

GORMAN RUPP CO  
Form 10-Q  
November 03, 2010

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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, 2010**  
**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.)

600 South Airport Road, 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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 November 2, 2010. 16,788,535

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**The Gorman-Rupp Company and Subsidiaries**  
**Three and Nine Months September 30, 2010 and 2009**

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS (UNAUDITED)****THE GORMAN-RUPP COMPANY AND SUBSIDIARIES  
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, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2010                                | 2009       | 2010                               | 2009       |
| Net sales  | \$ 73,953                           | \$ 64,096  | \$ 212,119                         | \$ 204,039 |
| Cost of products sold                            | 55,298                              | 47,996     | 160,729                            | 156,804    |
| Gross profit                                     | 18,655                              | 16,100     | 51,390                             | 47,235     |
| Selling, general and administrative expenses     | 9,401                               | 8,373      | 26,535                             | 26,151     |
| Operating income                                 | 9,254                               | 7,727      | 24,855                             | 21,084     |
| Other income                                     | 115                                 | 142        | 252                                | 1,051      |
| Other expense                                    | (112)                               | (64)       | (640)                              | (260)      |
| Income before income taxes                       | 9,257                               | 7,805      | 24,467                             | 21,875     |
| Income taxes                                     | 3,102                               | 2,628      | 8,159                              | 7,325      |
| Net income                                       | \$ 6,155                            | \$ 5,177   | \$ 16,308                          | \$ 14,550  |
| Earnings per share                               | \$ 0.37                             | \$ 0.31    | \$ 0.98                            | \$ 0.87    |
| Cash dividends paid per share                    | \$ 0.105                            | \$ 0.100   | \$ 0.315                           | \$ 0.300   |
| Weighted average shares outstanding              | 16,688,535                          | 16,710,535 | 16,703,030                         | 16,708,546 |

*See notes to condensed consolidated financial statements.*

**Table of Contents****THE GORMAN-RUPP COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

| (Thousands of dollars)                         | Assets | Unaudited<br>September 30,<br>2010 | December 31,<br>2009 |
|--|--------|------------------------------------|----------------------|
| Current assets:                                |        |                                    |                      |
| Cash and cash equivalents                      |        | \$ 40,607                          | \$ 44,403            |
| Short-term investments                         |        | 1,513                              | 1,505                |
| Accounts receivable net                        |        | 49,644                             | 37,239               |
| Inventories net                                |        | 39,287                             | 40,506               |
| Deferred income taxes and other current assets |        | 5,517                              | 7,747                |
| <br>   |        |                                    |                      |
| Total current assets                           |        | 136,568                            | 131,400              |
| <br>   |        |                                    |                      |
| Property, plant and equipment                  |        | 210,001                            | 208,571              |
| Less accumulated depreciation                  |        | 102,466                            | 100,048              |
| <br>   |        |                                    |                      |
| Property, plant and equipment net              |        | 107,535                            | 108,523              |
| <br>   |        |                                    |                      |
| Deferred income taxes and other assets         |        | 10,081                             | 9,149                |
| <br>   |        |                                    |                      |
| Total assets                                   |        | \$ 254,184                         | \$ 249,072           |
| <br>   |        |                                    |                      |
| Liabilities and shareholders equity            |        |                                    |                      |
| Current liabilities:                           |        |                                    |                      |
| Accounts payable                               |        | \$ 12,299                          | \$ 8,972             |
| Short-term debt                                |        |                                    | 15,000               |
| Payroll and related liabilities                |        | 9,674                              | 6,909                |
| Commissions payable                            |        | 7,975                              | 4,348                |
| Accrued expenses                               |        | 9,615                              | 7,946                |
| <br>   |        |                                    |                      |
| Total current liabilities                      |        | 39,563                             | 43,175               |
| <br>   |        |                                    |                      |
| Income taxes payable                           |        | 971                                | 971                  |
| Retirement benefits                            |        | 1,930                              | 5,044                |
| Postretirement benefits                        |        | 22,982                             | 22,270               |

|  |            |            |
|--|------------|------------|
| Total liabilities  | 65,446     | 71,460     |
| The Gorman-Rupp Company shareholders' equity   |            |            |
| Common shares, without par value:  |            |            |
| Authorized 35,000,000 shares   |            |            |
| Outstanding 16,688,535 shares in 2010 and 16,710,535 in 2009 (after deducting treasury shares of 623,683 in 2010 and 601,683 in 2009) at stated capital amount | 5,093      | 5,100      |
| Retained earnings  | 193,354    | 182,875    |
| Accumulated other comprehensive loss   | (10,440)   | (11,070)   |
| The Gorman-Rupp Company shareholders' equity   |            |            |
| Noncontrolling interest  | 731        | 707        |
| Total shareholders' equity   | 188,738    | 177,612    |
| Total liabilities and shareholders' equity   | \$ 254,184 | \$ 249,072 |

