

GORMAN RUPP CO
Form 10-Q
October 27, 2009

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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, 2009
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 September 30, 2009. 16,710,535

The Gorman-Rupp Company and Subsidiaries
Three and Nine Months Ended September 30, 2009 and 2008

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

| (Thousands of dollars, except per share amounts) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net sales | \$ 64,096 | \$ 84,188 | \$ 204,039 | \$ 249,653 |
| Cost of products sold | 47,996 | 64,016 | 156,804 | 189,231 |
| Gross profit | 16,100 | 20,172 | 47,235 | 60,422 |
| Selling, general and administrative expenses | 8,373 | 9,140 | 26,151 | 27,995 |
| Operating income | 7,727 | 11,032 | 21,084 | 32,427 |
| Other income | 142 | 440 | 1,051 | 2,003 |
| Other expense | (64) | (63) | (260) | (200) |
| Income before income taxes | 7,805 | 11,409 | 21,875 | 34,230 |
| Income taxes | 2,628 | 4,024 | 7,325 | 11,798 |
| Net income | \$ 5,177 | \$ 7,385 | \$ 14,550 | \$ 22,432 |
| Basic and diluted earnings per share | \$ 0.31 | \$ 0.44 | \$ 0.87 | \$ 1.34 |
| Dividends paid per share | \$ 0.10 | \$ 0.10 | \$ 0.30 | \$ 0.30 |
| Average shares outstanding | 16,710,535 | 16,707,187 | 16,708,546 | 16,704,429 |

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 September 30, 2009 | December 31, 2008 |
|--|--------|------------------------------------|----------------------|
| Current assets: | | | |
| Cash and cash equivalents | | \$ 54,236 | \$ 23,793 |
| Short-term investments | | 1,500 | |
| Accounts receivable net | | 39,371 | 48,200 |
| Inventories net | | 43,961 | 56,881 |
| Deferred income taxes and other current assets | | 4,423 | 5,392 |
| | | | |
| Total current assets | | 143,491 | 134,266 |
| | | | |
| Property, plant and equipment | | 211,970 | 178,030 |
| Less allowances for depreciation | | 103,482 | 97,624 |
| | | | |
| Property, plant and equipment net | | 108,488 | 80,406 |
| | | | |
| Deferred income taxes and other assets | | 15,562 | 16,866 |
| | | | |
| Total assets | | \$ 267,541 | \$ 231,538 |
| | | | |
| Liabilities and shareholders equity | | | |
| Current liabilities: | | | |
| Accounts payable | | \$ 10,981 | \$ 15,878 |
| Short-term debt | | 24,806 | |
| Payrolls and related liabilities | | 9,265 | 7,442 |
| Accrued expenses | | 14,937 | 12,249 |
| | | | |
| Total current liabilities | | 59,989 | 35,569 |
| | | | |
| Income taxes payable | | 863 | 863 |
| Retirement benefits | | 9,186 | 11,421 |
| Postretirement benefits | | 24,994 | 24,020 |
| Deferred income taxes | | 466 | 459 |

| | | |
|--|------------|------------|
| Total liabilities | 95,498 | 72,332 |
| The Gorman-Rupp Company shareholders' equity | | |
| Common shares, without par value: | | |
| Authorized 35,000,000 shares | | |
| Outstanding 16,710,535 shares in 2009 and 16,707,535 in 2008 (after deducting treasury shares of 601,683 in 2009 and 604,683 in 2008) at stated capital amount | 5,100 | 5,099 |
| Retained earnings | 180,911 | 171,312 |
| Accumulated other comprehensive loss | (14,671) | (17,823) |
| The Gorman-Rupp Company shareholders' equity | | |
| Noncontrolling interest | 703 | 618 |
| Total shareholders' equity | 172,043 | 159,206 |
| Total liabilities and shareholders' equity | \$ 267,541 | \$ 231,538 |

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, | |
|--|------------------------------------|-----------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income | \$ 14,550 | \$ 22,432 |
| Adjustments to reconcile net income attributable to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,288 | 5,888 |
| Changes in operating assets and liabilities | 23,038 | (922) |
| Net cash provided by operating activities | 43,876 | 27,398 |
| Cash flows from investing activities: | | |
| Capital additions, net | (33,838) | (11,890) |
| Proceeds from sale of product line assets | 1,315 | |
| Change in short-term investments | (1,500) | 5,585 |
| Net cash used for investing activities | (34,023) | (6,305) |
| Cash flows from financing activities: | | |
| Cash dividends | (5,011) | (5,010) |
| Proceeds from unsecured loan agreement | 24,806 | |
| Net cash provided (used) for financing activities | 19,795 | (5,010) |
| Effect of exchange rate changes on cash | 795 | (852) |
| Net increase in cash and cash equivalents | 30,443 | 15,231 |
| Cash and cash equivalents: | | |
| Beginning of year | 23,793 | 24,604 |
| September 30, | \$ 54,236 | \$ 39,835 |

See notes to condensed consolidated financial statements.

