

GORMAN RUPP CO  
Form 10-Q  
November 03, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

**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**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Commission File Number 1-6747**

**The Gorman-Rupp Company**

(Exact name of registrant as specified in its charter)

Ohio

34-0253990

(State or other jurisdiction of incorporation or  
organization)

(I.R.S. Employer Identification No.)

305 Bowman Street, Mansfield, Ohio

44903

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (419) 755-1011

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 filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Common shares, without par value, outstanding at September 30, 2006. 10,688,697

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

| (Thousands of dollars, except per share amounts) | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2006                                | 2005       | 2006                               | 2005       |
| Net sales  | \$ 70,833                           | \$ 58,980  | \$ 205,825                         | \$ 167,126 |
| Cost of products sold                            | 54,243                              | 47,610     | 158,698                            | 133,565    |
| Gross Profit                                     | 16,590                              | 11,370     | 47,127                             | 33,561     |
| Selling, general and administrative expenses     | 8,179                               | 7,127      | 23,928                             | 21,832     |
| Operating Income                                 | 8,411                               | 4,243      | 23,199                             | 11,729     |
| Other income                                     | 387                                 | 192        | 1,041                              | 682        |
| Other expense                                    | (26)                                | (189)      | (37)                               | (243)      |
| Income Before Income Taxes                       | 8,772                               | 4,246      | 24,203                             | 12,168     |
| Income taxes                                     | 2,160                               | 1,571      | 7,554                              | 4,502      |
| Net Income                                       | \$ 6,612                            | \$ 2,675   | \$ 16,649                          | \$ 7,666   |
| Basic and Diluted Earnings Per Share             | \$ 0.62                             | \$ 0.25    | \$ 1.56                            | \$ 0.72    |
| Dividends Paid Per Share                         | \$ 0.140                            | \$ 0.140   | \$ 0.420                           | \$ 0.420   |
| Average number of shares outstanding             | 10,688,697                          | 10,685,697 | 10,686,708                         | 10,683,708 |

*See notes to condensed consolidated financial statements.*

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**THE GORMAN-RUPP COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

| (Thousands of dollars)                         | Assets | September<br>30,<br>2006 | December<br>31,<br>2005 |
|--|--------|--------------------------|-------------------------|
| Current Assets:                                |        |                          |                         |
| Cash and cash equivalents                      |        | \$ 14,892                | \$ 6,755                |
| Short-term investments                         |        | 7,339                    | 4,785                   |
| Accounts receivable net                        |        | 45,324                   | 41,473                  |
| Inventories net                                |        | 50,834                   | 52,403                  |
| Income taxes                                   |        | 1,683                    |                         |
| Deferred income taxes and other current assets |        | 5,500                    | 5,085                   |
| <b>Total Current Assets</b>                    |        | <b>125,572</b>           | <b>110,501</b>          |
| Property, plant and equipment                  |        | 139,401                  | 136,629                 |
| Less allowances for depreciation               |        | 88,219                   | 85,124                  |
| <b>Property, Plant and Equipment Net</b>       |        | <b>51,182</b>            | <b>51,505</b>           |
| Other assets                                   |        | 17,474                   | 17,535                  |
| <b>Total Assets</b>                            |        | <b>\$ 194,228</b>        | <b>\$ 179,541</b>       |
| Liabilities and Shareholders Equity            |        |                          |                         |
| Current Liabilities:                           |        |                          |                         |
| Accounts payable                               |        | \$ 9,293                 | \$ 9,835                |
| Payrolls and related liabilities               |        | 4,000                    | 3,781                   |
| Accrued expenses                               |        | 16,449                   | 13,782                  |
| Income taxes                                   |        |                          | 821                     |
| <b>Total Current Liabilities</b>               |        | <b>29,742</b>            | <b>28,219</b>           |
| Postretirement Benefits                        |        | 24,164                   | 23,255                  |
| Deferred Income Taxes                          |        | 1,014                    | 1,019                   |
| Shareholders Equity                            |        |                          |                         |
| Common shares, without par value:              |        |                          |                         |
| Authorized - 14,000,000 shares;                |        | 5,096                    | 5,095                   |

