

GORMAN RUPP CO
Form 10-Q
October 31, 2011

Table of Contents

**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, 2011
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 October 28, 2011. 20,990,893

The Gorman-Rupp Company and Subsidiaries
Three and Nine Months Ended September 30, 2011 and 2010

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Statements of Income

-Three months ended September 30, 2011 and 2010

-Nine months ended September 30, 2011 and 2010

3

Condensed Consolidated Balance Sheets

-September 30, 2011 and December 31, 2010

4

Condensed Consolidated Statements of Cash Flows

-Nine months ended September 30, 2011 and 2010

5

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

9

Item 3. Quantitative and Qualitative Disclosures about Market Risk

14

Item 4. Controls and Procedures

14

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

14

Item 1A. Risk Factors

15

Item 6. Exhibits

16

EX-31.1 302 Principal Executive Officer (PEO) Certification

EX-31.2 302 Principal Financial Officer (PFO) Certification

EX-32 Section 1350 Certifications

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

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		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net sales	\$ 90,215	\$ 73,953	\$ 266,448	\$ 212,119
Cost of products sold	67,748	55,298	198,346	160,729
Gross profit	22,467	18,655	68,102	51,390
Selling, general and administrative expenses	10,941	9,401	32,436	26,535
Operating income	11,526	9,254	35,666	24,855
Other income	78	115	299	252
Other expense	(402)	(112)	(720)	(640)
Income before income taxes	11,202	9,257	35,245	24,467
Income taxes	3,547	3,102	11,546	8,159
Net income	\$ 7,655	\$ 6,155	\$ 23,699	\$ 16,308
Earnings per share	\$ 0.37	\$ 0.29	\$ 1.13	\$ 0.78
Cash dividends paid per share	\$ 0.090	\$ 0.084	\$ 0.264	\$ 0.252
Weighted average shares outstanding	20,989,882	20,860,669	20,986,574	20,878,788

*Weighted average shares outstanding and per share data reflect the 5 for 4 stock split effective June 10, 2011.
See notes to condensed consolidated financial statements.*

Table of Contents

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

(Thousands of dollars)		September 30, 2011	December 31, 2010
	Assets		
Current assets:			
Cash and cash equivalents		\$ 26,329	\$ 32,229
Short-term investments		1,445	2,017
Accounts receivable net		54,841	51,996
Inventories net		72,003	51,449
Deferred income taxes and other current assets		4,424	5,503
Total current assets		159,042	143,194
Property, plant and equipment		223,906	216,239
Less accumulated depreciation		109,584	102,713
Property, plant and equipment net		114,322	113,526
Prepaid pension and other assets		7,368	3,545
Goodwill and other intangible assets		25,717	26,442
Total assets		\$ 306,449	\$ 286,707
	Liabilities and shareholders equity		
Current liabilities:			
Accounts payable		\$ 16,321	\$ 12,042
Short-term debt		15,000	25,000
Payroll and related liabilities		11,992	7,794
Commissions payable		6,430	6,591
Accrued expenses		10,997	8,251
Total current liabilities		60,740	59,678
Postretirement benefits		22,502	22,241
Deferred and other income taxes		4,952	4,954
Total liabilities		88,194	86,873

Shareholders' equity		
Common shares, without par value:		
Authorized 35,000,000 shares		
Outstanding 20,990,893 shares in 2011 and 20,984,893 in 2010 (after deducting treasury shares of 648,603 in 2011 and 654,603 in 2010) at stated capital amount	5,128	5,127
Additional paid-in capital	2,544	2,400
Retained earnings	219,920	201,735
Accumulated other comprehensive loss	(9,337)	(9,428)
Total shareholders' equity	218,255	199,834
Total liabilities and shareholders' equity	\$ 306,449	\$ 286,707

Shares outstanding reflect the 5 for 4 stock split effective June 10, 2011.

See notes to condensed consolidated financial statements.

