

GORMAN RUPP CO
Form 10-Q
November 02, 2007

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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, 2007
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. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

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, 2007. 13,363,004

The Gorman-Rupp Company and Subsidiaries
Three and Nine Months Ended September 30, 2007 and 2006

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

| (Thousands of dollars, except per share amounts) | Three Months Ended | | Nine Months Ended | |
|--------------------------------------------------|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Net sales | \$ 74,629 | \$ 70,833 | \$ 228,737 | \$ 205,825 |
| Cost of products sold | 58,362 | 54,243 | 178,306 | 158,698 |
| Gross Profit | 16,267 | 16,590 | 50,431 | 47,127 |
| Selling, general and administrative expenses | 8,342 | 8,179 | 25,068 | 23,928 |
| Operating Income | 7,925 | 8,411 | 25,363 | 23,199 |
| Other income | 575 | 387 | 1,643 | 1,041 |
| Other expense | (68) | (26) | (93) | (37) |
| Income Before Income Taxes | 8,432 | 8,772 | 26,913 | 24,203 |
| Income taxes | 2,957 | 2,160 | 9,808 | 7,554 |
| Net Income | \$ 5,475 | \$ 6,612 | \$ 17,105 | \$ 16,649 |
| Basic and Diluted Earnings Per Share | \$ 0.41 | \$ 0.50 | \$ 1.28 | \$ 1.25 |
| Dividends Paid Per Share | \$ 0.120 | \$ 0.112 | \$ 0.360 | \$ 0.336 |
| Average Shares Outstanding | 13,363,004 | 13,360,004 | 13,361,015 | 13,357,518 |

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS**

| (Thousands of dollars) | Unaudited September 30, 2007 | December 31, 2006 |
|------------------------------------------------|---------------------------------------|-------------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 23,425 | \$ 12,654 |
| Short-term investments | 5,581 | 4,201 |
| Accounts receivable net | 47,121 | 45,135 |
| Inventories net | 50,230 | 50,299 |
| Deferred income taxes and other current assets | 8,116 | 7,829 |
| Total Current Assets | 134,473 | 120,118 |
| Property, plant and equipment | 151,730 | 141,901 |
| Less allowances for depreciation | 95,440 | 89,550 |
| Property, Plant and Equipment Net | 56,290 | 52,351 |
| Deferred income taxes and other assets | 18,035 | 15,071 |
| Total Assets | \$ 208,798 | \$ 187,540 |
| Liabilities and Shareholders Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 12,444 | \$ 10,417 |
| Payrolls and related liabilities | 4,270 | 3,557 |
| Accrued expenses | 18,025 | 13,672 |
| Total Current Liabilities | 34,739 | 27,646 |
| Income taxes payable | 1,569 | |
| Retirement benefits | 668 | 4,185 |
| Postretirement benefits | 28,547 | 27,567 |
| Total Liabilities | 65,523 | 59,398 |

| | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Minority Interest | 523 | |
| Shareholders' Equity | | |
| Common shares, without par value: | | |
| Authorized - 35,000,000 shares in 2007 and 14,000,000 in 2006; | | |
| Outstanding - 13,363,004 shares in 2007 and 13,360,004 in 2006 (after deducting treasury shares of 487,347 in 2007 and 490,347 in 2006) at stated capital amount | | |
| | 5,098 | 5,097 |
| Retained earnings | 147,407 | 135,268 |
| Accumulated other comprehensive loss | (9,753) | (12,223) |
| Total Shareholders' Equity | 142,752 | 128,142 |
| Total Liabilities and Shareholders' Equity | \$ 208,798 | \$ 187,540 |

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 September 30, | |
|-----------------------------------------------------------------------------------|------------------------------------|----------------|
| | 2007 | 2006 |
| Cash Flows From Operating Activities: | | |
| Net income | \$ 17,105 | \$ 16,649 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,474 | 4,991 |
| Changes in operating assets and liabilities | 5,119 | (2,217) |
| Net Cash Provided by Operating Activities | 27,698 | 19,423 |
| Cash Flows From Investing Activities: | | |
| Capital additions, net | (8,151) | (4,485) |
| Change in short-term investments | (1,380) | (2,553) |
| Payment for acquisition, net of cash acquired | (3,693) | |
| Net Cash Used for Investing Activities | (13,224) | (7,038) |
| Cash Flows From Financing Activities: | | |
| Net Cash Used for Financing Activities, cash dividends | (4,810) | (4,488) |
| Effect of exchange rate changes on cash | 1,107 | 240 |
| Net Increase in Cash and Cash Equivalents | 10,771 | 8,137 |
| Cash and Cash Equivalents: | | |
| Beginning of year | 12,654 | 6,755 |
| September 30, | \$ 23,425 | \$ 14,892 |

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, 2007 are not necessarily indicative of results that may be expected for the year ending December 31, 2007. 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, 2006.