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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, 2009 are not necessarily indicative of results that may be expected for the year ending December 31, 2009. 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, 2008. The Company has evaluated subsequent events through October 27, 2009, the date these financial statements were issued.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued new guidance that changes the accounting and reporting for minority interests. The new guidance requires minority interest to be recharacterized as noncontrolling interests and classified as a component of equity. The new requirements are effective for fiscal years beginning after December 15, 2008. The Company has a 10 percent noncontrolling interest in its investment in Gorman-Rupp Europe B.V. For the Company, the new requirements were effective January 1, 2009. Income attributable to noncontrolling interest is not material and is therefore not presented separately in the condensed consolidated statement of income, but rather is included in other expense.

In December 2008, the FASB issued new guidance which requires employers to disclose information about fair value measurements of employee benefit plan assets. Specifically, employers will be required to disclose information about how investment allocation decisions are made, the fair value of each major category of employee benefit plan assets and information about the inputs and valuation techniques used to develop the fair value measurements of employee benefit plan assets. The new requirements are effective for fiscal years ending after December 15, 2009. The Company does not expect the adoption of the new guidance to have a material impact on its consolidated financial statements.

In May 2009, the FASB issued new guidance that sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted this new guidance as of June 30, 2009.

In June 2009, the FASB issued FAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 (FAS 168)*, which establishes the FASB Accounting Standards Codification (ASC) as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with generally accepted accounting principles. FAS 168 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission (SEC) under federal securities laws as authoritative GAAP for SEC registrants. The Company adopted this statement as of September 30, 2009.

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

Inventories are stated at the lower of cost or market. The costs for substantially all inventories are determined using the last-in, first-out (LIFO) method, with the remainder determined using the first-in, first-out (FIFO) method. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Interim LIFO calculations are based on management's estimate of expected year-end inventory levels and costs. Inventory quantities were reduced during the first nine months of 2009 resulting in a partial liquidation of LIFO quantities carried at lower costs from earlier years compared to current year costs. The related effect increased net income by \$1.2 million or \$0.07 per share.

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

| <i>(Thousands of dollars)</i> | September 30, 2009 | December 31, 2008 |
|-------------------------------|-----------------------|----------------------|
| Raw materials and in-process | \$ 23,645 | \$ 32,996 |
| Finished parts | 17,936 | 20,288 |
| Finished products | 2,380 | 3,597 |
| Total inventories | \$ 43,961 | \$ 56,881 |

NOTE C FINANCING ARRANGEMENTS

The Company has an unsecured credit agreement dated November, 2008. Under the agreement, which matures in November 2009, subject to extension, the Company may borrow up to \$25.0 million with interest at LIBOR plus 75 basis points, adjustable and payable monthly. Proceeds from this borrowing are used to partially finance the expansion of the Company's Mansfield, Ohio manufacturing and office facilities. At September 30, 2009, there was \$194,000 borrowing capacity available under the agreement.

Table of Contents**PART I CONTINUED****ITEM 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
CONTINUED****NOTE D 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> | Nine Months Ended September 30, | |
|-------------------------------|------------------------------------|----------|
| | 2009 | 2008 |
| Balance at beginning of year | \$ 2,048 | \$ 1,682 |
| Warranty costs | 1,503 | 2,357 |
| Settlements | (1,643) | (2,112) |
| Balance at end of quarter | \$ 1,908 | \$ 1,927 |

NOTE E 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, | |
|--|-------------------------------------|----------|------------------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Net income | \$ 5,177 | \$ 7,385 | \$ 14,550 | \$ 22,432 |
| Changes in cumulative foreign currency translation adjustments | 1,242 | (1,379) | 1,740 | (1,489) |
| Pension and OPEB adjustments | 471 | 169 | 1,412 | 145 |
| Total comprehensive income | \$ 6,890 | \$ 6,175 | \$ 17,702 | \$ 21,088 |

NOTE F 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, 2009 of \$870,000 includes \$685,000 which, if ultimately recognized, will reduce the Company's annual effective tax rate.

