STURM RUGER & CO INC
Form 10-Q
November 07, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from_______________ to _______________

Commission file number 1-10435

STURM, RUGER & COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	06-0633559
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
Lacey Place, Southport, Connecticut	06890
(Address of principal executive offices)	(Zip code)

(203) 259-7843
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The number of shares outstanding of the issuer s common stock as of October 31, 2006: Common Stock, $1 par value 22,638,720.

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CONDENSED BALANCE SHEETS
(Dollars in thousands, except share data)

	September 30, 2006	December 31, 2005 (Note)
Assets		
Current Assets		
Cash and cash equivalents	$ 6,618	$ 4,057
Short-term investments	4,973	21,926
Trade receivables, net	21,743	15,777
Gross inventories	105,592	111,462
Less LIFO reserve	(62,119)	(59,599)
Less excess and obsolescence reserve	(2,893)	(3,137)
Net inventories	40,580	48,726
Deferred income taxes	6,115	6,018
Prepaid expenses and other current assets	3,362	5,442
Total current assets	83,391	101,946
Property, plant and equipment	157,418	155,174
Less allowances for depreciation	(135,145)	(131,808)
Net property, plant and equipment	22,273	23,366
Deferred income taxes	2,993	3,200
Other assets	10,348	11,127
Total Assets	$ 119,005	$ 139,639

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ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)
STURM, RUGER & COMPANY, INC.
CONDENSED BALANCE SHEETS
(Dollars in thousands, except share data)

	September 30, 2006	December 31, 2005 (Note)
Liabilities and Stockholders Equity		
Current Liabilities		
Trade accounts payable and accrued expenses	$ 3,770	$ 3,619
Product liability	962	1,207
Employee compensation and benefits	8,215	7,544
Workers compensation	5,351	5,119
Income taxes payable	930	935
Total current liabilities	19,228	18,424
Accrued pension liability	8,646	8,648
Product liability accrual	895	989
Contingent liabilities Note 8		
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 22,638,720 and 26,910,720	22,639	26,911
Additional paid-in capital	2,547	2,508
Retained earnings	77,225	94,334
Accumulated other comprehensive income (loss)	(12,175)	(12,175)
Total Stockholders Equity	90,236	111,578
Total Liabilities and Stockholders Equity	$ 119,005	$ 139,639

Note:
The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.
See notes to condensed financial statements.

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STURM, RUGER & COMPANY, INC.
CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(Dollars in thousands, except per share data)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Firearms sales	$ 34,378	$ 29,006	$ 104,425	$ 96,826
Castings sales	7,234	6,084	19,890	16,918
Net sales	41,612	35,090	124,315	113,744
Cost of products sold	36,378	30,190	102,485	91,351
Gross profit	5,234	4,900	21,830	22,393
Expenses:				
Selling	3,367	4,841	11,385	13,051
General and administrative	1,530	1,729	6,034	4,991
	4,897	6,570	17,419	18,042
Operating income (loss)	337	(1,670)	4,411	4,351
Other income-net	1,261	35	1,974	156
Income (loss) before income taxes	1,598	(1,635)	6,385	4,507
Income taxes	641	(656)	2,560	1,807
Net income (loss)	$ 957	$ (979)	$ 3,825	$ 2,700
Earnings(loss) per share				
Basic	$ 0.04	$ (0.04)	$ 0.14	$ 0.10
Diluted	$ 0.04	$ (0.04)	$ 0.14	$ 0.10
Cash dividends per share	$ 0.00	$ 0.10	$ 0.00	$ 0.30

Average shares outstanding (000 s)				
Basic	26,679	26,911	26,832	26,911
Diluted	26,684	26,911	26,835	26,911

Actual shares outstanding as of September 30, 2006 were 22,638,720.

See notes to condensed financial statements.