NEW ACCOUNTING PRONOUNCEMENTS

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. The Company adopted FIN 48 effective January 1, 2007.

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 30, 2007 | December 31, 2006 |
|-------------------------------|--------------------------|-------------------------|
| Raw materials and in-process | \$ 26,157 | \$ 22,423 |
| Finished parts | 21,145 | 23,491 |
| Finished products | 2,928 | 4,385 |
| Total inventories | \$ 50,230 | \$ 50,299 |

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 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 September 30, | |
|-------------------------------|------------------------------------|----------|
| | 2007 | 2006 |
| Balance at beginning of year | \$ 1,216 | \$ 1,277 |
| Warranty costs | 2,253 | 1,508 |
| Settlements | (1,910) | (1,456) |
| Balance at end of quarter | \$ 1,559 | \$ 1,329 |

NOTE D COMPREHENSIVE INCOME

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

| <i>(Thousands of dollars)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income | \$ 5,475 | \$ 6,612 | \$ 17,105 | \$ 16,649 |
| Changes in cumulative foreign currency translation adjustment | 1,096 | (89) | 2,049 | 19 |
| Pension benefit adjustments | 140 | | 421 | |
| Total comprehensive income | \$ 6,711 | \$ 6,523 | \$ 19,575 | \$ 16,668 |

NOTE E INCOME TAXES

The Company adopted the provisions of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards 5, *Accounting for Contingencies*. As required by Interpretation 48, which clarifies Statement 109, *Accounting for Income Taxes*, 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. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied Interpretation 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of Interpretation 48, the Company recognized an increase of approximately \$260,000 in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

The amount of unrecognized tax benefits as of January 1, 2007 was \$1.2 million. That amount includes \$939,000 of unrecognized tax benefits which, if ultimately recognized, 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**

At September 30, 2007 the balance of unrecognized tax benefits had increased to approximately \$1.64 million. The increase in the current quarter is related to a \$103,000 increase in prior period tax positions. The September 30, 2007 balance of unrecognized tax benefits includes \$1.3 million of unrecognized tax benefits which, if ultimately realized, will reduce the Company's annual effective tax rate.

The Company has entered into Voluntary Disclosure programs in two taxing jurisdictions. The Company has recorded unrecognized tax benefits of approximately \$64,000 related primarily to tax filing issues in those states. The Company anticipates that the resolution of these unrecognized tax benefits will occur within the next 12 months.

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. With few exceptions, 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 2003.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense for all periods presented. The Company had accrued approximately \$172,000 for the payment of interest and penalties at January 1, 2007. An additional accrual of interest and penalties of approximately \$131,000 was recorded for the nine months ended September 30, 2007.

The increase in the effective tax rate of 10.5 percentage points during the third quarter of 2007 compared to the same period in 2006 was primarily due to reductions in estimated state tax liabilities in 2006 and non-recurring federal research and development tax credits realized in 2006.

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, 2006 included in the Form 10-K.)

During the quarter ended September 30, 2007, the Company authorized an amendment to the defined benefit pension plan in which employees hired after December 31, 2007 will no longer be eligible to participate in the plan. For employees hired after December 31, 2007, the Company authorized an amendment to enhance the 401(k) plan by adopting an age and years of service based contribution and an increased Company match. The existing pension plan and 401(k) plan will remain in place for those employed before January 1, 2008.

