-	-	-	-	-
Total	\$20,197	\$20,197	-	-	-

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." This ban expired by operation of law on September 13, 2004. 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.

Firearms Litigation

The Company is a defendant in a number of 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 constitutional 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. In subsequent proceedings involving other defendants, the

New York Court of Appeals as a matter of law confirmed that 1) no legal duty existed under the circumstances to prevent or investigate criminal misuses of a manufacturer's lawfully made products; and 2) liability of firearms manufacturers could not be apportioned under a market share theory. More recently, the New York Court of Appeals on October 21, 2003 declined to hear the appeal from the decision of the New York Supreme Court, Appellate Division, affirming the dismissal of New York Attorney General Eliot Spitzer's public nuisance suit against the Company and other manufacturers and distributors of firearms. In its decision, the Appellate Division relied heavily on *Hamilton* in concluding that it was "legally inappropriate," "impractical," "unrealistic" and "unfair" to attempt to hold firearms manufacturers responsible under theories of public nuisance for the criminal acts of others.

Of the lawsuits brought by municipalities or a state Attorney General, twenty-one have been concluded: *Atlanta* – dismissal by intermediate Appellate Court, no further appeal; *Bridgeport* – dismissal affirmed by Connecticut Supreme Court; *County of Camden* – dismissal affirmed by U.S. 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* – U.S. Third Circuit Court of Appeals affirmed dismissal, no further appeal; *Wilmington* – dismissed by trial court, no appeal; *Boston* – voluntary dismissal with prejudice by the City at the close of fact discovery; *Cincinnati* – voluntarily withdrawn after a unanimous vote of the city council; *Detroit* – dismissed by Michigan Court of Appeals, no appeal; *Wayne County* – dismissed by Michigan Court of Appeals, no appeal; *New York State* – Court of Appeals denied plaintiff's petition for leave to appeal the Intermediate Appellate Court's dismissal, no further appeal; *Newark* – Superior Court of New Jersey Law Division for Essex County dismissed the case with prejudice; *City of Camden* – dismissed on July 7, 2003, not reopened; *Jersey City* – voluntarily dismissed and not re-filed; *St. Louis* – Missouri Supreme Court denied plaintiffs' motion to appeal Missouri Appellate Court's affirmance of dismissal; *Chicago* – Illinois Supreme Court denied plaintiffs' petition for rehearing; and *Los Angeles City, Los Angeles County, and San Francisco* – Appellate Court affirmed summary judgment in favor of defendants, no further appeal. On September 26, 2005, the *Cleveland* municipal lawsuit was dismissed due to Cleveland's failure to prosecute the case.

The dismissal of the *Washington, D.C.* municipal lawsuit was sustained on appeal, but individual plaintiffs were permitted to proceed to discovery and attempt to identify the manufacturers of the firearms used in their shootings as "machine guns" under



Management's Discussion and Analysis of Financial Condition and Results of Operations

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(Continued)

the city's "strict liability" law. On October 19, 2004, the D.C. Court of Appeals vacated the court's judgment, which dismissed the city's claim against firearms manufacturers but let stand certain individuals' claims against the manufacturers of firearms allegedly used in criminal assaults against plaintiffs under the Washington, D.C. "Strict Liability Act," subject to proof of causation. The appellate court in an en banc hearing unanimously dismissed all negligence and public nuisance claims, but let stand individual claims based upon a Washington, D.C. act imposing "strict liability" for manufacturers of "machine guns." Based on present information, none of the Company's products has been identified with any of the criminal assaults which form the basis of the individual claims. The writ of certiorari to the United States Supreme Court regarding the constitutionality of the Washington, D.C. act was denied and the case has been remanded to the trial court for further proceedings. The defendants subsequently have moved to dismiss the case based upon the Protection of Lawful Commerce in Arms Act.

The Indiana Court of Appeals affirmed the dismissal of the *Gary* case by the trial court, but the Indiana Supreme Court reversed this dismissal and remanded the case for discovery proceedings on December 23, 2003. *Gary* is scheduled to begin trial in 2009. The defendants filed a motion to dismiss pursuant to the Protection of Lawful Commerce in Arms Act. The motion is pending.