*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, |              |
|--|------------------------------------|--------------|
|  | 2010                               | 2009         |
| Cash flows from operating activities:  |                                    |              |
| Net income   | \$ 16,308                          | \$ 14,550    |
| Adjustments to reconcile net income attributable to net cash provided by operating activities: |                                    |              |
| Depreciation and amortization  | 7,751                              | 6,288        |
| Changes in operating assets and liabilities:   |                                    |              |
| Accounts receivable  | (12,405)                           | 8,934        |
| Inventories  | 1,219                              | 11,524       |
| Accounts payable   | 3,328                              | (4,897)      |
| Commissions payable  | 3,628                              | (100)        |
| Accrued expenses and other   | 2,796                              | 7,577        |
| <br>Net cash provided by operating activities  | <br>22,625                         | <br>43,876   |
| Cash flows from investing activities:  |                                    |              |
| Capital additions net  | (5,607)                            | (33,838)     |
| Proceeds from sale of product line   |                                    | 1,315        |
| Change in short-term investments   | (8)                                | (1,500)      |
| <br>Net cash used for investing activities   | <br>(5,615)                        | <br>(34,023) |
| Cash flows from financing activities:  |                                    |              |
| Cash dividends   | (5,261)                            | (5,011)      |
| Proceeds from bank borrowings  |                                    | 24,806       |
| Payments to bank for borrowings  | (15,000)                           |              |
| Purchase of common shares for treasury net   | (574)                              |              |
| <br>Net cash (used for) provided by financing activities                                       | <br>(20,835)                       | <br>19,795   |
| Effect of exchange rate changes on cash  | 29                                 | 795          |
| <br>Net (decrease) increase in cash and cash equivalents                                       | <br>(3,796)                        | <br>30,443   |
| Cash and cash equivalents:   |                                    |              |
| Beginning of year  | 44,403                             | 23,793       |



September 30,

\$ 40,607 \$ 54,236

*See notes to condensed consolidated financial statements.*

**Table of Contents****PART I****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. The consolidated financial statements include the accounts of the Company and its wholly and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. 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 three and nine months ended September 30, 2010 are not necessarily indicative of results that may be expected for the year ending December 31, 2010. 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, 2009. The Company has evaluated the existence of subsequent events through the filing date of this Form 10-Q.

**NEW ACCOUNTING PRONOUNCEMENTS**

There have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2010, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, that are of significance or potential significance to the Company.

**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 and are subject to the final year-end LIFO inventory valuation.

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

| <i>(Thousands of dollars)</i> | September 30,<br>2010 | December 31,<br>2009 |
|-------------------------------|-----------------------|----------------------|
| Raw materials and in-process  | \$ 20,314             | \$ 22,087            |
| Finished parts                | 16,334                | 16,026               |
| Finished products             | 2,639                 | 2,393                |
| Total inventories             | \$ 39,287             | \$ 40,506            |

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

A liability is established for estimated future warranty and service claims based on historical claims experience, specific product failures and sales volume. 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> | September 30, |          |
|-------------------------------|---------------|----------|
|                               | 2010          | 2009     |
| Balance at beginning of year  | \$ 1,863      | \$ 2,048 |
| Warranty costs accrued        | 754           | 1,503    |
| Expenses                      | (1,173)       | (1,643)  |
| Balance at end of period      | \$ 1,444      | \$ 1,908 |

**NOTE D COMPREHENSIVE INCOME**

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

| <i>(Thousands of dollars)</i>                                      | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 2010                                | 2009     | 2010                               | 2009      |
| Net income   | \$ 6,155                            | \$ 5,177 | \$ 16,308                          | \$ 14,550 |
| Changes in cumulative foreign currency translation adjustments     | 1,370                               | 1,242    | (139)                              | 1,740     |
| Pension and OPEB adjustments                                       | 254                                 | 471      | 769                                | 1,412     |
| Total comprehensive income attributable to The Gorman-Rupp Company | \$ 7,779                            | \$ 6,890 | \$ 16,938                          | \$ 17,702 |

**NOTE E INCOME TAXES**

The Company follows the provisions of ASC 740 Income Taxes. Accordingly, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit.

