

GORMAN RUPP CO  
Form 10-Q  
July 28, 2009

**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 June 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.)

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 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   
(Do not check if a 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 June 30, 2009. 16,707,535

\*\*\*\*\*

**The Gorman-Rupp Company and Subsidiaries**  
**Three and Six Months Ended June 30, 2009 and 2008**

<b><u>PART I. FINANCIAL INFORMATION</u></b>	3
<u>Item 1. Financial Statements (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Income</u>	
<u>-Three months ended June 30, 2009 and 2008</u>	
<u>-Six months ended June 30, 2009 and 2008</u>	3
<u>Condensed Consolidated Balance Sheets</u>	
<u>-June 30, 2009 and December 31, 2008</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	
<u>-Six months ended June 30, 2009 and 2008</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	15
<u>Item 4. Controls and Procedures</u>	15
<b><u>PART II. OTHER INFORMATION</u></b>	16
<u>Item 1. Legal Proceedings</u>	16
<u>Item 1A. Risk Factors</u>	16
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	16
<u>Item 6. Exhibits</u>	17
EX-3 Articles of Incorporation and By-laws	
EX-4 Instruments Defining the Rights of Security Holders, including Indentures	
EX-10 Material Contracts	
EX-31.1 302 Principal Executive Officer (PEO) Certification	
EX-31.2 302 Principal Financial Officer (PFO) Certification	
EX-32 Section 1350 Certifications	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	

**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		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net sales	\$ 68,345	\$ 84,031	\$ 139,943	\$ 165,465
Cost of products sold	52,555	63,625	108,808	125,215
Gross profit	15,790	20,406	31,135	40,250
Selling, general and administrative expenses	8,790	9,356	17,778	18,855
Operating income	7,000	11,050	13,357	21,395
Other income	144	947	909	1,563
Other expense	58	(64)	(196)	(137)
Income before income taxes	7,202	11,933	14,070	22,821
Income taxes	2,335	4,038	4,697	7,774
Net income	\$ 4,867	\$ 7,895	\$ 9,373	\$ 15,047
Basic and diluted earnings per share	\$ 0.29	\$ 0.47	\$ 0.56	\$ 0.90
Dividends paid per share	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20
Average shares outstanding	16,707,535	16,703,035	16,707,535	16,703,035

*See notes to condensed consolidated financial statements.*

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

(Thousands of dollars)	Unaudited June 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 42,709	\$ 23,793
Accounts receivable net	41,307	48,200
Inventories net	46,499	56,881
Deferred income taxes and other current assets	2,364	5,392
 Total current assets	 132,879	 134,266
Property, plant and equipment	200,690	178,030
Less allowances for depreciation	100,871	97,624
 Property, plant and equipment net	 99,819	 80,406
Deferred income taxes and other assets	16,802	16,866
 Total assets	 \$ 249,500	 \$ 231,538
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	\$ 9,534	\$ 15,878
Short-term debt	16,834	
Payrolls and related liabilities	7,679	7,442
Accrued expenses	13,032	12,249
 Total current liabilities	 47,079	 35,569
Income taxes payable	863	863
Retirement benefits	9,731	11,421
Postretirement benefits	24,639	24,020
Deferred income taxes	461	459

Total liabilities	82,773	72,332
The Gorman-Rupp Company shareholders' equity Common shares, without par value:		
Authorized 35,000,000 shares		
Outstanding 16,707,535 shares in 2009 and 2008 (after deducting treasury shares of 604,683 in 2009 and 2008) at stated capital amount	5,099	5,099
Retained earnings	177,345	171,312
Accumulated other comprehensive loss	(16,384)	(17,823)
The Gorman-Rupp Company shareholders' equity	166,060	158,588
Noncontrolling interest	667	618
Total shareholders' equity	166,727	159,206
Total liabilities and shareholders' equity	\$ 249,500	\$ 231,538

*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)	Six Months Ended June 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 9,373	\$ 15,047
Adjustments to reconcile net income attributable to net cash provided by operating activities:		
Depreciation and amortization	4,236	3,882
Changes in operating assets and liabilities	13,538	(3,411)
Net cash provided by operating activities	27,147	15,518
Cash flows from investing activities:		
Capital additions, net	(23,204)	(5,232)
Proceeds from sale of product line assets	1,210	
Change in short-term investments		(838)
Net cash used for investing activities	(21,994)	(6,070)
Cash flows from financing activities:		
Cash dividends	(3,342)	(3,341)
Proceeds from unsecured loan agreement	16,834	
Net cash provided (used) for financing activities	13,492	(3,341)
Effect of exchange rate changes on cash	271	(51)
Net increase in cash and cash equivalents	18,916	6,056
Cash and cash equivalents:		
Beginning of year	23,793	24,604
June 30,	\$ 42,709	\$ 30,660

*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 six months ended June 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 July 28, 2009, the date these financial statements were issued.

**NEW ACCOUNTING PRONOUNCEMENTS**

In December, 2007 the FASB issued FAS No. 141(R), *Business Combinations (FAS 141(R))*. FAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquired company and the goodwill acquired. This statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. FAS 141(R) is effective for business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2008. The Company adopted this statement as of January 1, 2009.