At September 30, 2009 the balance of unrecognized tax benefits had decreased to approximately \$846,000. The decrease in the current year is primarily related to a \$70,000 increase in current year tax positions, a \$2,000 increase in prior period tax positions, and a reduction as a result of a lapse of the applicable statute of limitations of \$95,000. The September 30, 2009 balance of unrecognized tax benefits includes \$594,000 which, if ultimately realized, will reduce the Company's annual effective tax rate.

The statute of limitations in several jurisdictions will expire in the next 12 months. The Company has unrecognized tax benefits of \$86,000 which would be recognized if the statute of limitations expires without the relevant taxing authority examining the applicable returns.

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PART I CONTINUED

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

NOTE F INCOME TAXES CONTINUED

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 2005.

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 US and Canadian Competent Authorities to eliminate double tax treatment. Under the most recent US-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 financial position or future 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 \$201,000 for the payment of interest and penalties at January 1, 2009. An additional accrual of interest and penalties of approximately \$40,000 was recorded for the nine months ended September 30, 2009.

NOTE G 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. (See Note F – Pensions and Other Postretirement Benefits for the year ended December 31, 2008 included in the Company’s Form 10-K.)

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 G 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, | |
| | 2009 | 2008 | 2009 | 2008 |
| Service cost | \$ 2,064 | \$ 1,975 | \$ 907 | \$ 894 |
| Interest cost | 2,553 | 2,293 | 1,181 | 1,247 |
| Expected return on plan assets | (2,652) | (3,145) | | |
| Amortization of loss | 1,580 | 511 | (169) | |
| Benefit cost | \$ 3,545 | \$ 1,634 | \$ 1,919 | \$ 2,141 |

NOTE H FLOOD INSURANCE RECOVERIES

In September 2009, the Company's Patterson Pump Company subsidiary was damaged by flooding. The Company maintains insurance coverage, including flood insurance, which provides for reimbursement of losses resulting from property damage, loss of product and business interruption. As of September 30, 2009, the Company recorded a liability for estimated costs and damages related to the flood of \$1.5 million for which a receivable also has been recorded, less a \$50,000 deductible.

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

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.

Table of Contents**PART I CONTINUED****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTINUED****Third Quarter 2009 Compared to Third Quarter 2008****Net Sales**

| <i>(Thousands of dollars)</i> | Three Months Ended | | \$ Change | % Change |
|-------------------------------|--------------------|-----------|-------------|----------|
| | September 30, | | | |
| | 2009 | 2008 | | |
| Net sales | \$ 64,096 | \$ 84,188 | \$ (20,092) | (23.9)% |

The global economic downturn continues to have a negative impact on the Company's business, resulting in the decline in sales for the quarter across most of the markets the Company serves. The largest declines were in the fire protection market of \$6.9 million, the construction and rental markets of \$4.9 million, the OEM market of \$2.6 million, wastewater of \$2.5 million and the industrial market of \$2.2 million. Partially offsetting these decreases was an increase in custom pump sales of \$2.3 million.

Cost of Products Sold

| <i>(Thousands of dollars)</i> | Three Months Ended | | \$ Change | % Change |
|-------------------------------|--------------------|--------------|-------------|----------|
| | September 30, | | | |
| | 2009 | 2008 | | |
| Cost of products sold | \$ 47,996 | \$ 64,016 | \$ (16,020) | (25.0)% |
| <i>% of Net sales</i> | <i>74.9%</i> | <i>76.0%</i> | | |

The decrease in cost of products sold was primarily due to lower sales volume which resulted in decreased material costs of \$12.1 million, including a \$2.4 million decrease in LIFO expense due to reduced inventory levels resulting in partial liquidation of LIFO quantities and lower inflation expectations for the remainder of 2009. Primarily due to lower production levels, manufacturing costs included decreases in compensation and payroll taxes of \$2.0 million and supplies, patterns and tooling of \$544,000. In addition, warranty expense decreased \$655,000 due to estimates related to lower sales volume and claims experience. Partially offsetting these decreases was increased pension expense of \$451,000 resulting from the significant market value declines in the worldwide equity markets in 2008. The overall decrease in cost of products sold as a percent of net sales was due primarily to decreased LIFO expense as mentioned above.