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STURM, RUGER & COMPANY, INC.
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Dollars in thousands)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Operating Activities		
Net income	$ 3,825	$ 2,700
Adjustments to reconcile net income to cash provided by (use in) operating activities:		
Depreciation	3,515	4,273
Gain on sale of assets	(998)	
Deferred income taxes	111	611
Changes in operating assets and liabilities:		
Trade receivables	(5,966)	(3,518)
Inventories	8,146	(3,230)
Trade accounts payable and other liabilities	1,089	21
Product liability	(339)	(456)
Prepaid expenses and other assets	2,023	(1,223)
Income taxes	(5)	142
Cash Provided by (Used in) Operating Activities	$ 11,401	$ (680)
Investing Activities		
Property, plant and equipment additions	(2,417)	(2,777)
Proceeds from the sale of assets	1,829	
Purchases of short-term investments	(87,064)	(91,412)
Proceeds from maturities of short-term investments	104,017	101,396
Cash provided by investing activities	16,365	7,207
Financing Activities		
Repurchase and retirement of common stock	(25,205)	
Dividends paid		(8,073)
Cash used in financing activities	(25,205)	(8,073)
Increase (decrease) in cash and cash equivalents	2,561	(1,546)
Cash and cash equivalents at beginning of period	4,057	4,841
Cash and cash equivalents at end of period	$ 6,618	$ 3,295

See notes to condensed financial statements.

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STURM, RUGER & COMPANY, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2006

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements.

In the opinion of management, the accompanying unaudited condensed financial statements include all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the results of the interim periods. Operating results for the nine months ended September 30, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006. These financial statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the year ended December 31, 2005.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Organization: Sturm, Ruger & Company, Inc. (Company) is principally engaged in the design, manufacture, and sale of firearms and investment castings. The Company s design and manufacturing operations are located in the United States. Sales for the three and nine months ended September 30, 2006 were 95% domestic and 5% export. 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 or through manufacturers representatives to companies in a wide variety of industries.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Prior Year Balances: Certain prior year balances may have been reclassified to conform with current year presentation.

Stock Incentive and Bonus Plans: At September 30, 2006, the Company has two stock-based compensation plans. Readers should refer to both Item 12 and Note 1 of the Company s financial statements, which are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, for additional information related to these stock-based compensation plans.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement 123(R), *Share-Based Payment*, utilizing the modified prospective approach. Prior to the adoption of SFAS 123(R) the Company accounted for stock option grants in accordance with APB Opinion 25, *Accounting for Stock Issued to Employees*, (the intrinsic value method), and accordingly, recognized no compensation expense for stock option grants.

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Under the modified prospective approach, the provisions of SFAS 123(R) apply to new awards and to awards that were outstanding on January 1, 2006 that are subsequently modified, repurchased or cancelled. Under the modified prospective approach, compensation cost recognized in the quarter and nine months ended September 30, 2006 includes compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Prior periods were not restated to reflect the impact of adopting the new standard.

The following table summarizes the stock option activity for the nine months ended September 30, 2006:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (Years)
Outstanding At December 31, 2005	1,020,000	$ 11.50	$ 1.89	3.3
Granted	560,000	7.11	3.27	10.0
Exercised				
Canceled	(315,000)	11.89	2.00	2.8
Outstanding at September 30, 2006	1,265,000	$ 9.46	$ 2.47	6.1
Exercisable Options Outstanding at September 30, 2006	710,000	$ 11.22	$ 1.84	2.9
Non-Vested Options at September 30, 2006	555,000	$ 7.20	$ 3.27	10.0

As a result of adopting Statement 123(R) on January 1, 2006, the Company s income before income taxes and net income for the three and nine months ended September 30, 2006 were reduced by $34,000 and $21,000, and $64,000 and $38,000, respectively, than if it had continued to account for share-based compensation under Opinion 25 for stock option grants. Basic and diluted earnings per share were unchanged.

If the Company would have adopted Statement 123(R) for the three and nine month period ended September 30, 2005, the Company s income before income taxes and net income for that period would have been reduced by $11,000 and $7,000, and $27,000 and $16,000, respectively, than the amounts previously reported and basic and diluted earnings per share would have been unchanged.