In the previously reported *New York City* municipal case, the defendants moved to dismiss the suit pursuant to the Protection of Lawful Commerce in Arms Act. The trial judge found the Act to be constitutional but denied the defendants' motion to dismiss the case, stating that the Act was not applicable to the suit. The defendants were given leave to appeal and in fact have appealed the decision to the U.S. Court of Appeals for the Second Circuit.

In the *NAACP* case, on May 14, 2003, an advisory jury returned a verdict rejecting the *NAACP*'s claims. On July 21, 2003, Judge Jack B. Weinstein entered an order dismissing the *NAACP* lawsuit, but this order contained lengthy dicta which defendants believe are contrary to law and fact. Appeals by both sides were filed, but plaintiffs withdrew their appeal. On August 3, 2004, the United States Court of Appeals for the Second Circuit granted the *NAACP*'s motion to dismiss the defendants' appeal of Judge Weinstein's order denying defendants' motion to strike his dicta made in his order dismissing the *NAACP*'s case, and the defendants' motion for summary disposition was denied as moot. The ruling of the Second Circuit effectively confirmed the decision in favor of defendants and brought this matter to a conclusion.

Legislation has been passed in approximately 34 states precluding suits of the type brought by the municipalities

mentioned above. On the Federal level, the "Protection of Lawful Commerce in Arms Act" was signed by President Bush on October 26, 2005. The Act requires dismissal of suits against manufacturers arising out of the lawful sale of their products for harm resulting from the criminal or unlawful misuse of a firearm by a third party. The Company is pursuing dismissal of each action involving such claims.

Other Operational Matters

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 Company self-insures a significant amount of its product liability, workers compensation, medical, and other insurance. It also carries significant deductible amounts on various insurance policies.

The valuation of the future defined benefit pension obligations at December 31, 2005 indicated that these plans were underfunded. While this estimation has no bearing on the actual funded status of the pension plans, it results in the recognition of a cumulative other comprehensive loss of \$12.2 million and \$10.3 million at December 31, 2005 and 2004, respectively.

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 Company's financial results for 2005 were adversely affected by the significant inflation in the cost of certain commodities, particularly titanium, steel, and utilities.

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. The Company bases estimates on prior experience, facts and circumstances and other assumptions, including those reviewed with actuarial consultants and independent counsel, when applicable, that are

believed to be reasonable. However, actual results may differ from these estimates.

The Company believes the determination of its product liability accrual 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.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 151, "Inventory Costs -- an amendment of ARB No. 43, Chapter 4" which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. FAS 151 requires that these costs be recognized as current period charges regardless of whether they are abnormal. In addition, FAS 151 requires that allocation of fixed production overheads to the costs of manufacturing be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The Company does not expect the adoption of this standard to have a material effect on its consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123R, "Share-

Based Payment", which requires that the cost resulting for all share-based payment transactions be recognized in the financial statements. This Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. SFAS 123R is effective for the first interim period in annual reporting periods beginning after June 15, 2005. The Company does not expect the adoption of this standard to have a material effect on its consolidated financial position or results of operations.

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, state 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.



Balance Sheets

(Dollars in thousands, except per share data)

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<i>December 31,</i>	2005	2004
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,057	\$ 4,841
Short-term investments.....	21,926	28,430
Trade receivables, less allowances for doubtful accounts (\$351 and \$373) and discounts (\$346 and \$555)	15,777	16,082
Inventories:		
Finished products	9,997	13,521
Materials and products in process.....	38,729	36,864
	48,726	50,385
Deferred income taxes	6,018	6,445
Prepaid expenses and other current assets.....	5,442	4,036
Total Current Assets.....	101,946	110,219
Property, Plant, and Equipment		
Land and improvements.....	1,652	1,652
Buildings and improvements	23,501	31,329
Machinery and equipment.....	100,903	99,220
Dies and tools	29,118	28,233
	155,174	160,434
Allowances for depreciation	(131,808)	(132,860)
	23,366	27,574
Deferred income taxes	3,200	1,178
Other assets	11,127	8,489
Total Assets.....	\$ 139,639	\$ 147,460

<i>December 31,</i>	2005	2004
Liabilities and Stockholders' Equity		
Current Liabilities		
Trade accounts payable and accrued expenses	\$ 3,619	\$ 5,281
Product liability	1,207	1,968
Employee compensation and benefits	7,544	5,868
Workers' compensation	5,119	5,387
Income taxes	935	768
Total Current Liabilities	18,424	19,272
Accrued pension liability.....	8,648	6,337
Product liability	989	1,164
Contingent liabilities (Note 6)	-	-
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	2,508
Retained earnings.....	94,334	101,543
Accumulated other comprehensive income (loss)	(12,175)	(10,275)
Total Stockholders' Equity.....	111,578	120,687
Total Liabilities and Stockholders' Equity	\$ 139,639	\$ 147,460

See accompanying notes to financial statements.