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

| <i>(Thousands of dollars)</i> | Three Months Ended | | \$ Change | % Change |
|--|--------------------|--------------|-----------|----------|
| | September 30, | | | |
| | 2009 | 2008 | | |
| Selling, general, and administrative expenses (SG&A) | \$ 8,373 | \$ 9,140 | \$ (767) | (8.4)% |
| <i>% of Net sales</i> | <i>13.1%</i> | <i>10.9%</i> | | |

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

The decrease in SG&A expenses is principally due to lower advertising and travel expenses of \$309,000 as the previous year included expenses related to trade shows. In addition, the level of these types of expenses has been curtailed in 2009 due to the economic downturn. Also, compensation and payroll taxes decreased \$295,000 principally due to reduced headcount and temporary salary reductions, and profit sharing expense decreased \$112,000 related to lower operating income.

Other Income

| <i>(Thousands of dollars)</i> | Three Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|-------------------------------------|--------|-----------|----------|
| | 2009 | 2008 | | |
| Other income | \$ 142 | \$ 440 | \$ (298) | (67.7)% |
| <i>% of Net sales</i> | .2% | 0.5% | | |

The decrease in other income is primarily due to lower interest income due to a decline in interest rates.

Net Income

| <i>(Thousands of dollars)</i> | Three Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|-------------------------------------|-----------|------------|----------|
| | 2009 | 2008 | | |
| Income before income taxes | \$ 7,805 | \$ 11,409 | \$ (3,604) | (31.6)% |
| <i>% of Net sales</i> | 12.2% | 13.6% | | |
| Income taxes | \$ 2,628 | \$ 4,024 | \$ (1,396) | (34.7)% |
| <i>Effective tax rate</i> | 33.7% | 35.3% | | |
| Net income | \$ 5,177 | \$ 7,385 | \$ (2,208) | (29.9)% |
| <i>% of Net sales</i> | 8.1% | 8.8% | | |
| Earnings per share | \$ 0.31 | \$ 0.44 | \$ (0.13) | (29.5)% |

Nine Months 2009 Compared to Nine Months 2008**Net Sales**

| <i>(Thousands of Dollars)</i> | Nine Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|------------------------------------|------------|-------------|----------|
| | 2009 | 2008 | | |
| Net sales | \$ 204,039 | \$ 249,653 | \$ (45,614) | (18.3)% |

The global economic downturn continues to have a negative impact on the Company's business, as declines in sales in the first nine months of 2009 were across most of the markets the Company serves.

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

The largest declines were in the construction and rental markets of \$13.4 million, the fire protection market of \$11.2 million, the OEM market of \$6.4 million, wastewater of \$5.0 million and the industrial market of \$4.9 million. The backlog at September 30, 2009 was \$85.2 million compared to \$128.3 million at September 30, 2008, representing a 34% decrease primarily due to a lessening of orders in the fire protection and original equipment markets.

Cost of Products Sold

| <i>(Thousands of Dollars)</i> | Nine Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|------------------------------------|------------|-------------|----------|
| | 2009 | 2008 | | |
| Cost of products sold | \$ 156,804 | \$ 189,231 | \$ (32,427) | (17.1)% |
| <i>% of Net sales</i> | 76.9% | 75.8% | | |

The decrease in cost of products sold was primarily due to lower sales volume, which resulted in decreased material costs of \$24.6 million, including a \$3.8 million decrease in LIFO expense due to reduced inventory levels resulting in partial liquidation of LIFO quantities and lower inflation expectations for the remainder of 2009. Manufacturing costs included decreases in compensation and payroll taxes of \$4.9 million and supplies, patterns and tooling of \$1.4 million primarily due to lower production levels. Also, warranty expense decreased \$854,000 due to estimates related to lower sales volume and claims experience and profit sharing expense decreased \$705,000 related to lower operating income. Partially offsetting these decreases is increased pension expense of \$1.4 million resulting from the significant market value declines in the worldwide equity markets in 2008. The overall increase in cost of products sold as a percent of net sales was due primarily to decreased operating leverage on lower sales volume.