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

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

| <i>(Thousands of dollars)</i> | Pension Benefits | | Postretirement Benefits | |
|--------------------------------|------------------------------------|----------|------------------------------------|----------|
| | Nine Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 1,859 | \$ 1,677 | \$ 939 | \$ 894 |
| Interest cost | 2,012 | 1,872 | 1,207 | 1,282 |
| Expected return on plan assets | (2,564) | (2,143) | | |
| Amortization of loss | 691 | 768 | | 197 |
| Benefit cost | \$ 1,998 | \$ 2,174 | \$ 2,146 | \$ 2,373 |

NOTE G ACQUISITIONS

In April, 2007 the Company's wholly owned subsidiary, The Gorman-Rupp International Company, purchased a 90% controlling equity interest in Wavo Pompen B.V. for consideration (net of cash acquired) of approximately \$4.1 million, of which \$3.7 million has been paid as of September 30, 2007. The acquisition was financed with cash from the Company's treasury. The allocation of the purchase price to the business acquired is preliminary and will be finalized pending completion of a fair value appraisal process. The acquisition of Wavo Pompen B.V. offers the Company an expanded European presence and is a continuation of the implementation of its international growth strategy.

NOTE H FLOOD INSURANCE RECOVERIES

In August 2007, the Company's Mansfield Division assembly facility was damaged by flooding as a result of a flash flood of an adjacent creek. As of September 30, 2007, the Company incurred costs and damages related to the flood of \$3.4 million. These costs included the write-off of inventory and long-lived assets, repair of property damage and other clean-up costs. The Company maintains insurance coverage, including flood insurance, which provides for reimbursement of losses resulting from property damage, loss of product and business interruption. Although the Company's insurance policy carries a \$500,000 deductible, the Company expects to be fully covered for losses as a result of the flood as accounted for in accordance with FASB Statement No. 5, *Accounting for Contingencies*, and FASB Interpretation No. 30, *Accounting for Involuntary Conversions of Nonmonetary Assets to Monetary Assets*. As of September 30, 2007, the Company received a partial payment of \$1.0 million and has recorded a receivable of \$2.4 million for insurance recoveries.

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.

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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 2007 Compared to Third Quarter 2006**Net Sales**

| <i>(Thousands of Dollars)</i> | Three Months Ended September 30, | | | % Change |
|-------------------------------|-------------------------------------|-----------|-----------|-------------|
| | 2007 | 2006 | \$ Change | |
| Net sales | \$ 74,629 | \$ 70,833 | \$ 3,796 | 5.4% |

The Company had record third quarter net sales of \$74,629,000, representing a 5.4% increase from the third quarter of 2006. The increase in net sales for the third quarter of 2007 was principally due to increased product sales in the fire protection, government and international markets, partially offset by decreased centrifugal pump sales. Gorman-Rupp Europe B.V., acquired in April 2007, had net sales of \$1,400,000 in the third quarter 2007.

Cost of Products Sold

| <i>(Thousands of Dollars)</i> | Three Months Ended September 30, | | | % Change |
|-------------------------------|-------------------------------------|--------------|-----------|-------------|
| | 2007 | 2006 | \$ Change | |
| Cost of products sold | \$ 58,362 | \$ 54,243 | \$ 4,119 | 7.6% |
| <i>% of Net sales</i> | <i>78.2%</i> | <i>76.6%</i> | | |

The 7.6% increase in cost of products sold in the third quarter of 2007 compared to 2006 was primarily due to the product mix and higher sales volume, which resulted in increased cost of material of \$3,100,000. Manufacturing costs included increases in healthcare costs of \$357,000 due to increased claims and higher medical costs and warranty costs of \$260,000 due to estimates related to the higher sales volume and historical claim experience. In addition, depreciation expense increased \$249,000 as a result of machinery and equipment purchased in 2007. As a percent of net sales, gross margins were 21.8% in 2007 and 23.4% in 2006 resulting in a decline of 160 basis points.

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 September 30, | | \$ Change | % Change |
|------------------------------------------------------|-------------------------------------|--------------|--------------|-------------|
| | 2007 | 2006 | | |
| Selling, general, and administrative expenses (SG&A) | \$8,342 | \$8,179 | \$163 | 2.0% |
| <i>% of Net sales</i> | <i>11.2%</i> | <i>11.5%</i> | | |

The 2.0% increase in SG&A expenses is primarily due to increases in salaries and payroll taxes as a result of the filling of vacant positions and normal salary increases. The 30 basis points decrease in percentages of SG&A expenses in 2007 compared to 2006 was principally due to the additional sales volume.

Other Income

| <i>(Thousands of Dollars)</i> | Three Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|-------------------------------------|-------------|-----------|----------|
| | 2007 | 2006 | | |
| Other income | \$575 | \$387 | \$188 | 48.6% |
| <i>% of Net sales</i> | <i>0.8%</i> | <i>0.5%</i> | | |

The 48.6% increase in other income is principally due to increased interest income related to interest earned on higher cash balances on hand.