The Company uses the Black-Sholes option pricing model to estimate the fair value of stock-based awards with the following weighted average assumptions: dividend yield of 0.0%, expected volatility of 44.9%, risk free rate of return of 5.0%, and expected lives of 5 years.

Non-vested stock options at September 30, 2006 total 555,000. At September 30, 2006, there was $1,836,000 of unrecognized compensation cost related to share-based payments that is expected to be recognized over a weighted-average period of 5 years.

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At September 30, 2006, there were 900,000 shares available for future stock option grants to employees under existing plans, and no shares available for future stock option grants to directors under existing plans. At September 30, 2006 the aggregate intrinsic value of exercisable options was zero. The Company has reserved 2.2 million of authorized and unissued shares of its common stock for issuance of stock under its stock options plans.

Recent Accounting Pronouncements: In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an Interpretation of SFAS No. 109, which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit. The provisions of FIN 48 are effective for the Company as of January 1, 2007. The adoption of FIN 48 is not expected to have a material effect on the Company.

In September 2006, the FASB issued SFAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans which requires an employer to recognize the over-funded or under-funded status of defined benefit and other postretirement plans (other than a multiemployer plan) as an asset or liability on its consolidated balance sheet. Actuarial gains and losses and prior service costs and credits that have not yet been recognized as a component of net periodic benefit cost as of the statement adoption date are recorded as a component of accumulated other comprehensive income. These changes modify the required disclosures for defined benefit and other postretirement plans. The statement is effective for fiscal years ending after December 15, 2006. We do not expect the adoption of this statement to have a material impact on our results of operations or cash flows.

NOTE 3 INVENTORIES

Inventories are valued using the last-in, first-out (LIFO) method. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs existing at that time. Accordingly, interim LIFO calculations must necessarily be based on management s estimates of expected year-end inventory levels and costs. Because these are subject to many forces beyond management s control, interim results are subject to the final year-end LIFO inventory valuation. During 2006, inventory quantities have been reduced. This expected reduction will result in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the current cost of purchases. Although a reduction in inventory levels is expected to remain through year-end, the effect of a liquidation cannot be quantified at the present time. If a liquidation does occur in 2006, management believes that the impact may be material to the financial statements.

Inventories consist of the following (in thousands):

	September 30,2006	December 31, 2005
Finished products	$ 7,123	$ 9,997
Materials and work in process	33,457	38,729
Net inventories	$ 40,580	$ 48,726

NOTE 4 INCOME TAXES

The Company s 2006 and 2005 effective tax rate differs from the statutory tax rate due principally to state income taxes. Income tax payments totaled $14,000 for the nine months ended September 30, 2006. Total income tax payments during the nine months ended September 30, 2005 were $3.1 million.

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NOTE 5 PENSION PLANS

The Company sponsors two defined benefit pension plans which cover substantially all employees. A third defined benefit plan is non-qualified and covers certain executive officers of the Company. The estimated cost of these plans is summarized below (in thousands):

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Service cost	$ 406	$ 332	$ 1,216	$ 997
Interest cost	821	677	2,463	2,032
Expected return on plan assets	(993)	(795)	(2,980)	(2,387)
Amortization of prior service cost	66	70	198	211
Recognized actuarial gains	256	185	768	555
Net periodic pension cost	$ 556	$ 469	$ 1,665	$ 1,408

The Company made contributions totaling $0.5 million related to its defined benefit pension plans in the third quarter of 2006. The Company expects its contribution requirements for its defined benefit pension plans for the balance of 2006 to be approximately $0.5 million.

NOTE 6 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is based upon the weighted average number of common shares outstanding during the period. On September 26, 2006, the Company repurchased 4,272,000 shares of its common stock, representing 15.9% of the outstanding shares from entities controlled by members of the Ruger family at a price of $5.90 per share. This transaction reduced the weighted average number of common shares outstanding to 26,679,000 shares and 26,832,000 shares for the three and nine months ended September 30, 2006, respectively. For both the three and nine months ended September 30, 2005, the weighted average number of common shares outstanding was 26,911,000 shares.