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Outstanding - 10,688,697 shares in 2006 and 10,685,697 shares in 2005 (after deducting treasury shares of 392,278 in 2006 and 395,278 in 2005) at stated capital amount

|  |            |            |
|--|------------|------------|
| Retained earnings                          | 134,483    | 122,243    |
| Accumulated other comprehensive loss       | (271)      | (290)      |
| Total Shareholders' Equity                 | 139,308    | 127,048    |
| Total Liabilities and Shareholders' Equity | \$ 194,228 | \$ 179,541 |

*See notes to condensed consolidated financial statements.*

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**THE GORMAN-RUPP COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| (Thousands of dollars)  | Nine Months Ended<br>September 30, |               |
|---|------------------------------------|---------------|
|   | 2006                               | 2005          |
| Cash flows from operating activities:   |                                    |               |
| Net income  | \$ 16,649                          | \$ 7,666      |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |               |
| Depreciation and amortization   | 4,991                              | 5,105         |
| Changes in operating assets and liabilities                                       | (2,217)                            | (7,633)       |
| <br>Net cash provided by operating activities                                     | <br>19,423                         | <br>5,138     |
| Cash flows from investing activities:   |                                    |               |
| Capital additions, net  | (4,485)                            | (2,204)       |
| Purchases of short-term investments   | (2,553)                            | (1,002)       |
| Payment for acquisition   |                                    | (1,331)       |
| <br>Net cash used for investing activities  | <br>(7,038)                        | <br>(4,537)   |
| Cash flows from financing activities:   |                                    |               |
| Cash dividends  | (4,488)                            | (4,487)       |
| <br>Net cash used for financing activities  | <br>(4,488)                        | <br>(4,487)   |
| Effect of exchange rate changes on cash   | 240                                | 134           |
| Net increase (decrease) in cash and cash equivalents                              | 8,137                              | (3,752)       |
| Cash and cash equivalents:  |                                    |               |
| Beginning of year   | 6,755                              | 16,202        |
| <br>September 30,   | <br>\$ 14,892                      | <br>\$ 12,450 |

*See notes to condensed consolidated financial statements.*

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**PART I CONTINUED**

**ITEM 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE A BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2006 are not necessarily indicative of results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

**NEW ACCOUNTING PRONOUNCEMENTS**

In November 2004, the FASB issued SFAS No. 151 *Inventory Costs* an amendment of ARB No. 43, Chapter 4. This Statement amends the guidance in ARB No. 43 to require idle facility expense, freight, handling costs, and wasted material (spoilage) be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company adopted SFAS No. 151 effective January 1, 2006.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 will be effective for the Company on January 1, 2007. The Company is in the process of determining the effect the adoption of FIN 48 will have on its financial statements.

In September, 2006 the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB 108), *Considering the Effects of Prior Year Misstatements when Qualifying Misstatements in Current Year Financial Statements*, which provides interpretive guidance on the consideration of the effects of prior year misstatements in fiscal years ending after November 15, 2006 and is required to be adopted by the Company in its fiscal year ending December 31, 2006. The adoption of SAB 108 is not expected to have any impact on the Company's financial statements.

In September, 2006 the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158). FAS 158 requires employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. The requirement to recognize the funded status of a defined benefit postretirement plan and the disclosure requirements are effective for the Company in 2007. The requirement to measure plan assets and benefit obligations is effective for the Company in 2008. The Company is currently evaluating the impact that the adoption of the provisions of FAS 158 will have on its financial statements.

**Table of Contents****PART I CONTINUED****ITEM 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
CONTINUED****NOTE B INVENTORIES**

Inventories are stated at the lower of cost or market. The costs for substantially all inventories are determined using the last-in, first-out (LIFO) method, with the remainder determined using the first-in, first-out (FIFO) method. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Interim LIFO calculations are based on management's estimate of expected year-end inventory levels and costs.

The major components of inventories are as follows: (net of LIFO reserves)

| <i>(Thousands of dollars)</i> | September<br>30,<br>2006 | December<br>31,<br>2005 |
|-------------------------------|--------------------------|-------------------------|
| Raw materials and in-process  | \$ 24,369                | \$ 29,187               |
| Finished parts                | 22,942                   | 21,883                  |
| Finished products             | 3,523                    | 1,333                   |
| Total inventories             | \$ 50,834                | \$ 52,403               |