Table of Contents

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

(Thousands of dollars)	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 23,699	\$ 16,308
Adjustments to reconcile net income attributable to net cash provided by operating activities:		
Depreciation and amortization	8,516	7,751
Changes in operating assets and liabilities:		
Accounts receivable	(2,845)	(12,405)
Inventories	(20,554)	1,219
Accounts payable	4,278	3,328
Commissions payable	(161)	3,628
Accrued expenses and other	5,372	2,796
 Net cash provided by operating activities	 18,305	 22,625
Cash flows from investing activities:		
Capital additions	(8,547)	(5,607)
Change in short-term investments	572	(8)
 Net cash used for investing activities	 (7,975)	 (5,615)
Cash flows from financing activities:		
Cash dividends	(5,541)	(5,261)
Payments to bank for borrowings	(10,000)	(15,000)
Purchase of common shares for treasury		(574)
Other	(27)	
 Net cash used for financing activities	 (15,568)	 (20,835)
Effect of exchange rate changes on cash	(662)	29
 Net decrease in cash and cash equivalents	 (5,900)	 (3,796)
Cash and cash equivalents:		
Beginning of year	32,229	44,403

September 30,

\$ 26,329 \$ 40,607

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 (GAAP) 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 GAAP 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, 2011 are not necessarily indicative of results that may be expected for the year ending December 31, 2011. 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, 2010. The Company has evaluated the existence of subsequent events through the filing date of this Form 10-Q.

On April 28, 2011, the Company declared a five-for-four split of its Common Shares in the form of a distribution of one additional Common Share for each four Common Shares previously issued. The distribution was made on June 10, 2011. Accordingly, all number of shares outstanding and per share data throughout this Quarterly Report on Form 10-Q have been adjusted retroactively to reflect the stock split.

NEW ACCOUNTING PRONOUNCEMENTS

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. ASU 2011-08 is intended to simplify goodwill impairment testing by allowing a qualitative review step to assess whether the required quantitative impairment analysis that exists under current accounting standards is necessary. Under the amended rule, a company will not be required to calculate the fair value of a business that contains recorded goodwill unless it concludes, based on the qualitative assessment, that it is more likely than not that the fair value of that business is less than its book value. If such a decline in fair value is deemed more likely than not to have occurred, then the quantitative goodwill impairment test that exists under current GAAP must be completed; otherwise, goodwill is deemed to be not impaired and no further testing is required until the next annual test date (or sooner if conditions or events before that date raise concerns of potential impairment in the business). The amended goodwill impairment guidance does not affect the manner in which a company estimates fair value. The new standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company is planning on adopting this new standard in the fourth quarter 2011.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU No. 2011-05 amends existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income.

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

Also, items that are reclassified from other comprehensive income to net income must be presented on the face of the financial statements. ASU No. 2011-05 requires retrospective application, and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company plans to adopt ASU No. 2011-05 in the first quarter of fiscal 2012. The Company believes the adoption of ASU No. 2011-05 will change the order in which certain financial statements are presented and provide additional detail on those financial statements when applicable, but will not have any other impact on its consolidated financial statements.

NOTE B INVENTORIES

Inventories are stated at the lower of cost or market. The costs for approximately 81% of inventories at September 30, 2011 and 82% at December 31, 2010 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, 2011	December 31, 2010
Raw materials and in-process	\$ 31,004	\$ 20,128
Finished parts	35,789	27,005
Finished products	5,210	4,316
Total inventories	\$ 72,003	\$ 51,449

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,	
	2011	2010
Balance at beginning of year	\$ 1,543	\$ 1,863
Provision	848	754
Claims	(1,034)	(1,173)
Balance at end of period	\$ 1,357	\$ 1,444

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

Comprehensive income and its components are as follows:

<i>(Thousands of dollars)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 7,655	\$ 6,155	\$ 23,699	\$ 16,308
Changes in cumulative foreign currency translation adjustments	(2,172)	1,370	(887)	(139)
Pension and OPEB adjustments	403	254	978	769
Total comprehensive income	\$ 5,886	\$ 7,779	\$ 23,790	\$ 16,938

NOTE E 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 certain 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 were not affected by the change.

The following tables present the components of net periodic benefit cost:

<i>(Thousands of dollars)</i>	Pension Benefits Three Months Ended September 30,		Postretirement Benefits Three Months Ended September 30,	
	2011	2010	2011	2010
Service cost	\$ 714	\$ 680	\$ 263	\$ 276
Interest cost	767	789	277	315
Expected return on plan assets	(1,127)	(1,107)		
Recognized actuarial loss (gain)	418	394	(164)	(143)
Benefit cost	\$ 772	\$ 756	\$ 376	\$ 448

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

<i>(Thousands of dollars)</i>	Pension Benefits		Postretirement Benefits	
	Nine Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Service cost	\$ 2,142	\$ 2,041	\$ 789	\$ 829
Interest cost	2,301	2,366	831	943
Expected return on plan assets	(3,383)	(3,321)		
Recognized actuarial loss (gain)	1,256	1,182	(492)	(430)
Benefit cost	\$ 2,316	\$ 2,268	\$ 1,128	\$ 1,342

**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 international marketer of pumps and related equipment (pump and motor controls) for use in diverse 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. Gorman-Rupp actively pursues growth opportunities through organic growth, international business opportunities and acquisitions.