The amount of unrecognized tax benefits as of January 1, 2010 of \$1.5 million includes \$876,000 which, if ultimately recognized, will reduce the Company's annual effective tax rate.

At September 30, 2010, the balance of unrecognized tax benefits had increased to approximately \$1,513,000. The change in the current year is related to a \$109,000 increase in current year tax positions, a \$7,000 increase in prior period positions, a \$12,000 decrease related to settlements with taxing authorities, and a \$52,000 decrease related to the lapse of the applicable statute of limitations.

The September 30, 2010 balance of unrecognized tax benefits includes \$942,000 which, if ultimately realized, will reduce the Company's annual effective tax rate.

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**PART I CONTINUED**

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

**NOTE E INCOME TAXES CONTINUED**

The statute of limitations in several jurisdictions will expire in the next 12 months. The Company has unrecognized tax benefits of \$62,000 which would be recognized if the statute of limitations expires without the relevant taxing authority examining the applicable returns.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. Except as noted below, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2006.

The Company was examined by the Canadian Revenue Agency for tax years ending 2004 - 2006 related to inter-company royalty payments. The Company received a final assessment during the first quarter 2009 and has filed a Competent Authority Appeal with both U.S. and Canadian Competent Authorities to eliminate double tax treatment. Under the most recent U.S.-Canadian tax protocol, Competent Authority assessments should achieve symmetry under binding arbitration. Any adjustment resulting from Competent Authority resolution of the examination is not expected to have a material impact on the consolidated financial position or future consolidated results of operations of the Company.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense for all periods presented. The Company had accrued approximately \$391,000 for the payment of interest and penalties at January 1, 2010. An additional accrual of interest and penalties of approximately \$59,000 was recorded for the nine months ended September 30, 2010.

**NOTE F PENSION AND OTHER POSTRETIREMENT BENEFITS**

The Company sponsors a defined benefit pension plan covering substantially all employees hired prior to January 1, 2008. Additionally, the Company sponsors a defined contribution pension plan at one location not participating in the defined benefit pension plan. A 401(k) plan that includes a graduated Company match is also available. The Company also sponsors a non-contributory defined benefit health care plan that provides health benefits to substantially all retirees and their spouses.

For substantially all United States employees hired after January 1, 2008, an enhanced 401(k) plan is available instead of the Company's defined benefit pension plan. Benefits are based on age and years of service with the Company. Employees hired prior to January 1, 2008 are not affected by the change.

**Table of Contents****PART I CONTINUED****ITEM 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
CONTINUED****NOTE F PENSION AND OTHER POSTRETIREMENT BENEFITS CONTINUED**

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,           |          |
|                                    | 2010              | 2009     | 2010                    | 2009     |
| Service cost                       | \$ 2,041          | \$ 2,064 | \$ 829                  | \$ 907   |
| Interest cost                      | 2,366             | 2,553    | 943                     | 1,181    |
| Expected return on plan assets     | (3,321)           | (2,652)  |                         |          |
| Unrecognized actuarial (gain) loss | 1,182             | 1,580    | (428)                   | (169)    |
| Recognized actuarial (gain) loss   |                   |          | (2)                     |          |
| Benefit cost                       | \$ 2,268          | \$ 3,545 | \$ 1,342                | \$ 1,919 |

**NOTE G SUBSEQUENT EVENT**

On September 24, 2010, the Company entered into an unsecured loan agreement for an amount of \$35.0 million which matures in November 2011, subject to extension, with interest at LIBOR plus 75 basis points, adjustable and payable monthly.

On October 1, 2010, the Company borrowed \$35.0 million under the above mentioned unsecured loan agreement to capitalize a new subsidiary, National Pump Company, for the purpose of acquiring the assets and assumption of certain liabilities of National Pump Company, LLC for approximately \$40 million. National Pump Company manufactures vertical turbine line shaft and submersible pumps as well as centrifugal pumps, high pressure booster pumps and packaged pump station systems for industrial water supply, agricultural irrigation supply and municipal water supply. Additionally it provides specialty pumps for petroleum, mining and OEM applications. National Pump Company generated approximately \$33 million in revenue during 2009. The addition of National Pump Company broadens the Company's portfolio of pumping solutions and complements our established markets.