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

| <i>(Thousands of Dollars)</i> | Nine Months Ended September 30, | | \$ Change | % Change |
|--|------------------------------------|-----------|------------|----------|
| | 2009 | 2008 | | |
| Selling, general, and administrative expenses (SG&A) | \$ 26,151 | \$ 27,995 | \$ (1,844) | (6.6)% |
| <i>% of Net sales</i> | 12.8% | 11.2% | | |

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

The decrease in SG&A expenses is principally due to lower advertising and travel expenses of \$1.1 million and supplies of \$303,000 as the previous year included expenses related to the Construction Expo and IFAT trade shows held every three years. In addition, the level of these types of expenses has been curtailed in 2009 due to the economic downturn. Profit sharing expense decreased \$428,000 related to lower operating income and business taxes decreased \$229,000 due to amended franchise tax returns and reduced income. Compensation and payroll taxes decreased \$199,000 principally due to reduced headcount and temporary salary reductions. Professional services decreased \$182,000 primarily due to expenses in 2008 relating to computer system upgrades. Partially offsetting these decreases are increases in pension expense of \$537,000 resulting from the significant market value declines in the worldwide equity markets in 2008 and in healthcare expense of \$420,000 due to increased medical claims and higher medical costs.

Other Income

| <i>(Thousands of Dollars)</i> | Nine Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|------------------------------------|----------|-----------|----------|
| | 2009 | 2008 | | |
| Other income | \$ 1,051 | \$ 2,003 | \$ (952) | (47.5)% |
| <i>% of Net sales</i> | 0.5% | 0.8% | | |

The decrease in other income is primarily due to lower interest income due to a decline in interest rates.

Net Income

| <i>(Thousands of Dollars)</i> | Nine Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|------------------------------------|-----------|-------------|----------|
| | 2009 | 2008 | | |
| Income before income taxes | \$ 21,875 | \$ 34,230 | \$ (12,355) | (36.1)% |
| <i>% of Net sales</i> | 10.7% | 13.7% | | |
| Income taxes | \$ 7,325 | \$ 11,798 | \$ (4,473) | (37.9)% |
| <i>Effective tax rate</i> | 33.5% | 34.5% | | |
| Net income | \$ 14,550 | \$ 22,432 | \$ (7,882) | (35.1)% |
| <i>% of Net sales</i> | 7.1% | 9.0% | | |
| Earnings per share | \$ 0.87 | \$ 1.34 | \$ (0.47) | (35.1)% |

Liquidity and Sources of Capital

| <i>(Thousands of dollars)</i> | Nine Months Ended September 30, | | \$ Change |
|--|------------------------------------|-----------|-----------|
| | 2009 | 2008 | |
| Net cash provided by operating activities | \$ 43,876 | \$ 27,398 | \$ 16,478 |
| Net cash used for investing activities | 34,023 | 6,305 | 27,718 |
| Net cash provided by (used for) financing activities | 19,795 | (5,010) | 24,805 |

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PART I CONTINUED

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

Cash provided by operating activities resulted primarily from cash being made available due to reduced inventory levels of \$11.5 million and lower accounts receivable balances of \$8.9 million due to lower sales volume. Also, cash of \$2.4 million was provided by the reduction of prepaid income taxes applied to the Company's current tax liability. Partially offsetting these increases to cash was a decrease in accounts payable of \$4.9 million.

Investing activities for the nine months ended September 30, 2009 primarily consisted of capital expenditures related to the consolidation and expansion of the Mansfield, Ohio facilities of \$28.3 million and machinery and equipment additions of \$6.1 million. Total capital expenditures for the previously announced expansion of the Mansfield, Ohio facilities (facilities) of \$51.7 million have been incurred as of September 30, 2009.

Financing activities for the nine months ended September 30, 2009 consisted of short-term borrowings of \$24.8 million at LIBOR plus 75 basis points to partially finance the above mentioned facilities. Also included were payments for dividends of \$5.0 million. The ratio of current assets to current liabilities was 2.4 to 1 at September 30, 2009 and 4.0 to 1 at September 30, 2008.

The Company has been negatively impacted by the severe global recession during the fourth quarter 2008 and the nine months ended September 30, 2009. It is expected that the Company's operations and financial results will continue to be negatively impacted in similar fashion during the balance of 2009.

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 export sales or operations outside of the United States. 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. 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, 2009.

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PART I CONTINUED

ITEM 4. CONTROLS AND PROCEDURES CONTINUED

Changes in Internal Control Over Financial Reporting

There were 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, 2008.

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, 2008.

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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: October 27, 2009

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