Statements of Income

(In thousands, except per share data)

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Year ended December 31,	2005	2004	2003
Net firearms sales	\$132,805	\$124,924	\$130,558
Net castings sales	21,917	20,700	17,359
Total net sales	154,722	145,624	147,917
Cost of products sold	128,343	115,725	113,189
Gross profit	26,379	29,899	34,728
Expenses:			
Selling	17,271	16,700	15,189
General and administrative	7,271	6,175	5,827
Impairment of long-lived assets	483	—	—
	25,025	22,875	21,016
Operating profit	1,354	7,024	13,712
Gain on sale of real estate	—	874	5,922
Other income-net	88	153	1,007
Total other income	88	1,027	6,929
Income before income taxes	1,442	8,051	20,641
Income taxes	578	3,228	8,277
Net Income	\$ 864	\$ 4,823	\$ 12,364
Basic and Diluted Earnings Per Share	\$ 0.03	\$ 0.18	\$ 0.46
Cash Dividends Per Share	\$ 0.30	\$ 0.60	\$ 0.80

See accompanying notes to financial statements.

Statements of Stockholders' Equity

(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2002	\$26,911	\$ 2,508	\$116,649	\$ (8,085)	\$ 137,983
Net income			12,364		12,364
Additional minimum pension liability, net of deferred taxes of \$373				(560)	(560)
Comprehensive income					11,804
Cash dividends			(16,147)		(16,147)
Balance at December 31, 2003	26,911	2,508	112,866	(8,645)	133,640
Net income			4,823		4,823
Additional minimum pension liability, net of deferred taxes of \$1,086				(1,630)	(1,630)
Comprehensive income					3,193
Cash dividends			(16,146)		(16,146)
Balance at December 31, 2004	26,911	2,508	101,543	(10,275)	120,687
Net income			864		864
Additional minimum pension liability, net of deferred taxes of \$1,267				(1,900)	(1,900)
Comprehensive income					(1,036)
Cash dividends			(8,073)		(8,073)
Balance at December 31, 2005	\$26,911	\$2,508	\$ 94,334	\$ (12,175)	\$ 111,578

See accompanying notes to financial statements.



Statements of Cash Flows

(In thousands)

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Year ended December 31,	2005	2004	2003
Operating Activities			
Net income.....	\$ 864	\$ 4,823	\$ 12,364
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation.....	5,440	5,827	5,923
Impairment of long-lived assets	483	-	-
Gain on sale of real estate	-	(874)	(5,922)
Deferred income taxes.....	(328)	1,855	2,674
Changes in operating assets and liabilities:			
Trade receivables	305	(3,268)	742
Inventories	1,659	(1,855)	3,099
Trade accounts payable and other liabilities	13	(81)	(549)
Product liability	(936)	(3,533)	(3,568)
Prepaid expenses and other assets	(2,422)	(1,132)	(386)
Income taxes.....	167	(451)	337
Cash provided by operating activities	5,245	1,311	14,714
Investing Activities			
Property, plant, and equipment additions.....	(4,460)	(6,945)	(3,996)
Purchases of short-term investments.....	(125,245)	(123,098)	(148,620)
Proceeds from sales or maturities of short-term investments	131,749	144,693	148,370
Net proceeds from sale of real estate	-	1,580	10,909
Cash provided by investing activities	2,044	16,230	6,663
Financing Activities			
Dividends paid.....	(8,073)	(16,146)	(21,529)
Cash used by financing activities	(8,073)	(16,146)	(21,529)
(Decrease) Increase in cash and cash equivalents.....	(784)	1,395	(152)
Cash and cash equivalents at beginning of year.....	4,841	3,446	3,598
Cash and Cash Equivalents at End of Year.....	\$ 4,057	\$ 4,841	\$ 3,446

See accompanying notes to 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 U.S. 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 financial statements have been prepared from the Company's books and records and include all of the Company's accounts. All significant intercompany accounts and transactions have been eliminated. During 2003, two subsidiaries of the Company were merged into the parent. Certain prior year balances may have been reclassified to conform with current year presentation.