During the third quarter 2011, incoming orders, including some for flood control projects in the municipal market, resulted in another record backlog of \$157.9 million at September 30, 2011, a 50.9% increase from a year ago and 47.0% higher than the backlog of \$107.4 million at December 31, 2010. Financial results during the quarter and nine months continued to improve compared to the same period a year ago, with earnings largely driven by solid North American sales growth and improved operating leverage. Sales and earnings also benefited from the inclusion of National Pump Company acquired on October 1, 2010.

During October 2011, the Company's defined benefit pension plan administrator confirmed that the actuarial payment threshold relating to retirees receiving lump-sum distributions was exceeded. As a result, a pension settlement loss estimated to be \$3 million (approximately \$0.09 to \$0.10 per share) will be required by GAAP to be recorded during the fourth quarter 2011.

Third Quarter 2011 Compared to Third Quarter 2010**Net Sales**

<i>(Thousands of dollars)</i>	Three Months Ended			
	September 30,			
	2011	2010	\$ Change	% Change
Net sales	\$ 90,215	\$ 73,953	\$ 16,262	22.0%

The increase in net sales during the quarter was due principally to increases in the industrial market of \$5.9 million, the agricultural market of \$4.8 million and the construction market of \$3.6 million. Partially offsetting these increases was a decrease in fire protection market sales of \$2.4 million.

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

Incoming orders, including some for flood control projects in the municipal market, resulted in another record backlog of \$157.9 million at September 30, 2011, a 50.9% increase from a year ago and 47.0% higher than the backlog of \$107.4 million at December 31, 2010. Flood control projects generally require longer lead times than other Company pumps.

Cost of Products Sold

	Three Months Ended			
	September 30,			
<i>(Thousands of dollars)</i>	2011	2010	\$ Change	% Change
Cost of products sold	\$ 67,748	\$ 55,298	\$ 12,450	22.5%
<i>% of Net sales</i>	75.1%	74.8%		

The increase in cost of products sold was primarily due to higher sales volume which resulted in additional material costs of \$10.0 million. Manufacturing costs include increased compensation and payroll taxes of \$1.4 million principally due to increased headcount associated with meeting increased customer demand for our products.

Selling, General and Administrative Expenses (SG&A)

	Three Months Ended			
	September 30,			
<i>(Thousands of dollars)</i>	2011	2010	\$ Change	% Change
Selling, general and administrative expenses (SG&A)	\$ 10,941	\$ 9,401	\$ 1,540	16.4%
<i>% of Net sales</i>	12.1%	12.7%		

The increase in SG&A expenses is principally due to the business acquisition of National Pump Company on October 1, 2010.

Net Income

	Three Months Ended			
	September 30,			
<i>(Thousands of dollars)</i>	2011	2010	\$ Change	% Change
Income before income taxes	\$ 11,202	\$ 9,257	\$ 1,945	21.0%
<i>% of Net sales</i>	12.4%	12.5%		
Income taxes	\$ 3,547	\$ 3,102	\$ 445	14.4%
<i>Effective tax rate</i>	31.7%	33.5%		
Net income	\$ 7,655	\$ 6,155	\$ 1,500	24.4%
<i>% of Net sales</i>	8.5%	8.3%		
Earnings per share	\$ 0.37	\$ 0.29	\$ 0.08	27.6%

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

The decrease in the effective tax rate for the third quarter 2011 compared with the prior year comparable period was primarily due to favorable provision-to-return adjustments of certain tax estimates related to the completion of the 2010 federal tax return.

The increase in net income was primarily due to the factors described above, with earnings largely driven by improved sales and operating leverage.

Nine Months 2011 Compared to Nine Months 2010**Net Sales**

	Nine Months Ended September 30,			
	2011	2010	\$ Change	% Change
<i>(Thousands of Dollars)</i>				
Net sales	\$ 266,448	\$ 212,119	\$ 54,329	25.6%

The increase in sales in the first nine months of 2011 compared to the same period last year was due principally to increases in the industrial market of \$16.8 million, the agricultural market of \$14.9 million, the construction market of \$14.1 million and the municipal market of \$10.7 million. These increases were partially offset by decreases in sales to the fire protection market of \$7.9 million and the government/original equipment market of \$3.3 million.