Diluted earnings per share reflect the impact of options outstanding using the treasury stock method, when applicable. This resulted in diluted weighted-average shares outstanding for the three and nine months ended September 30, 2006 of 26,684,000 shares and 26,835,000, respectively. For both the three and nine months ended September 30, 2005, the diluted weighted average number of common shares outstanding was 26,911,000 shares.

Shares outstanding as of September 30, 2006 were 22,638,720.

NOTE 7 COMPREHENSIVE INCOME

As there were no non-owner changes in equity during the first nine months of 2006 and 2005, total comprehensive income(loss) equals net income(loss) for the three and nine months ended September 30, 2006 and 2005, or $1.0 million and $3.8 million, and $(1.0) and $2.7 million, respectively.

NOTE 8 CONTINGENT LIABILITIES

As of September 30, 2006, the Company is a defendant in approximately five lawsuits allegedly involving its products and is aware of certain other such claims. 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.

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. Also, The Protection of Lawful Commerce in Arms Act signed into law on October 26, 2005 on its face requires dismissal of such claims.

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 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, San Francisco Appellate Court affirmed summary judgment in favor of defendants, no further appeal; and Cleveland dismissed on January 24, 2006 for lack of prosecution.

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 the city s strict liability law. On April 21, 2005, the D.C. Court of Appeals, 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 was remanded to the trial court for further proceedings. The defendants subsequently moved to dismiss the case based upon the Protection of Lawful Commerce in Arms Act, which motion was granted on May 22, 2006. The individual plaintiffs and the District of Columbia, which has subrogation claims in regard to the individual plaintiffs, have appealed.

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. The defendants filed a motion to dismiss pursuant to the Protection of Lawful Commerce in Arms Act. The motion was denied on October 23, 2006 based on the trial court s view that the Act is unconstitutional. Interlocutory appellate remedies are being pursued. The case is set for trial in 2009.

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. That appeal is pending.

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, including the municipal cases described above. On June 22, 2006, in the previously reported Arnold case, the motion to dismiss based on the Act was denied. Interlocutory appellate remedies are being pursued.

Punitive damages, as well as compensatory damages, are commonly demanded in many of the lawsuits and claims brought against the Company. Aggregate claimed amounts may exceed product liability accruals and applicable insurance coverage. For claims made before July 10, 2000, coverage is provided on an annual basis for losses exceeding $2 million per claim, or an aggregate maximum loss of $5.5 million annually. For claims made after July 10, 2000, coverage is provided on an annual basis for losses exceeding $5 million per claim, or an aggregate maximum loss of $10 million annually, except for certain new claims which might be brought by governments or municipalities after July 10, 2000, which are excluded from coverage.

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.

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 our 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 our product liability accrual on the same basis as actual claims; i.e., an accrual is made for reasonably anticipated possible liability and claims-handling expenses on an ongoing basis.

A range of reasonably possible loss relating to unfavorable outcomes cannot be made. Currently, there are no product liability cases in which a dollar amount of damages is claimed. If there were cases with claimed damages, the amount of damages claimed would be 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.

The Company management monitors the status of known claims and the product liability accrual, which includes amounts for asserted and unasserted claims. While it is not possible to forecast the outcome of litigation or the timing of costs, in the opinion of management, after consultation with special 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.

The Company has reported all cases instituted against it through June 30, 2006 and the results of those cases, where terminated, to the S.E.C. on its previous Form 10-K and 10-Q reports, to which reference is hereby made.

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NOTE 9 OPERATING SEGMENT INFORMATION

The Company has two reportable segments: firearms and investment castings. The firearms segment manufactures and sells rifles, pistols, revolvers, and shotguns principally to a select number of 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. In July 2006, the Company announced the cessation of titanium castings operations, expected to be completed in the first quarter of 2007. The Company continues to manufacture and sell steel investment castings for a wide variety of customers and end uses. Selected operating segment financial information follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net Sales				
Firearms	$ 34,378	$ 29,006	$ 104,425	$ 96,826
Castings				
Unaffiliated	7,234	6,084	19,890	16,918
Intersegment	2,330	5,123	10,386	13,794
	9,564	11,207	30,276	30,712
Eliminations	(2,330)	(5,123)	(10,386)	(13,794)
	$ 41,612	$ 35,090	$ 124,315	$ 113,744
Income (Loss) Before Income Taxes				
Firearms	$ 627	$ (1,510)	$ 5,639	$ 4,660
Castings	540	(367)	(717)	(704)
Corporate	431	242	1,463	551
	$ 1,598	$ (1,635)	$ 6,385	$ 4,507