**NOTE C PRODUCT WARRANTIES**

A liability is established for estimated future warranty and service claims based on historical claim experience and specific product failures. The Company expenses warranty costs directly to cost of products sold. Changes in the Company's product warranty liability are as follows:

| <i>(Thousands of dollars)</i> | Nine Months Ended<br>September 30, |        |
|-------------------------------|------------------------------------|--------|
|                               | 2006                               | 2005   |
| Balance at beginning of year  | \$ 1,277                           | \$ 829 |
| Warranty costs                | 1,508                              | 987    |
| Settlements                   | (1,456)                            | (965)  |
| Balance at end of quarter     | \$ 1,329                           | \$ 851 |

**NOTE D INCOME TAXES**

Favorable reductions in estimated state tax liabilities and federal research and development tax credits resulted in reduced income taxes from 2005 levels by \$459,000 and \$559,000, respectively, and accounted for an 11.6% reduction in the effective tax rate for the quarter ending September 30, 2006 and a 4.2% reduction in the effective tax rate for the nine months ending September 30, 2006. The effective income tax rate was 24.6% and 37.0% for the three months ended September 30, 2006 and 2005 respectively; and 31.2% and 37.0% for the nine months ended September 30, 2006 and 2005 respectively.

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CONTINUED****NOTE E COMPREHENSIVE INCOME**

Comprehensive income and its components, net of tax, were as follows:

| <i>(Thousands of dollars)</i>                                 | Three Months Ended |         | Nine Months Ended |         |
|---|--------------------|---------|-------------------|---------|
|   | September 30,      |         | September 30,     |         |
|   | 2006               | 2005    | 2006              | 2005    |
| Net income  | \$6,612            | \$2,675 | \$16,649          | \$7,666 |
| Changes in cumulative foreign currency translation adjustment | (89)               | 772     | 19                | 286     |
| Comprehensive income  | \$6,523            | \$3,447 | \$16,668          | \$7,952 |

**NOTE F PENSION AND OTHER POSTRETIREMENT BENEFITS**

The Company sponsors a defined benefit pension plan covering substantially all employees. The Company also sponsors a non-contributory defined benefit health care plan that provides health benefits to substantially all retirees and their spouses. (See Note F Pensions and Other Postretirement Benefits for the year ended December 31, 2005 included in the Form 10-K.)

The following table presents the components of net periodic benefit cost:

| <i>(Thousands of dollars)</i>                                   | Pension Benefits  |          | Postretirement Benefits |         |
|---|-------------------|----------|-------------------------|---------|
|   | Nine Months Ended |          | Nine Months Ended       |         |
|   | September 30,     |          | September 30,           |         |
|   | 2006              | 2005     | 2006                    | 2005    |
| Service cost  | \$ 1,677          | \$ 1,455 | \$ 894                  | \$ 788  |
| Interest cost   | 1,872             | 1,663    | 1,282                   | 1,331   |
| Expected return on plan assets                                  | (2,143)           | (1,828)  |                         |         |
| Amortization of prior service cost and unrecognized (gain)/loss | 768               | 507      |                         |         |
| Recognized net actuarial (gain)/loss                            |                   |          | 197                     | 223     |
| Benefit cost  | \$ 2,174          | \$ 1,797 | \$2,373                 | \$2,342 |

**NOTE G SUBSEQUENT EVENT**

At its October 26, 2006 meeting, the Board of Directors declared a five-for-four split of the Company's Common Shares in the form of a distribution of one additional Common Share for each four Common Shares previously issued. The distribution will be made on December 8, 2006, to shareholders of record at the close of business on November 15, 2006.

**Table of Contents****PART I CONTINUED****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Certain statements in this section and elsewhere herein contain various forward-looking statements and include assumptions concerning The Gorman-Rupp Company's operations, future results and prospects. These forward-looking statements are based on current expectations and are subject to risk and uncertainties. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, The Gorman-Rupp Company provides the following cautionary statement identifying important economic, political, and technological factors, among others, the absence of which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

Such factors include the following: (1) continuation of the current and projected future business environment, including interest rates and capital and consumer spending; (2) competitive factors and competitor responses to Gorman-Rupp initiatives; (3) successful development and market introductions of anticipated new products; (4) stability of government laws and regulation, including taxes; (5) stable governments and business conditions in emerging economies; (6) successful penetration of emerging economies; and (7) continuation of the favorable environment to make acquisitions, domestic and foreign, including regulatory requirements and market values of candidates.