Revenue Recognition

Revenue is recognized, net of any estimated discounts, sales incentives, or rebates, when product is shipped and the customer takes ownership and assumes risk of loss.

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.

Accounts Receivable

The Company has 4 customers whose accounts receivable balances total 18%, 15%, 13% and 12% of total accounts receivable at December 31, 2005. The Company establishes an allowance for doubtful accounts based on the credit worthiness of its customers and historical experience. Bad debt expense has been immaterial during the last three years.

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 \$59.6 million and \$53.6 million at December 31, 2005 and 2004, respectively. During 2005, inventory quantities were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the current cost of purchases, the effect of which decreased costs of products sold by approximately \$0.1 million.

Property, Plant, and Equipment

Property, plant, and equipment are stated on the basis of cost. Depreciation is computed using the straight-line and declining balance methods predominately over 15, 10, and 3 years for buildings, machinery and equipment, and tools and dies, respectively.

Long-lived assets are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144. 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 the 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. In 2005, \$8.3 million of buildings and improvements no longer used in operations, and \$5.6 million of corresponding accumulated depreciation were reclassified to other assets.

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 temporary differences between the financial statement carrying amounts and the tax basis of the Company's assets and liabilities.



(Continued)

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, 2005, 2004, and 2003, were \$2.0 million, \$2.5 million, and \$2.3 million, respectively.

Shipping Costs

Costs incurred related to the shipment of products are included in selling expense. Such costs totaled \$1.9 million, \$1.7 million, and \$1.7 million in 2005, 2004, and 2003, respectively.

Stock Options

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):

	2005	2004	2003
Net Income			
As Reported	\$ 864	\$ 4,823	\$12,364
Deduct: Employee compensation expense determined under fair value method, net of tax	(26)	(28)	(387)
Pro forma	\$ 838	\$ 4,795	\$11,977
Earnings per share (Basic and Diluted):			
As Reported	\$ 0.03	\$ 0.18	\$ 0.46
Pro forma	\$ 0.03	\$ 0.18	\$ 0.44

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 2005, 2004, and 2003. Diluted earnings per share reflect the impact of options outstanding using the treasury stock method. This results in diluted weighted-average shares outstanding of 26,910,700 in 2005, 26,930,000 in 2004, and 26,919,400 in 2003.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 151, "Inventory Costs -- an amendment of ARB No. 43, Chapter 4" which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. SFAS 151 requires that these costs be recognized as current period charges regardless of whether they are abnormal. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of manufacturing be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The Company does not expect the adoption of this statement to have a material effect on its financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment", which requires that the cost resulting for all share-based payment transactions be recognized in the financial statements. This Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. SFAS 123R is effective for the first interim period in annual reporting periods beginning after June 15, 2005. The Company does not expect the adoption of this statement to have a material effect on its financial position or results of operations.

2. Income Taxes

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

Year ended December 31,	2005		2004		2003	
	Current	Deferred	Current	Deferred	Current	Deferred
Federal	\$ 690	\$ (260)	\$ 931	\$1,556	\$ 4,286	\$ 2,286
State	204	(56)	442	299	1,317	388
	\$ 894	\$ (316)	\$1,373	\$1,855	\$ 5,603	\$2,674

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

<i>December 31,</i>	2005	2004
Deferred tax assets:		
Product liability	\$ 881	\$ 1,256
Employee compensation and benefits	3,749	3,788
Allowances for doubtful accounts and discounts	316	507
Inventories	1,715	1,571
Additional minimum pension liability	8,117	6,850
Other	1,533	1,511
Total deferred tax assets	16,311	15,483
Deferred tax liabilities:		
Depreciation	783	1,475
Pension plans	5,994	6,080
Other	316	305
Total deferred tax liabilities	7,093	7,860
Net deferred tax assets	\$ 9,218	\$ 7,623

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:

<i>Year ended December 31,</i>	2005	2004	2003
Statutory Federal income tax rate	34.0%	35.0%	35.0%
State income taxes, net of Federal tax benefit	7.5	6.2	5.4
Other items	(1.4)	(1.1)	(0.3)
Effective income tax rate	40.1%	40.1%	40.1%

The Company made income tax payments of approximately \$3.1 million, \$2.6 million, and \$2.8 million, during 2005, 2004, and 2003, 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 sponsors 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 as follows (in thousands):

Change in Benefit Obligation	2005	2004
Benefit obligation		
at January 1	\$59,114	\$53,598
Service cost	1,650	1,563
Interest cost	3,340	3,187
Actuarial loss	2,248	2,560
Benefits paid	(1,871)	(1,794)
Benefit obligation		
at December 31	64,481	59,114

Change in Plan Assets	2005	2004
Fair value of plan assets		
at January 1	50,344	46,440
Actual return on plan assets	1,876	2,565
Employer contributions	2,857	3,132
Benefits paid	(1,871)	(1,794)
Fair value of plan assets		
at December 31	53,206	50,343
Funded status	(11,275)	(8,771)
Unrecognized net actuarial loss	22,920	19,548
Unrecognized prior		
service cost	1,484	1,741
Unrecognized transition		
obligation (asset)	-	11
Net amount recognized	\$13,129	\$12,529

Weighted Average Assumptions for the years ended December 31,	2005	2004
Discount rate	5.75%	6.0%
Expected long-term return on plan assets	8.00%	8.0%
Rate of compensation increases	5.00%	5.0%

Components of Net Periodic Pension Cost

Service cost	\$ 1,650	\$ 1,563
Interest cost	3,340	3,187
Expected return on assets	(4,041)	(3,743)
Amortization of unrecognized transition asset	11	11
Recognized gains	1,041	870
Prior service cost recognized	257	320
Net periodic pension cost	\$ 2,258	\$ 2,208



(Continued)

Amounts Recognized on the

<i>Balance Sheet</i>	2005	2004
Accrued benefit liability.....	\$ (8,648)	\$ (6,337)
Intangible asset	1,485	1,741
Accumulated other comprehensive income, net of tax ...	12,175	10,275
Deferred tax asset	8,117	6,850
	\$ 13,129	\$ 12,529

Weighted Average

<i>Assumptions as of December 31,</i>		
Discount rate	5.50%	5.75%
Rate of compensation increases	5.00%	5.00%

Information for Pension Plans with an Accumulated Benefit Obligation in

<i>excess of plan assets</i>	2005	2004
Projected benefit obligation	\$ 64,481	\$59,114
Accumulated benefit obligation	\$ 61,854	\$56,680
Fair value of plan assets	\$ 53,206	\$50,343

Pension Weighted Average Asset

<i>Allocations as of December 31,</i>		
Debt securities	70%	66%
Equity securities	27%	28%
Money market funds	3%	6%
	100%	100%

The estimated future benefit payments for the defined benefit plans, which reflect future service as appropriate, for each of the next five years and the total amount for years six through ten, are as follows: 2006-\$2.2 million, 2007-\$2.3 million, 2008-\$2.6 million, 2009-\$2.9 million, 2010-\$3.1 million and for the five year period ending 2015-\$19.8 million.

The accumulated benefit obligation for all the defined benefit pension plans was \$61.9 million and \$56.7 million as of December 31, 2005 and 2004, respectively. Intangible assets are included in other assets in the balance sheet.

The measurement dates of the assets and liabilities of all plans presented for 2005 and 2004 were December 31, 2005 and December 31, 2004, respectively.

The Company expects to contribute \$2.0 million in the form of cash payments to its pension plans in 2006. None of this contribution is required by funding regulations or laws. The investment objective is to produce income and long-term appreciation through a target asset allocation of 75% debt securities and other fixed income investments including cash and short-term instruments, and 25% of equity investments, to provide for the current and future benefit payments of the plans. The pension plans are not invested in the common stock of the Company.

The Company determines the expected return on plan assets based on the target asset allocations. In addition, the historical returns of the plan assets are also considered in arriving at the expected rate of return.

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 \$1.5 million, \$0.7 million, and \$1.5 million in 2005, 2004, and 2003, respectively.