	September 30, 2006	December 31, 2005
Identifiable Assets		
Firearms	$ 70,014	$ 73,035
Castings	18,498	17,751
Corporate	30,493	48,853
	$ 119,005	$ 139,639

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ITEM 2. 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 are manufactured from titanium and steel alloys. Investment castings are sold either directly to or through manufacturers representatives to companies in a wide variety of industries. In July 2006, the Company announced the cessation of titanium castings operations, expected to be completed in the first quarter of 2007. The Company continues to manufacture and sell steel investment castings for a wide variety of customers and end uses.

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

Consolidated net sales were $41.6 million for the three months ended September 30, 2006. This represents an increase of $6.5 million or 18.6% from 2005 consolidated net sales of $35.1 million in the comparable prior year period.

Consolidated net sales for the nine month period ended September 30, 2006 were $124.3 million, an increase of $10.6 million or 9.3% over sales of $113.7 million in the comparable 2005 period.

Firearms segment net sales were $34.4 million for the three months ended September 30, 2006. This represents an increase of $5.4 million or 18.5% from 2005 firearm net sales of $29.0 million in the comparable prior year period.

Firearms segment net sales were $104.4 million for the nine months ended September 30, 2006. This represents an increase of $7.6 million or 7.8% from 2005 firearm net sales of $96.8 million in the comparable prior year period.

Firearms unit shipments increased 36.1% for the three months ended September 30, 2006 due to increased shipments of revolvers and rifles. The increase in revolver shipments for the three months ended September 30, 2006 is due to greater availability of revolver models with stronger demand. The increase in rifle shipments for the three months ended September 30, 2006 is due to strong shipments for the 10/22 rifles, partially offset by reduced shipments of the M77 bolt action rifle which benefited from a dealer-driven rebate in effect in August and September of 2005. A shift in product mix toward firearms with lower unit sales prices resulted in the lesser increase in sales than unit shipments.

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Firearms unit shipments increased 7.5% for the nine months ended September 30, 2006 due to increased shipments of revolvers, partially offset by a decline in shipments of shotguns and pistols. Rifle shipments were consistent with the prior year. The increase in revolver shipments for the nine months ended September 30, 2006 is due to greater availability of revolver models in stronger demand. The decrease in shotgun shipments for the nine months ended September 30, 2006 is due to decreased availability of the side-by-side shotgun, while the decrease in pistol shipments for the nine months ended September 30, 2006 appears to reflect a softening of demand as well as the shipment of 5,000 KP95D pistols to the U.S. Army and Tank-automotive and Armaments Command in January of 2005. A shift in product mix toward firearms with lower unit sales prices resulted in the lesser increase in sales than unit shipments.

Casting segment net sales were $7.2 million for the three months ended September 30, 2006. This represents an increase of $1.1 million or 18.9% from 2005 casting sales of $6.1 million in the comparable 2005 period.

Casting segment net sales were $19.9 million for the nine months ended September 30, 2006. This represents an increase of $3.0 million or 17.6% from 2005 casting sales of $16.9 million in the comparable 2005 period.

The casting sales increases were due primarily to the acceleration of titanium shipments related to the cessation of titanium casting operations, as previously announced by the Company in July 2006. Shipments of titanium castings are expected to conclude in the first quarter of 2007. Titanium casting sales accounted for $9.8 million or 49% of casting sales for the nine months ended September 30, 2006. The Company continues to manufacture and sell steel investment castings for a wide variety of customers and end uses.