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

The Gorman-Rupp Company is a leading designer, manufacturer and marketer of pumps and related equipment (pump and motor controls) for use in water, wastewater, construction, industrial, petroleum, original equipment, agriculture, fire protection, heating, ventilating and air conditioning ( HVAC ), military and other liquid-handling applications. The Company attributes its success to product quality, application and performance combined with delivery and service, and attempts to continually develop initiatives to improve performance in these key areas.

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

Starting in the fourth quarter of 2008 and continuing into 2009, demand for most of our products slowed due to the global economic recession. The Company responded to these challenging business conditions by adjusting cost structures to lower operating levels and realigning production plans to match current demand. During the three and nine months ended September 30, 2010, the Company experienced improved incoming orders and financial results with earnings largely driven by solid operating performance in what is still an unpredictable environment. The Company experienced increased overtime compensation during the third quarter of 2010 due to expanding customer demand for some products and is considering hiring additional full-time employees in the remainder of the year. Customer order growth continues to be encouraging, but the Company remains cautious until full economic recovery becomes more evident.

**Third Quarter 2010 Compared to Third Quarter 2009****Net Sales**

| <i>(Thousands of dollars)</i> | Three Months Ended<br>September 30, |           | \$ Change | % Change |
|-------------------------------|-------------------------------------|-----------|-----------|----------|
|                               | 2010                                | 2009      |           |          |
| Net sales                     | \$ 73,953                           | \$ 64,096 | \$ 9,857  | 15.4%    |

The increase in net sales during the quarter was due principally to increases in the international fire protection market of \$3.2 million, the municipal market of \$4.1 million, the construction and rental market of \$2.7 million and the industrial market of \$2.0 million. Partially offsetting these increases were decreased sales in the OEM market of \$2.3 million.

**Cost of Products Sold**

| <i>(Thousands of dollars)</i> | Three Months Ended<br>September 30, |           | \$ Change | % Change |
|-------------------------------|-------------------------------------|-----------|-----------|----------|
|                               | 2010                                | 2009      |           |          |
| Cost of products sold         | \$ 55,298                           | \$ 47,996 | \$ 7,302  | 15.2%    |
| <i>% of Net sales</i>         | 74.8%                               | 74.9%     |           |          |

The increase in cost of products sold was primarily due to higher sales volume which resulted in additional material costs of \$5.2 million, including higher LIFO expense of \$1.3 million versus the third quarter 2009 which benefited from a \$1.0 million liquidation of LIFO quantities due to reduced inventory levels. Compensation and payroll taxes increased \$1.3 million principally due to overtime compensation associated with meeting increased customer demand for our products. In addition, depreciation expense increased \$421,000 primarily due to the consolidation and expansion of the Mansfield, Ohio facilities (the Mansfield facilities).

**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>                       | Three Months Ended |                       | \$ Change | % Change |
|---|--------------------|-----------------------|-----------|----------|
|   | 2010               | September 30,<br>2009 |           |          |
| Selling, general and administrative expenses (SG&A) | \$ 9,401           | \$ 8,373              | \$ 1,028  | 12.3%    |
| <i>% of Net sales</i>                               | 12.7%              | 13.1%                 |           |          |

The increase in SG&A expenses is principally due to increases in travel and advertising expenses of \$434,000 related to additional participation in trade shows and professional fees of \$287,000 related to the business acquisition of National Pump Company on October 1, 2010 and software consulting fees. In addition, profit sharing expense increased \$234,000 related to higher operating income.

**Net Income**

| <i>(Thousands of dollars)</i> | Three Months Ended |                       | \$ Change | % Change |
|-------------------------------|--------------------|-----------------------|-----------|----------|
|                               | 2010               | September 30,<br>2009 |           |          |
| Income before income taxes    | \$ 9,257           | \$ 7,805              | \$ 1,452  | 18.6%    |
| <i>% of Net sales</i>         | 12.5%              | 12.2%                 |           |          |
| Income taxes                  | \$ 3,102           | \$ 2,628              | \$ 474    | 18.0%    |
| <i>Effective tax rate</i>     | 33.5%              | 33.7%                 |           |          |
| Net income                    | \$ 6,155           | \$ 5,177              | \$ 978    | 18.9%    |
| <i>% of Net sales</i>         | 8.3%               | 8.1%                  |           |          |
| Earnings per share            | \$ 0.37            | \$ 0.31               | \$ 0.06   | 19.4%    |

**Nine Months 2010 Compared to Nine Months 2009****Net Sales**

| <i>(Thousands of Dollars)</i> | Nine Months Ended |                       | \$ Change | % Change |
|-------------------------------|-------------------|-----------------------|-----------|----------|
|                               | 2010              | September 30,<br>2009 |           |          |
| Net sales                     | \$ 212,119        | \$ 204,039            | \$ 8,080  | 4.0%     |

The increase in sales in the first nine months of 2010 compared to the same period last year was due principally to increases in the international fire protection market of \$7.0 million, the municipal market of \$2.7 million, the construction and rental market of \$4.4 and the industrial market of \$3.1 million. Partially offsetting these increases were decreases in the OEM market of \$5.2 million and the domestic fire protection market of \$3.1 million.