In accordance with SFAS No. 87, "Employers' Accounting for Pension Costs," the Company recorded an additional minimum pension liability, net of tax which decreased comprehensive income by \$1.9 million, \$1.6 million, and \$0.6 million in 2005, 2004, and 2003, respectively.

4. Restatement of 2004 Financial Statements

The financial statements as of and for the year ended December 31, 2004 have been restated to increase inventory by \$0.9 million at December 31, 2004 and reduce cost of goods sold by \$0.9 million for the year ended December 31, 2004. The misstatement was caused by an error in the calculation of the 2004 LIFO index. This restatement increased net income by \$0.5 million or \$.02 per share for the year ended December 31, 2004.

5. 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 upon grant 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, 2002.....	1,330,000	\$11.62
Granted	-	-
Exercised	-	-
Canceled	(235,000)	11.94
Outstanding at December 31, 2003.....	1,095,000	11.55
Granted	-	-
Exercised	-	-
Canceled	-	-
Outstanding at December 31, 2004.....	1,095,000	11.55
Granted	40,000	10.88
Exercised	-	-
Canceled	(115,000)	11.74
Outstanding at December 31, 2005.....	1,020,000	\$11.50

There were 973,000 exercisable options at December 31, 2005, with a weighted average exercise price of \$11.55 and an average contractual life remaining of 3.3 years. At December 31, 2005, an aggregate of 1,180,000 shares remain available for grant under the Plans.

The weighted average fair value of options granted under the Plans during 2005 was estimated at \$1.89 on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 8.0%, expected volatility of 44.3%, risk free rate of return of 4.0%, 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, 2005, 502,000 shares of Common Stock were reserved for future awards.

6. Contingent Liabilities

As of December 31, 2005, the Company is a defendant in approximately 6 lawsuits involving its products and is aware of certain other such claims. These lawsuits and claims fall into 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, and individuals against 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. Most of these cases do not allege a specific injury to a specific individual as a result of the misuse or use of any of the Company's products.

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, and counties, 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 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 \$0.1 million and \$435 million at December 31, 2005 and 2004, 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.

7. Asset Impairment Charges

In the fourth quarter of 2005 the Company recognized asset impairment charges of \$0.3 million related to certain assets in the investment castings segment and \$0.2 million related to an asset in the corporate segment. The Company was required to reduce the carrying value of these assets to fair value and recognized asset impairment charges because the carrying value of the affected assets exceeded their projected future undiscounted cash flows.

8. Related Party Transactions

In 2005, 2004, and 2003, the Company paid Newport Mills, of which William B. Ruger, Jr., Chairman and Chief Executive Officer of the Company, is the sole proprietor, \$205,500, \$243,000, and \$243,000, respectively, for storage rental and office space. As of December 31, 2005, the Company no longer occupies this storage and office space. On December 16, 2005, the Company sold two automobiles to Mr. Ruger, Jr. for \$15,000. On July 17, 2003, the Company sold two automobiles to Mr. Ruger, Jr. for \$60,000.

9. Operating Segment Information

The Company has two reportable operating 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.

Corporate segment income relates to interest income on short-term investments, the sale of non-operating assets, and other non-operating activities. Corporate segment assets consist of cash and short-term investments and other non-operating assets.

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

Revenues from one customer in the firearms segment totaled \$21.6 million and \$16.0 million in 2005 and 2004, respectively. Revenues from another customer in the firearms segment totaled \$15.9 million, \$15.7 million and \$15.5 million in 2005, 2004, and 2003, respectively. Revenues from a third customer in the firearms segment totaled \$16.5 million, \$15.1 million, and \$24.8 million, in 2005, 2004, and 2003, respectively.

<i>Year ended December 31, (in thousands)</i>	2005	2004	2003
Net Sales			
Firearms.....	\$ 132,805	\$ 124,924	\$ 130,558
Castings			
Unaffiliated	21,917	20,700	17,359
Intersegment	18,045	14,363	15,653
	39,962	35,063	33,012
Eliminations.....	(18,045)	(14,363)	(15,653)
	\$ 154,722	\$ 145,624	\$ 147,917
Income (Loss) Before Income Taxes			
Firearms.....	\$ 2,524	\$ 10,811	\$ 18,392
Castings	(1,711)	(3,942)	(4,439)
Corporate	629	1,182	6,688
	\$ 1,442	\$ 8,051	\$ 20,641
Identifiable Assets			
Firearms.....	\$ 73,035	\$ 77,824	\$ 72,600
Castings.....	17,751	19,657	17,939
Corporate	48,853	49,979	72,334
	\$ 139,639	\$ 147,460	\$ 162,873
Depreciation			
Firearms.....	\$ 3,759	\$ 3,220	\$ 3,301
Castings.....	1,681	2,607	2,622
	\$ 5,440	\$ 5,827	\$ 5,923
Capital Expenditures			
Firearms.....	\$ 3,116	\$ 4,403	\$ 3,215
Castings.....	1,344	2,542	781
	\$ 4,460	\$ 6,945	\$ 3,996