Consolidated cost of products sold were $36.4 million for the three months ended September 30, 2006. This represents an increase of $6.2 million or 20.5% from 2005 consolidated cost of products sold of $30.2 million in the comparable prior year period.

Consolidated cost of products sold were $102.5 million for the nine months ended September 30, 2006. This represents an increase of $11.1 million or 12.2% from 2005 consolidated cost of products sold of $91.4 million in the comparable prior year period.

The gross margin as a percent of sales was 12.6% for the three months ended September 30, 2006. This represents a decline from the 2005 gross margin of 14.0% in the comparable prior year period.

The gross margin as a percent of sales was 17.6% for the nine months ended September 30, 2006. This represents a decline from the 2005 gross margin of 19.7% in the comparable prior year period.

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Our year over year gross margins, for both the three months and nine months ended September 30, 2006, were favorably impacted by stronger sales and lower product liability expense. Concurrently, we reduced the value of our inventory to recognize progress we have made in lowering overhead rates over the past year, resulting in an overall gross margin decline.

	Three Months Ended September 30,			
	2006		**2005**	
Net Sales	$ 41,612	100.0%	$ 35,090	100.0%
Total cost of products sold, before inventory adjustments and product liability	34,266	82.3%	29,666	84.5%
Gross margin before inventory adjustments and product liability	7,346	17.7%	5,424	15.5%
Inventory adjustments and product liability	2,112		524	
Gross margin	$ 5,234	12.6%	$ 4,900	14.0%

	Nine Months Ended September 30,			
	2006		**2005**	
Net Sales	$ 124,315	100.0%	$ 113,744	100.0%
Total cost of products sold, before inventory adjustments and product liability	94,778	76.2%	89,965	79.1%
Gross margin before inventory adjustments and product liability	29,537	23.8%	23,779	20.9%
Inventory adjustments and product liability	7,707		1,386	
Gross margin	$ 21,830	17.6%	$ 22,393	19.7%

Selling, general and administrative expenses were $4.9 million and $17.4 million for the three and nine months ended September 30, 2006, respectively, representing a decrease of 25.5% for the quarter and 3.5% for the nine months. The decrease for the three months ended September 30, 2006 reflects a reduction in advertising and sales promotion expenses. The decrease for the nine months ended September 30, 2006 reflects a reduction in advertising and sales promotion expenses, partially offset by increased personnel-related expenses including $0.7 million related to the retirement of the former Chairman and Chief Executive Officer.

Other income-net for the three and nine months ended September 30, 2006 was $1.3 million and $2.0 million, respectively, compared to $35,000 for the three months and $0.2 million for the nine months ended September 30,

2005. The increase in the quarter ended September 30, 2006 is attributable to the gain on the sale of excess casting machinery and equipment in the third quarter of 2006. The increase in the nine months ended September 30, 2006 is attributable to the aforementioned gain on the sale of excess casting machinery and equipment and the sale of certain non-manufacturing real estate in the first half of 2006.

The effective income tax rate of 40.1% in the three months and nine months ended September 30, 2006 remained consistent with the income tax rate in the corresponding 2005 periods.

As a result of the foregoing factors, consolidated net income for the three months ended September 30, 2006 increased to $1.0 million from a loss of ($1.0) for the three months ended September 30, 2005, and increased $1.1 million, or 41.7%, from $2.7 million for the nine months ended September 30, 2005 to $3.8 million for the nine months ended September 30, 2006.

Financial Condition

Operations

At September 30, 2006, the Company had cash, cash equivalents and short-term investments of $11.6 million. The Company s working capital of $126.3 million, less the LIFO reserve of $62.1 million, results in adjusted working capital of $64.2 million and a current ratio of 4.3 to 1.

Cash provided by operating activities was $11.4 million and cash used in operating activities was ($0.7) million for the nine months ended September 30, 2006 and 2005, respectively. The increase in cash provided is principally a result of a decrease in inventory, improved net income, and various fluctuations in operating asset and liability accounts during the first nine months of 2006 compared to the first nine months of 2005.