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

The backlog at September 30, 2010 was \$104.6 million compared to \$85.2 million at September 30, 2009, representing a 23% increase primarily due to an increase of orders in custom pump applications, the municipal market, the rental market and the international fire protection market, partially offset by a decline in orders for the OEM market.

**Cost of Products Sold**

| <i>(Thousands of Dollars)</i> | Nine Months Ended |            |           |          |
|-------------------------------|-------------------|------------|-----------|----------|
|                               | September 30,     |            | \$ Change | % Change |
|                               | 2010              | 2009       |           |          |
| Cost of products sold         | \$ 160,729        | \$ 156,804 | \$ 3,925  | 2.5%     |
| <i>% of Net sales</i>         | 75.8%             | 76.9%      |           |          |

The increase in cost of products sold was due in part to higher sales volume which resulted in additional material costs of \$4.1 million, including higher LIFO expense of \$2.1 million versus the first nine months of 2009 which benefited from a \$2.1 million liquidation of LIFO quantities due to reduced inventory levels. Comparable volume increases influenced manufacturing costs in addition to increases in depreciation expense of \$1.4 million primarily due to the consolidation and expansion of the Mansfield facilities, and overtime compensation of \$1.2 million associated with meeting increased customer demand for our products. Partially offsetting these increases were decreases in pension expense of \$1.0 million as a result of lower amortization expense due to the rebound in equity markets during 2009, warranty expense of \$749,000 primarily due to improved claims experience, healthcare expense of \$588,000 due to reduced medical costs for active employees and postretirement expense of \$333,000 due to reduced medical costs for retired employees.

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

| <i>(Thousands of Dollars)</i>                        | Nine Months Ended |           |           |          |
|--|-------------------|-----------|-----------|----------|
|  | September 30,     |           | \$ Change | % Change |
|  | 2010              | 2009      |           |          |
| Selling, general, and administrative expenses (SG&A) | \$ 26,535         | \$ 26,151 | \$ 384    | 1.5%     |
| <i>% of Net sales</i>                                | 12.5%             | 12.8%     |           |          |

The increase in SG&A expenses is principally due to increases in profit sharing expense of \$425,000 related to higher operating income and travel and advertising expenses of \$396,000 related to additional participation in trade shows. Partially offsetting these increases were decreases in healthcare expense of \$416,000 due to reduced medical costs and professional fees of \$118,000 resulting from reduced legal fees.



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

| <i>(Thousands of Dollars)</i> | Nine Months Ended<br>September 30, |             | \$ Change | % Change |
|-------------------------------|------------------------------------|-------------|-----------|----------|
|                               | 2010                               | 2009        |           |          |
| Other income                  | \$ 252                             | \$ 1,051    | \$ (799)  | (76.0)%  |
| <i>% of Net sales</i>         | <i>0.1%</i>                        | <i>0.5%</i> |           |          |

The decrease in other income is primarily due to a gain recognized on the sale of a product line in 2009 of \$435,000 and reduced gain on disposal of assets of \$247,000.

**Other Expense**

| <i>(Thousands of Dollars)</i> | Nine Months Ended<br>September 30, |             | \$ Change | % Change |
|-------------------------------|------------------------------------|-------------|-----------|----------|
|                               | 2010                               | 2009        |           |          |
| Other expense                 | \$ 640                             | \$ 260      | \$ 380    | 146.2%   |
| <i>% of Net sales</i>         | <i>0.3%</i>                        | <i>0.1%</i> |           |          |

The increase in other expense is due to losses on disposal of assets of \$264,000 primarily related to the former Mansfield Division facilities and higher foreign currency exchange rate losses of \$224,000 related primarily to the decrease in the value of the Euro during the current period.