**Third Quarter 2006 Compared to Third Quarter 2005****Net Sales**

| <i>(Thousands of Dollars)</i> | Three Months Ended<br>September 30, |          | \$ Change | % Change |
|-------------------------------|-------------------------------------|----------|-----------|----------|
|                               | 2006                                | 2005     |           |          |
| Net Sales                     | \$70,833                            | \$58,980 | \$11,853  | 20.1%    |

The record sales for the quarter, representing a 20.1% increase from the third quarter of 2005, were primarily due to organic sales growth in fire protection and centrifugal pump sales, increases in component sales to the power generation market, and continued growth in international markets. At Patterson Pump Company, a wholly-owned subsidiary, fire protection pump sales grew \$2,700,000 primarily due to increased international sales; additionally, fabricated component sales to the power generation market increased \$2,500,000 over third quarter 2005 levels. Centrifugal pump sales at Patterson also increased \$4,800,000.

**Cost of Products Sold**

| <i>(Thousands of Dollars)</i> | Three Months Ended<br>September 30, |          | \$ Change | % Change |
|-------------------------------|-------------------------------------|----------|-----------|----------|
|                               | 2006                                | 2005     |           |          |
| Cost of Products Sold         | \$54,243                            | \$47,610 | \$6,633   | 13.9%    |
| % of Sales                    | 76.6%                               | 80.7%    |           | (4.1)    |

The 13.9% increase in cost of products sold in the third quarter 2006 from 2005 was primarily due to the higher sales volume, which resulted in increased material costs and hourly labor costs of \$4,420,000 and \$838,000, respectively. Health insurance costs increased \$622,000 due to

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increased claims and higher medical costs. Expenses related to the Company's employee profit sharing plan increased \$354,000 as a result of higher operating income. The 4.1% reduction in cost of products sold as a percent of net sales was primarily related to increased efficiencies on volume related costs at the Company's production facilities resulting from increased production levels.

**Selling, General, and Administrative Expenses (SG&A)**

| <i>(Thousands of Dollars)</i>                        | Three Months Ended<br>September 30, |         | \$ Change | % Change |
|--|-------------------------------------|---------|-----------|----------|
|  | 2006                                | 2005    |           |          |
| Selling, General, and Administrative Expenses (SG&A) | \$8,179                             | \$7,127 | \$1,052   | 14.8%    |
| % of Sales   | 11.5%                               | 12.1%   |           | (0.6)    |

The 14.8% increase in SG&A expense is primarily due to increased professional fees of \$256,000 related to the timing and outsourcing of auditing, consulting and additional tax related services. Additionally, increased expenses related to the Company's employee profit sharing plan of \$236,000 were a result of higher operating income. Salaries increased \$229,000 due to staffing of open positions that were unfilled in 2005 and normal salary increases. The 0.6% decrease in SG&A expenses as a percent of net sales for 2006 was primarily due to the additional sales volume.

**Net Income**

| <i>(Thousands of Dollars)</i> | Three Months Ended<br>September 30, |         | \$ Change | % Change |
|-------------------------------|-------------------------------------|---------|-----------|----------|
|                               | 2006                                | 2005    |           |          |
| Income before income taxes    | \$8,772                             | \$4,246 | \$4,526   | 106.6%   |
| % of Sales                    | 12.4%                               | 7.2%    |           | 5.2      |
| Income taxes                  | \$2,160                             | \$1,571 | 589       | 37.5%    |
| Effective tax rate            | 24.6%                               | 37.0%   |           | (12.4)   |
| Net income                    | \$6,612                             | \$2,675 | 3,937     | 147.2%   |
| % of Sales                    | 9.3%                                | 4.5%    |           | 4.8      |
| Earnings per share            | \$ 0.62                             | \$ 0.25 | \$ 0.37   | 148.0%   |

Income before income taxes for the third quarter 2006 was \$8,772,000 compared to \$4,246,000 for the same period in 2005, an increase of \$4,526,000 or 106.6%. Income taxes were \$2,160,000 in 2006 compared to \$1,571,000 for the same period of 2005, an increase of \$589,000 or 37.5%. Higher income taxes were a direct result of increased profits during the quarter; partially offset by favorable reductions in estimated state tax liabilities and federal research and development tax credits. These items reduced income taxes from 2005 levels by \$459,000 and \$559,000, respectively, and accounted for an 11.6% reduction in the effective tax rate for the quarter and increasing earnings per share by \$0.10.