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 was due 45 days after shipment. Discounts were offered for early payment. On December 1, 2005, the Company effectively discontinued the dating plan for domestic customers. The dating plan receivable balance was $10.4 million at September 30, 2005. Total receivables at September 30, 2006 were $21.7 million, only $0.3 million of which were dating plan receivables.

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 or if adequate quantities of raw materials can not be obtained, the Company s manufacturing processes could be interrupted and the Company s financial condition or results of operations could be materially adversely affected.

Investing and Financing

Capital expenditures during the nine months ended September 30, 2006 totaled $2.4 million. For the past two years capital expenditures averaged approximately $1.0 million per quarter. In 2006, the Company expects to spend approximately $3.5 million on capital expenditures to upgrade and modernize manufacturing equipment primarily at the Newport Firearms and Pine Tree Castings Divisions. 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.

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On September 26, 2006, the Company repurchased 4,272,000 shares of its common stock, representing 15.9% of the outstanding shares from entities controlled by members of the Ruger family at a price of $5.90 per share. The purchase was made with cash held by the Company so no debt was required.

There were no dividends paid for the nine months ended September 30, 2006. The payment of future dividends depends on many factors, including internal estimates of future performance, then-current cash and short-term investments, and the Company s need for funds. The Company does not expect to pay dividends in the near term, but will reconsider a dividend later in 2007.

Historically, the Company has not required external financing. Based on its unencumbered assets, the Company believes it has the ability to raise substantial amounts of short-term or long-term debt.

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 nationwide five-day waiting period and background check prior to the purchase of a handgun. As of November 30, 1998, the National Instant Check System, which applies to both handguns and long guns, replaced the five-day waiting period. The Company believes that the Brady Law and the National Instant Check System have not had a significant effect on the Company s sales of firearms, nor does it anticipate any impact on sales in the future. On September 13, 1994, the Crime Bill banned so-called assault weapons. 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 disclosures within Firearms Litigation are identical to the disclosures within Footnote #8-Contingent Liabilities.)

As of September 30, 2006, the Company is a defendant in approximately five lawsuits allegedly involving its products and is aware of certain other such claims. 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

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(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.

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. Also, The Protection of Lawful Commerce in Arms Act signed into law on October 26, 2005 on its face requires dismissal of such claims.

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 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, San Francisco Appellate Court affirmed summary judgment in favor of defendants, no further appeal; and Cleveland dismissed on January 24, 2006 for lack of prosecution.

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 the city s strict liability law. On April 21, 2005, the D.C. Court of Appeals, 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 was remanded to the trial court for further proceedings. The defendants subsequently moved to dismiss the case based upon the Protection of Lawful Commerce in Arms Act, which motion was granted on May 22, 2006. The individual plaintiffs and the District of Columbia, which has subrogation claims in regard to the individual plaintiffs, have appealed.

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. The defendants filed a motion to dismiss pursuant to the Protection of Lawful Commerce in Arms Act. The motion was denied on October 23, 2006 based on the trial court s view that the Act is unconstitutional. Interlocutory appellate remedies are being pursued. The case is set for trial in 2009.

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. That appeal is pending.

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, including the municipal cases described above. On June 22, 2006, in the previously reported Arnold case, the motion to dismiss based on the Act was denied. Interlocutory appellate remedies are being pursued.

Punitive damages, as well as compensatory damages, are commonly demanded in many of the lawsuits and claims brought against the Company. Aggregate claimed amounts may exceed product liability accruals and applicable insurance coverage. For claims made before July 10, 2000, coverage is provided on an annual basis for losses exceeding $2 million per claim, or an aggregate maximum loss of $5.5 million annually. For claims made after July 10, 2000, coverage is provided on an annual basis for losses exceeding $5 million per claim, or an aggregate

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maximum loss of $10 million annually, except for certain new claims which might be brought by governments or municipalities after July 10, 2000, which are excluded from coverage.

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.

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 our 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 our product liability accrual on the same basis as actual claims; i.e., an accrual is made for reasonably anticipated possible liability and claims-handling expenses on an ongoing basis.