10. Subsequent Event

William B. Ruger, Jr. resigned as Chairman of the Board and Director of the Company effective February 13, 2006. Mr. Ruger retired as Chief Executive Officer of the Company effective February 28, 2006. In connection with his retirement, the Company will pay Mr. Ruger \$0.7 million, substantially all of which will be recognized as an expense in the first quarter of 2006.

11. Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 2005 (in thousands, except per share data):

	Three Months Ended			
	3/31/05	6/30/05	9/30/05	12/31/05
Net Sales	\$44,260	\$34,395	\$35,090	\$40,978
Gross profit	11,848	5,645	4,900	3,986
Net income (loss)	3,681	(2)	(979)	(1,836)
Basic and diluted earnings (loss) per share	0.14	-	(0.04)	(0.07)

	Three Months Ended			
	3/31/04	6/30/04	9/30/04	12/31/04
Net Sales	\$40,237	\$32,713	\$35,380	\$37,295
Gross profit	12,211	4,762	4,998	7,928
Net income (loss)	3,879	(461)	(20)	1,425
Basic and diluted earnings (loss) per share	0.14	(0.02)	-	0.05

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Sturm, Ruger & Company, Inc.
Southport, Connecticut

We have audited the balance sheet of Sturm, Ruger & Company, Inc. as of December 31, 2005, and the related statements of income, stockholders' equity and cash flows for the year 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 audit. The financial statements of Sturm, Ruger & Company, Inc. for the years ended December 31, 2004 and 2003 were audited by other auditors whose report, dated March 8, 2005, except as to note 4 to the financial statements which is as of March 31, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sturm, Ruger & Company, Inc. as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Sturm, Ruger & Company, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Our report dated May 1, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of Sturm, Ruger & Company, Inc.'s internal control over financial reporting and an opinion that Sturm, Ruger & Company, Inc. had not maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*.

McGladrey & Pullen, LLP

Stamford, Connecticut
May 1, 2006

The Board of Directors and Stockholders
Sturm, Ruger & Company, Inc:

Evaluation of Disclosure Controls and Procedures

The Company conducted an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of December 31, 2005.

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2005, our controls and procedures over financial reporting were not effective because of the material weaknesses discussed below under "Management's Report on Internal Control over Financial Reporting."

In light of the material weaknesses described below, the Company performed a detailed review of the LIFO reserve calculation as of December 31, 2005 to ensure that inventories and cost of sales in the financial statements were properly stated. Accordingly, management believes the financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over the calculation of the LIFO index is a process designed to provide reasonable assurance regarding the propriety of the LIFO inventory reserve in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company conducted an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its internal control over financial reporting as of December 31, 2005. This evaluation was performed based on the framework in "*Internal Control — Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("*COSO*").

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

As of December 31, 2005, the Company did not maintain adequate supervisory review controls over the data used to calculate the LIFO index. This control deficiency resulted in a material error that required the Company to restate its previously issued financial statements as of and for the year ended December 31, 2004. Also, this control deficiency results in more than a remote likelihood that a material misstatement of annual or interim financial statements would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

Because of this material weakness, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2005, based on criteria established in "*Internal Control — Integrated Framework*" issued by the *COSO*.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by McGladrey & Pullen, LLP, an independent registered public accounting firm, as stated in their report included in this Annual Report on Form 10-K.