Net income for the third quarter 2006 was \$6,612,000 compared to \$2,675,000 for the same period in 2005, an increase of \$3,937,000 or 147.2%. As a percent of net sales, net income was 9.3% for 2006 compared to 4.5% in 2005.

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The Company had earnings per share of \$0.62 for the quarter compared to \$0.25 for the same period in 2005, an increase of \$0.37 per share.

**Nine Months 2006 Compared to Nine Months 2005****Net Sales**

| <i>(Thousands of Dollars)</i> | Nine Months Ended<br>September 30, |           | \$ Change | % Change |
|-------------------------------|------------------------------------|-----------|-----------|----------|
|                               | 2006                               | 2005      |           |          |
| Net Sales                     | \$205,825                          | \$167,126 | \$38,699  | 23.2%    |

The record sales for the nine months, representing a 23.2% increase over the nine months ended September 30, 2005, were primarily due to organic sales growth in fire protection and centrifugal pump sales, increases in component sales to the power generation market, and continued growth in international markets. At Patterson Pump Company, a wholly-owned subsidiary, fire protection pump sales grew \$13,750,000 primarily due to increased international sales; additionally, fabricated components sales to the power generation market increased \$8,300,000 over 2005 levels. Sales of centrifugal pumps at Patterson also increased \$8,300,000.

**Cost of Products Sold**

| <i>(Thousands of Dollars)</i> | Nine Months Ended<br>September 30, |           | \$ Change | % Change |
|-------------------------------|------------------------------------|-----------|-----------|----------|
|                               | 2006                               | 2005      |           |          |
| Cost of Products Sold         | \$158,698                          | \$133,565 | \$25,133  | 18.8%    |
| % of Sales                    | 77.1%                              | 79.9%     |           | (2.8)    |

The 18.8% increase in cost of products sold in the nine months ended September 30, 2006 from 2005 was principally due to the higher sales volume. The 2.8% reduction in cost of products sold as a percent of net sales was primarily related to increased efficiencies on volume related costs at the Company's production facilities resulting from increased production levels. Material costs and hourly labor costs increased \$18,114,000 and \$3,150,000, respectively, to support the higher sales volume. Health insurance costs increased \$767,000 due to increased claims and higher medical costs. Expenses related to the Company's employee profit sharing plan increased \$1,161,000 as a result of higher operating income, and warranty costs increased \$521,000 due to estimates related to higher sales volumes.

**Table of Contents****PART I CONTINUED****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTINUED****Selling, General, and Administrative Expenses (SG&A)**

| <i>(Thousands of Dollars)</i>                           | Nine Months Ended<br>September 30, |          | \$ Change | %<br>Change |
|---|------------------------------------|----------|-----------|-------------|
|   | 2006                               | 2005     |           |             |
| Selling, General, and Administrative Expenses<br>(SG&A) | \$23,928                           | \$21,832 | \$2,096   | 9.6%        |
| % of Sales  | 11.6%                              | 13.1%    |           | (1.5)       |

The 9.6% increase in SG&A expense was principally due to increased expenses related to the Company's employee profit sharing plan of \$774,000 as a result of higher operating income. Increased professional fees of \$792,000 were related to the timing and outsourcing of auditing, consulting and additional tax related services. Partially offsetting this increase was a reduction in advertising expense of \$690,000 due to attendance at a trade show in 2005 which is held every three years. The 1.5% decrease as a percent of net sales for 2006 was primarily due to the additional sales volume.

**Net Income**

| <i>(Thousands of Dollars)</i> | Nine Months Ended<br>September 30, |          | \$ Change | % Change |
|-------------------------------|------------------------------------|----------|-----------|----------|
|                               | 2006                               | 2005     |           |          |
| Income before income taxes    | \$24,203                           | \$12,168 | \$12,035  | 98.9%    |
| % of Sales                    | 11.8%                              | 7.3%     |           | 4.5      |
| Income taxes                  | \$ 7,554                           | \$ 4,502 | 3,052     | 67.8%    |
| Effective tax rate            | 31.2%                              | 37.0%    |           | (5.8)    |
| Net income                    | \$16,649                           | \$ 7,666 | 8,983     | 117.2%   |
| % of Sales                    | 8.1%                               | 4.6%     |           | 3.5      |
| Earnings per share            | \$ 1.56                            | \$ 0.72  | \$ 0.84   | 116.7%   |