A range of reasonably possible loss relating to unfavorable outcomes cannot be made. Currently, there are no product liability cases in which a dollar amount of damages is claimed. If there were cases with claimed damages, the amount of damages claimed would be 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.

The Company management monitors the status of known claims and the product liability accrual, which includes amounts for asserted and unasserted claims. While it is not possible to forecast the outcome of litigation or the timing of costs, in the opinion of management, after consultation with special 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.

The Company has reported all cases instituted against it through June 30, 2006 and the results of those cases, where terminated, to the S.E.C. on its previous Form 10-K and 10-Q reports, to which reference is hereby made.

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 the financial position or results of operations of the Company.

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 resulted in a cumulative other comprehensive loss of $12.2 million on the Company s balance sheet at December 31, 2005.

The Company expects to realize its deferred tax assets through tax deductions against future taxable income or carry back against taxes previously paid.

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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 which would result from the slower recognition of increased costs when other methods are used. The use of historical cost depreciation has a beneficial effect on cost of products sold. The Company s results continue to be adversely affected by the significant inflation in the cost of certain commodities, particularly titanium, steel, and utilities.

Adjustments to Critical Accounting Policies

The Company has not made any adjustments to its critical accounting estimates and assumptions described in the Company s Annual Report on Form 10-K filed on May 1, 2006, or the judgment affecting the application of those estimates and assumptions.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an Interpretation of SFAS No. 109, which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit. The provisions of FIN 48 are effective for the Company as of January 1, 2007. The adoption of FIN 48 is not expected to have a material effect on the Company.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to changes in prevailing market interest rates affecting the return on its investments but does not consider this interest rate market risk exposure to be material to its financial condition or results of operations. The Company invests primarily in United States Treasury instruments with short-term (less than one year) maturities. The carrying amount of these investments approximates fair value due to the short-term maturities. Under its current policies, the Company does not use derivative financial instruments, derivative commodity instruments or other financial instruments to manage its exposure to changes in interest rates or commodity prices.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company s management, with the participation of the Company s Chief Executive Officer and Treasurer and Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures (the Disclosure Controls and Procedures), as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the September 30, 2006.

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Based on the evaluation, the Company s Chief Executive Officer and Treasurer and Chief Financial Officer have concluded that, as of September 30, 2006, such disclosure controls and procedures are effective to ensure that information required to be disclosed in the Company s periodic reported filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission s rules and forms

Changes in Internal Controls over Financial Reporting

Mr. Michael O. Fifer, became Chief Executive Officer of the Company effective September 25, 2006. Prior to Mr. Fifer s appointment, Stephen L. Sanetti was responsible for evaluating the effectiveness of the Company s Disclosure Controls and Procedures as Interim Chief Executive Officer of the Company.

Except as noted above, there were no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The nature of the legal proceedings against the Company is discussed at Note 8 to this Form 10-Q report, which is incorporated herein by reference.

The Company has reported all cases instituted against it through June 30, 2006, and the results of those cases, where terminated, to the S.E.C. on its previous Form 10-Q and 10-K reports, to which reference is hereby made.

One case was formally instituted against the Company during the three months ended September 30, 2006:

Kasting v. Company, et. al. (IN) in the Johnson County Circuit Court. The plaintiff alleged that the Ruger New Model Super Blackhawk single action revolver was defective when it blew up while firing it. Plaintiff further claimed the ammunition was defective and caused the revolver to fail, and claimed that the store which sold him the allegedly defective ammunition was also at fault. On October 12, 2006, the plaintiff agreed to settle the matter with all parties for an amount that is within the Company s limits of its self-insurance coverage.

During the three months ending September 30, 2006, no previously reported cases were settled.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from the information provided in Item 1A. Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits:

31.1 Certification Pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification Pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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STURM, RUGER & COMPANY, INC.
FORM 10-Q FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	STURM, RUGER & COMPANY, INC.
Date: November 6, 2006	/s/ THOMAS A. DINEEN Thomas A. Dineen Principal Financial Officer, Treasurer and Chief Financial Officer