Net Income

| <i>(Thousands of Dollars)</i> | Three Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|-------------------------------------|--------------|-----------|----------|
| | 2007 | 2006 | | |
| Income before income taxes | \$8,432 | \$8,772 | \$ (340) | (3.9)% |
| <i>% of Net sales</i> | <i>11.3%</i> | <i>12.4%</i> | | |
| Income taxes | \$2,957 | \$2,160 | \$ 797 | 36.9% |
| <i>Effective tax rate</i> | <i>35.1%</i> | <i>24.6%</i> | | |
| Net income | \$5,475 | \$6,612 | \$(1,137) | (17.2)% |
| <i>% of Net sales</i> | <i>7.3%</i> | <i>9.3%</i> | | |
| Earnings per share | \$ 0.41 | \$ 0.50 | \$ (0.09) | (18.0)% |

Income before income taxes for the third quarter 2007 was \$8,432,000 compared to \$8,772,000 for the same period in 2006, a decrease of \$340,000 or 3.9%. Income taxes were \$2,957,000 compared to \$2,160,000 for the same period of 2006, an increase of \$797,000 or 36.9%. The increase in the effective tax rate of 10.5 percentage points was primarily due to reductions in estimated state tax liabilities in 2006 and non-recurring federal research and development tax

credits realized in 2006.

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

Net income for the third quarter 2007 was \$5,475,000 compared to \$6,612,000 for the same period in 2006, a decrease of \$1,137,000 or 17.2%. As a percent of net sales, net income was 7.3% for 2007 and 9.3% for 2006. The Company had earnings per share of \$0.41 for the quarter compared to \$0.50 for the same period in 2006, a decrease of \$0.09 per share.

Nine Months 2007 Compared to Nine Months 2006**Net Sales**

| | Nine Months Ended September 30, | | | |
|-------------------------------|------------------------------------|-----------|-----------|----------|
| | 2007 | 2006 | \$ Change | % Change |
| <i>(Thousands of Dollars)</i> | | | | |
| Net sales | \$228,737 | \$205,825 | \$22,912 | 11.1% |

The record sales for the nine months, representing an 11.1% increase over the nine months ended September 30, 2007, were principally due to sales of \$14,000,000 as a result of pumps supplied by Patterson Pump Company, a wholly-owned subsidiary, for a flood control project in New Orleans, and increased product sales in the construction, rental, government and fire protection markets totaling approximately \$10,000,000.

The record backlog at September 30, 2007 was \$123,700,000 compared to the backlog of \$84,400,000 at September 30, 2006, representing a 46.6% increase from a year ago and 13.0% higher than the backlog of \$109,500,000 at December 31, 2006. The increase in the backlog is primarily due to increased orders of fabricated components for the power generation market and increased orders in the fire protection, government, and municipal markets.

Cost of Products Sold

| | Nine Months Ended September 30, | | | |
|-------------------------------|------------------------------------|--------------|-----------|----------|
| | 2007 | 2006 | \$ Change | % Change |
| <i>(Thousands of Dollars)</i> | | | | |
| Cost of products sold | \$178,306 | \$158,698 | \$19,608 | 12.4% |
| <i>% of Net sales</i> | <i>78.0%</i> | <i>77.1%</i> | | |

The 12.4% increase in cost of products sold in the nine months ended September 30, 2007 compared to 2006 was primarily due to the product mix and higher sales volume, which resulted in increased cost of material of \$15,900,000. Manufacturing costs included higher healthcare costs of \$1,400,000 due to increased claims and higher medical costs. In addition, warranty costs increased \$746,000 due to estimates related to sales volume and historical claim experience and depreciation expense increased \$414,000 as a result of machinery and equipment purchased in 2007. Expenses related to the Company's employee profit sharing plan increased \$339,000 as a result of higher operating income. As a percent of net sales, gross margins were 22.0% in 2007 and 22.9% in 2006.

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 September 30, | | | |
|------------------------------------------------------|------------------------------------|--------------|-----------|-------------|
| | 2007 | 2006 | \$ Change | % Change |
| Selling, general, and administrative expenses (SG&A) | \$25,068 | \$23,928 | \$1,140 | 4.8% |
| <i>% of Net sales</i> | <i>11.0%</i> | <i>11.6%</i> | | |

The 4.8% increase in SG&A expenses was principally due to increases in salaries and payroll taxes of \$662,000 as a result of the filling of vacant positions and normal salary increases, and advertising expense of \$248,000 related to participation in trade shows. The 60 basis points decrease in percentages of SG&A expenses in 2007 compared to 2006 was primarily due to the additional sales volume.