Income before income taxes for the nine months ended September 30, 2006 was \$24,203,000 compared to \$12,168,000 for the same period in 2005, an increase of \$12,035,000 or 98.9%. The effective income tax rate used was 31.2% in 2006 and 37.0% in 2005. Increased income taxes were a direct result of increased profits during the nine months; partially offset by favorable reductions in estimated state tax liabilities and federal research and development tax credits. These items reduced the effective taxes from 2005 levels by \$459,000 and \$559,000, respectively, and accounted for a 4.2% reduction in the effective tax rate for the nine months and increasing earnings per share by \$0.10. Additional reductions in the effective tax rate were a result of favorable federal and state tax legislation. Net income for the nine months ended September 30, 2006 was \$16,649,000 compared to \$7,666,000 for the same period in 2005, an increase of \$8,983,000 or 117.2%. As a percent of net sales, net income was 8.1% in 2006 and 4.6% in 2005. The Company had record earnings per share of \$1.56 for the nine months ended September 30, 2006 compared to \$0.72 for the same period in 2005, an increase of \$0.84 per share.

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**PART I CONTINUED**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTINUED**

**Liquidity and Sources of Capital**

Cash provided by operating activities during the first nine months in 2006 was \$19,423,000 compared to \$5,138,000 for the same period in 2005, an increase of \$14,285,000. The increase was primarily attributable to increased net income of \$8,983,000 and reduced inventory growth resulting in a net increase of \$14,434,000. These items were partially offset by increased income taxes of \$5,410,000 resulting from higher estimated tax payments.

Cash used for investing activities during the first nine months in 2006 was \$7,038,000 compared to \$4,537,000 for the same period in 2005, an increase of \$2,501,000. Investing activities for the nine months ended September 30, 2006 consisted of capital additions of \$4,409,000 and investment of \$2,553,000 in short-term investments.

The Company has allocated \$2,450,000 for site preparation regarding possible future expansion to a manufacturing facility in Mansfield, Ohio. At this time, the Company has not determined when it would proceed with construction, which would be an addition to a manufacturing facility completed in 2000.

Financing activities consisted of payments for dividends, which were \$4,488,000 and \$4,487,000 for the nine months ended September 30, 2006 and 2005, respectively.

The Company continues to finance its capital expenditures and working capital requirements principally through internally generated funds, available unsecured lines of credit from several banks and proceeds from short-term investments. The ratio of current assets to current liabilities was 4.2 to 1 at September 30, 2006 and 4.0 to 1 at September 30, 2005.

The Company presently has adequate working capital and borrowing capacity and a strong liquidity position.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISK**

The Company's foreign operations do not involve material risks due to their small size, both individually and collectively. The Company is not exposed to material market risks as a result of its export sales or operations outside of the United States. Export sales are denominated predominately in U.S. dollars and made on open account or under letters of credit.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. An evaluation was carried out under the supervision and with the participation of the Company's Management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by

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**PART I CONTINUED**

**ITEM 4. CONTROLS AND PROCEDURES CONTINUED**

this report on Form 10-Q. Based on that evaluation, the principal executive officer and the principal financial officer have concluded that the Company's disclosure controls and procedures did maintain effective internal control over financial reporting as of September 30, 2006.

**Changes in Internal Control Over Financial Reporting**

There were no other changes in the Company's disclosure controls and procedures that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Subsequent to the date of the evaluation, there have been no significant changes in the Company's disclosure controls and procedures that could significantly affect the Company's internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

There are no material changes from the legal proceedings previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

**ITEM 1A. RISK FACTORS**

There are no material changes from the risk factors previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

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**ITEM 6. EXHIBITS**

(a) Exhibits

Exhibits 3, 4 and 10 (articles of incorporation and by-laws; instruments defining the rights of security holders, including indentures; and material contracts) are incorporated herein by this reference from Exhibits (3), (4) and (10) of the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Exhibit 31.1 Certification of Jeffrey S. Gorman, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification of Robert E. Kirkendall, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32 Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of  
The Sarbanes-Oxley Act of 2002

**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.

The Gorman-Rupp Company  
(Registrant)

Date: November 3, 2006

By: /s/Judith L. Sovine

Judith L. Sovine  
Corporate Treasurer

By: /s/Robert E. Kirkendall

Robert E. Kirkendall  
Senior Vice President and  
Chief Financial Officer

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