**Net Income**

| <i>(Thousands of Dollars)</i> | Nine Months Ended<br>September 30, |              | \$ Change | % Change |
|-------------------------------|------------------------------------|--------------|-----------|----------|
|                               | 2010                               | 2009         |           |          |
| Income before income taxes    | \$ 24,467                          | \$ 21,875    | \$ 2,592  | 11.8%    |
| <i>% of Net sales</i>         | <i>11.5%</i>                       | <i>10.7%</i> |           |          |
| Income taxes                  | \$ 8,159                           | \$ 7,325     | \$ 834    | 11.4%    |
| <i>Effective tax rate</i>     | <i>33.3%</i>                       | <i>33.5%</i> |           |          |
| Net income                    | \$ 16,308                          | \$ 14,550    | \$ 1,758  | 12.1%    |
| <i>% of Net sales</i>         | <i>7.7%</i>                        | <i>7.1%</i>  |           |          |
| Earnings per share            | \$ 0.98                            | \$ 0.87      | \$ 0.11   | 12.6%    |

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

| <i>(Thousands of dollars)</i>                        | Nine Months Ended |           |
|--|-------------------|-----------|
|  | September 30,     |           |
|  | 2010              | 2009      |
| Net cash provided by operating activities            | \$ 22,625         | \$ 43,876 |
| Net cash used for investing activities               | (5,615)           | (34,023)  |
| Net cash (used for) provided by financing activities | (20,835)          | 19,795    |

The Company's principal funding source generally is its cash generated from operations. As operations continued to improve from last year's severe recession, higher sales resulted in increased accounts receivable, accounts payable and commissions payable during the first nine months of 2010. Inventories did not yet increase in line with sales due to lead times required for replenishment.

Investing activities for the nine months ended September 30, 2010 primarily consisted of remaining capital expenditures related to the Mansfield facilities of \$2.8 million and other net capital expenditures of \$2.8 million for a total of \$5.6 million, a decrease of \$29.0 million compared to the same period last year. Total capital expenditures of approximately \$57.4 million for the new Mansfield facilities, substantially completed in 2009, have been incurred as of September 30, 2010. Non-building capital expenditures are expected to be approximately \$4 to \$6 million for each of 2010 and 2011.

Financing activities for the nine months ended September 30, 2010 consisted principally of the re-payment of the outstanding balance of \$15.0 million on short-term debt used to partially finance the Mansfield facilities, and payments for dividends of \$5.3 million. The ratio of current assets to current liabilities was 3.5 to 1 at September 30, 2010 and 3.0 to 1 at December 31, 2009.

The Company believes that cash on hand, combined with cash provided by operations and line of credit arrangements with banks, will continue to be sufficient to meet cash requirements, including capital expenditures and the payment of dividends. While the Company currently expects to continue its history of paying regular quarterly dividends, any future dividends will be reviewed individually and declared by our Board of Directors at its discretion, dependent on our assessment of the Company's financial condition and business outlook at the applicable time.

**Critical Accounting Policies**

Our critical accounting policies are described in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and in the notes to our Consolidated Financial Statements for the year ended December 31, 2009 contained in our Fiscal 2009 Annual Report on Form 10-K. Any new accounting policies or updates to existing accounting policies as a result of new accounting pronouncements have been discussed in the notes to our Consolidated Financial Statements in this Quarterly Report on Form 10-Q. The application of our critical accounting policies may require management to make judgments and estimates about the amounts reflected in the Consolidated Financial Statements. Management uses historical experience and all available information to make these estimates and judgments, and different amounts could be reported using different assumptions and estimates.

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**PART I CONTINUED**

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

**Safe Harbor Statement**

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: 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 about important economic, political, and technological factors, among others, and are subject to risk and uncertainties, 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 regulations, 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.

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

The Company's foreign operations do not involve material risks due to their relative size, both individually and collectively. The Company is not exposed to material market risks as a result of its diversified export sales. Export sales generally are denominated 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. The Company's disclosure controls and procedures are also designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act of 1934 is accumulated and communicated to the Company's Management, including the principal executive officer and the principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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 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 were effective as of September 30, 2010.

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**PART I CONTINUED**

**ITEM 4. CONTROLS AND PROCEDURES CONTINUED**

**Changes in Internal Control Over Financial Reporting**

There have been no 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, 2009.

**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, 2009.

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**ITEM 6. EXHIBITS**

(a) Exhibits

- Exhibits 3 and 4 (articles of incorporation) are incorporated herein by this reference from Exhibits (3) and (4) of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.
- Exhibits 3, 4 and 10 (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 Wayne L. Knabel, 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, 2010

By: /s/ Wayne L. Knabel

Wayne L. Knabel  
Chief Financial Officer