Other Income

| <i>(Thousands of Dollars)</i> | Nine Months Ended September 30, | | | |
|-------------------------------|------------------------------------|-------------|-----------|----------|
| | 2007 | 2006 | \$ Change | % Change |
| Other income | \$1,643 | \$1,041 | \$602 | 57.8% |
| <i>% of Net sales</i> | <i>0.7%</i> | <i>0.5%</i> | | |

The 57.8% increase in other income was primarily due to increased interest income related to interest earned on higher cash balances on hand.

Net Income

| <i>(Thousands of Dollars)</i> | Nine Months Ended September 30, | | | |
|-------------------------------|------------------------------------|--------------|-----------|----------|
| | 2007 | 2006 | \$ Change | % Change |
| Income before income taxes | \$26,913 | \$24,203 | \$2,710 | 11.2% |
| <i>% of Net sales</i> | <i>11.8%</i> | <i>11.8%</i> | | |
| Income taxes | \$ 9,808 | \$ 7,554 | \$2,254 | 29.8% |
| <i>Effective tax rate</i> | <i>36.4%</i> | <i>31.2%</i> | | |
| Net income | \$17,105 | \$16,649 | \$ 456 | 2.7% |
| <i>% of Net sales</i> | <i>7.5%</i> | <i>8.1%</i> | | |
| Earnings per share | \$ 1.28 | \$ 1.25 | \$ 0.03 | 2.4% |

Income before income taxes for the nine months ended September 30, 2007 was \$26,913,000 compared to \$24,203,000 for the same period in 2006, an increase of \$2,710,000 or 11.2%. Income taxes were \$9,808,000 compared to \$7,554,000 for the same period of 2006, an increase of \$2,254,000 or 29.8%. The increase in the

effective tax rate of 5.2 percentage points was primarily due to reductions in estimated state tax liabilities in 2006 and non-recurring federal research and development tax credits realized in 2006.

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PART I CONTINUED

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

Record net income for the nine months ended September 30, 2007 was \$17,105,000 compared to \$16,649,000 for the same period in 2006, an increase of \$456,000 or 2.7%. As a percent of net sales, net income was 7.5% in 2007 and 8.1% in 2006. The Company had record earnings per share of \$1.28 for the nine months ended September 30, 2007 compared to \$1.25 for the same period in 2006, an increase of \$0.03 per share.

Liquidity and Sources of Capital

Cash provided by operating activities during the first nine months in 2007 was \$27,698,000 compared to \$19,423,000 for the same period in 2006, an increase of \$8,275,000. The increase in cash provided by operating activities of \$8,275,000 is principally due to an income tax refund of \$1.0 million, the application of prepaid income tax to 2007 estimated taxes and increases of accounts receivable and accounts payable. These increases were partially offset by contributions made to the defined benefit pension plan of \$4,824,000 and the application of FAS 158. The positive cash flow for the first nine months ended September 30, 2007 of \$27,698,000 was primarily attributable to profits from operations, an income tax refund of \$1.0 million and the application of prepaid income tax to 2007 estimated taxes.

Cash used for investing activities during the first nine months in 2007 was \$13,224,000 compared to \$7,038,000 for the same period in 2006, an increase of \$6,186,000. Investing activities for the nine months ended September 30, 2007 of \$13,224,000 primarily consisted of capital additions totaling \$7,678,000, including \$6,024,000 additions of machinery and equipment, cash used for the acquisition of Wavo Pompen B.V. of \$3,693,000 and an increase in short-term investments of \$1,380,000.

The Company has allocated \$4,270,000 for site preparation and architectural and design engineering services regarding a future expansion of a manufacturing facility in Mansfield, Ohio. Expenditures of \$1,546,000 have been incurred as of September 30, 2007. No date has been established to begin construction of the facility.

Financing activities consisted of payments for dividends, which were \$4,810,000 and \$4,488,000 for the nine months ended September 30, 2007 and 2006, 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 3.9 to 1 at September 30, 2007 and 4.2 to 1 at September 30, 2006.

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.

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PART I CONTINUED

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 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, 2007.

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, 2006.

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, 2006.

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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 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 2, 2007

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