Cost of Products Sold

	Nine Months Ended September 30,			
	2011	2010	\$ Change	% Change
<i>(Thousands of Dollars)</i>				
Cost of products sold	\$ 198,346	\$ 160,729	\$ 37,617	23.4%
<i>% of Net sales</i>	74.4%	75.8%		

The increase in cost of products sold was primarily due to higher sales volume which resulted in additional material costs of \$29.6 million, including higher LIFO expense of \$2.0 million due to increases in inventory quantities and price indexes. Manufacturing costs include increases in compensation and payroll taxes of \$4.6 million principally due to increased headcount and overtime compensation associated with meeting increased customer demand for our products. Also, supplies, patterns and tooling expenses increased \$1.2 million due to increased business activity and profit sharing increased \$968,000 related to higher operating income.

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

	Nine Months Ended September 30,			
	2011	2010	\$ Change	% Change
<i>(Thousands of Dollars)</i>				
Selling, general, and administrative expenses (SG&A)	\$ 32,436	\$ 26,535	\$ 5,901	22.2%
<i>% of Net sales</i>	12.2%	12.5%		

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

The increase in SG&A expenses is principally due to the business acquisition of National Pump Company on October 1, 2010. In addition, profit sharing increased \$426,000 related to higher operating income.

Net Income

<i>(Thousands of Dollars)</i>	Nine Months Ended		\$ Change	% Change
	September 30,			
	2011	2010		
Income before income taxes	\$ 35,245	\$ 24,467	\$ 10,778	44.1%
<i>% of Net sales</i>	13.2%	11.5%		
Income taxes	\$ 11,546	\$ 8,159	\$ 3,387	41.5%
<i>Effective tax rate</i>	32.8%	33.3%		
Net income	\$ 23,699	\$ 16,308	\$ 7,391	45.3%
<i>% of Net sales</i>	8.9%	7.7%		
Earnings per share	\$ 1.13	\$ 0.78	\$ 0.35	44.9%

The increase in net income was due primarily to the factors described above, with earnings largely driven by improved North American sales and operating leverage.

Liquidity and Capital Resources

<i>(Thousands of dollars)</i>	Nine Months Ended	
	September 30,	
	2011	2010
Net cash provided by operating activities	\$ 18,305	\$ 22,625
Net cash used for investing activities	(7,975)	(5,615)
Net cash used for financing activities	(15,568)	(20,835)

The Company's principal funding source generally is its cash generated from operations. Cash and cash equivalents and short-term investments totaled \$27.8 million and there was \$15.0 million in outstanding bank debt at September 30, 2011. In addition, the Company had \$25.3 million available in bank lines of credit after deducting \$4.7 million in outstanding letters of credit primarily related to customer orders. The Company was in compliance with all restrictive covenants, including limits on additional borrowings and maintenance of certain operating and financial ratios, at September 30, 2011.

As operations continued to improve over the last two years, higher sales resulted in increased inventory balances, accounts receivable, accounts payable and income taxes payable during the first nine months of 2011. The lower cash provided by operations compared to the same period in 2010 was primarily due to increased inventory balances.

Table of Contents

PART I CONTINUED

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

Investing activities for the nine months ended September 30, 2011 primarily consisted of capital expenditures for machinery and equipment of \$7.0 million and building improvements of \$1.5 million. Capital expenditures for the full year 2011, consisting principally of machinery and equipment, are estimated to be \$10 to \$12 million and are expected to be financed through internally generated funds and existing lines of credit.

Financing activities for the nine months ended September 30, 2011 consisted of the re-payment of \$10.0 million on short-term debt used to partially finance the acquisition of National Pump Company, and payments for dividends of \$5.5 million. The ratio of current assets to current liabilities was 2.6 to 1 at September 30, 2011 and 2.4 to 1 at December 31, 2010.

Management believes that cash on hand, combined with cash provided by operations and existing financing capabilities, will be sufficient to meet cash requirements, including capital expenditures and the payment of quarterly dividends, for the next 12 months. On September 9, 2011 the Company paid a quarterly dividend of \$0.09 per share, representing the 246th consecutive quarterly dividend paid by the Company. 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, 2010 contained in our Fiscal 2010 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 Condensed 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.

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.

Table of Contents

PART I CONTINUED

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

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 ABOUT 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, 2011.

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, 2010.

Table of Contents

PART II OTHER INFORMATION CONTINUED

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, 2010.

Table of Contents

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 Annual Report on Form 10-K for the year ended December 31, 2010.
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, 2010.
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: October 31, 2011

By: /s/ Wayne L. Knabel
Wayne L. Knabel
Chief Financial Officer