Management Certifications

The Chief Executive Officer of the Company has certified to the New York Stock Exchange that he is not aware of any violation by the Company of the New York Stock Exchange corporate governance listing standards. In addition, the Chief Executive Officer and the Chief Financial Officer of the Company have provided the certification required by Section 302 of the Sarbanes-Oxley Act of 2002 as an exhibit to the Form 10-K of the Company for the fiscal year ended December 31, 2004.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Sturm, Ruger & Company, Inc.
Southport, Connecticut

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Sturm, Ruger & Company, Inc. did not maintain effective internal control over financial reporting as of December 31, 2005, because of the effect of inadequate controls over the calculation of the LIFO index, based on criteria established in *Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Sturm, Ruger & Company, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment.

As of December 31, 2005, the Company did not maintain adequate supervisory review controls over the data used to calculate the LIFO index. This control deficiency resulted in a material error that required the Company to restate its previously issued financial statements as of and for the year ended December 31, 2004. Also, this control deficiency results in more than a remote likelihood that a material misstatement of annual or interim financial statements would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2005 financial statements, and this report does not affect our report dated May 1, 2006 on those financial statements.

In our opinion, management's assessment that Sturm, Ruger & Company, Inc. did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Sturm, Ruger & Company, Inc. has not maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*.

Stamford, Connecticut
May 1, 2006

McGladrey & Pullen, LLP

Common Stock Data

The Company's Common Stock is traded on the New York Stock Exchange under the symbol "RGR." At February 1, 2006, the Company had 1,919 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
2005:			
First Quarter	\$ 8.83	\$ 6.89	\$ 0.10
Second Quarter	8.50	6.51	0.10
Third Quarter	11.19	8.43	0.10
Fourth Quarter	9.20	6.54	-
2004:			
First Quarter	\$ 13.26	\$ 10.98	\$ 0.20
Second Quarter	13.43	10.50	0.20
Third Quarter	11.63	8.12	0.10
Fourth Quarter	9.55	8.35	0.10

Corporate Governance Information

Our Corporate Code of Business Conduct and Ethics, Corporate Board Governance Guidelines, and charters for our Nominating and Corporate Governance, Audit, and Compensation Committees are posted on our Stockholder Relations section of our corporate website at www.ruger.com. Simply click on "Corporate Governance Documents." Written copies may also be obtained by telephoning our Corporate Secretary's office at 203-259-7843, or by written request to the Corporate Headquarters at One Lacey Place, Southport, CT 06890.

Shareholders, employees, or other persons wishing to anonymously report to the Board of Directors' Audit Committee any suspected accounting irregularities, auditing fraud, violations of our corporate Compliance Program, or violations of the Company's Code of Business Conduct and Ethics, may do so by telephoning 1-800-826-6762. This service is independently monitored 24 hours a day, 7 days a week.

Annual Meeting

The Annual Meeting of Stockholders will be held on May 24, 2006 at The Westport Inn, 1595 Post Road East, Westport, CT at 10:30 am.

Principal Banks

Bank of America, Southport, CT

Lake Sunapee Savings Bank
Newport, NH

Sugar River Savings Bank
Newport, NH

JPMorgan Chase Bank, N.A.
Prescott, AZ

Transfer Agent

Computershare Investor Services, LLC
Attention: Shareholder Communications
2 North LaSalle Street
Chicago, IL 60690-5190
www.computershare.com

Independent Registered Public Accounting Firm

McGladrey & Pullen, LLP
Stamford, CT

Corporate Address

To correspond with the Company or to request a copy of the Annual Report on Form 10-K for 2005 free of charge, please visit our website www.ruger.com or write to:

Corporate Secretary
Sturm, Ruger & Company, Inc.
One Lacey Place
Southport, CT 06890
Tel: 203.259.7843
Fax: 203.256.3367

Facilities

All Ruger firearms and investment castings are designed and manufactured by American workers at Ruger facilities in Newport, NH and Prescott, AZ. Corporate Headquarters is located in Southport, CT.

In Memoriam

Townsend Hornor

On September 11, 2005, Company Director Townsend Hornor passed away after a brief and courageous bout with cancer. Townie had been a Company Director since 1972, and was the Chairman of the Nominating and Corporate Governance Committee, and a member of the Audit and Compensation Committees. His insight, wisdom, and friendship will be deeply missed by all of us fortunate enough to have worked with him.



*"...one of the last American companies
in one of the first American industries..."*



STURM, RUGER & CO., INC.

Lacey Place, Southport, CT 06890 U.S.A.

www.ruger.com

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