In December, 2007 the FASB issued FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements (FAS 160)*, an amendment of *Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB 51)*. FAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. FAS 160 is 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, FAS 160 was effective January 1, 2009. Income attributable to noncontrolling minority 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 FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Asset (FAS 132(R)-1)*. FAS 132(R)-1 requires employers to disclose information about fair value measurements of plan assets that are similar to the disclosures about fair value measurements required by FAS No. 157, *Fair Value Measurements*. Specifically, employers will be required to disclose information about how investment allocation decisions are made, the fair value of each major category of plan assets and information about the inputs and valuation techniques used to develop the fair value measurements of plan assets. FAS 132(R)-1 is effective for fiscal years ending after December 15, 2009. The Company does not expect the adoption of FAS 132(R)-1 will have a material impact on its consolidated financial statements.



**Table of Contents****PART I CONTINUED****ITEM 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
CONTINUED****NOTE A BASIS OF PRESENTATION OF FINANCIAL STATEMENTS CONTINUED**

In May, 2009 the FASB issued FAS No. 165, *Subsequent Events FAS 165*. FAS 165 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 statement as of June 30, 2009.

In June, 2009 the FASB issued FAS No. 168, *The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 (FAS 168)*, which establishes the FASB Accounting Standards Codification 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. FAS 168 will become effective in the third quarter of 2009 and the Company does not expect it to have a material impact on its consolidated financial statements.

**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. Some inventory quantities were reduced during the first six months 2009 resulting in a liquidation of some LIFO quantities carried at lower costs from earlier years compared to current year costs. The related effect increased net income by \$631,000 or \$0.04 per share.

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

<i>(Thousands of dollars)</i>	June 30, 2009	December 31, 2008
Raw materials and in-process	\$26,392	\$ 32,996
Finished parts	17,686	20,288
Finished products	2,421	3,597
Total inventories	\$46,499	\$ 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 June 30, 2009, there was \$8.2 million 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>	Six Months Ended June 30,	
	2009	2008
Balance at beginning of year	\$ 2,048	\$ 1,682
Warranty costs	1,323	1,522
Settlements	(1,299)	(1,374)
Balance at end of quarter	\$ 2,072	\$ 1,830

**NOTE E COMPREHENSIVE INCOME**

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

<i>(Thousands of dollars)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	\$4,867	\$7,895	\$ 9,373	\$15,047
Changes in cumulative foreign currency translation adjustments	1,179	38	498	(110)
Pension and OPEB adjustments	470	170	941	(24)
Total comprehensive income	\$6,516	\$8,103	\$10,812	\$14,913

**NOTE F INCOME TAXES**

The Company follows the provisions of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes*, which clarifies Statement 109, *Accounting for 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 June 30, 2009 the balance of unrecognized tax benefits had increased to approximately \$925,000. The increase in the current year is primarily related to a \$55,000 increase in current year tax positions. The June 30, 2009 balance of unrecognized tax benefits includes \$675,000 which, if ultimately realized, will reduce the Company's annual effective tax rate.

**Table of Contents**

**PART I CONTINUED**

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

**NOTE F INCOME TAXES CONTINUED**

The statute of limitations in several jurisdictions will expire in the next 12 months. The Company has unrecognized tax benefits of \$180,000 which would be recognized if the statute of limitations expires without the relevant taxing authority examining the applicable returns.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company generally 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 \$48,000 was recorded for the three months ended June 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	
	Six Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Service cost	\$ 1,376	\$ 1,317	\$ 605	\$ 596
Interest cost	1,702	1,529	787	831
Expected return on plan assets	(1,768)	(2,097)		
Amortization of loss	1,053	340	(113)	
Benefit cost	\$ 2,363	\$ 1,089	\$ 1,279	\$ 1,427

**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.

**Second Quarter 2009 Compared to Second Quarter 2008****Net Sales**

<i>(Thousands of dollars)</i>	Three Months Ended		\$ Change	% Change
	June 30,			
	2009	2008		
Net sales	\$68,345	\$84,031	\$(15,686)	(18.7)%

The global economic downturn continues to have a negative impact on the Company's business, as evident by the decline in sales for the quarter which was across most of the markets the Company

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

serves. The largest declines were in the construction and rental markets of \$3.9 million, the OEM market of \$3.8 million, the fire protection market of \$2.9 million and wastewater of \$1.6 million.

**Cost of Products Sold**

<i>(Thousands of dollars)</i>	Three Months Ended June 30,		\$ Change	% Change
	2009	2008		
Cost of products sold	\$52,555	\$63,625	\$(11,070)	(17.4)%
<i>% of Net sales</i>	<i>76.9%</i>	<i>75.7%</i>		

The decrease in cost of products sold was primarily due to lower sales volume which resulted in decreased material costs of \$8.3 million, including a \$2.0 million decrease in LIFO expense primarily due to reduced inventory levels resulting in partial liquidation of LIFO quantities carried at lower costs from earlier years compared to current year costs 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 \$1.8 million and supplies, patterns and tooling of \$497,000. Partially offsetting these decreases were increases in pension expense of \$465,000 resulting from the significant market value declines in the worldwide equity markets in 2008 and in healthcare expense of \$397,000 due to increased medical claims and higher medical costs. 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>	Three Months Ended June 30,		\$ Change	% Change
	2009	2008		
Selling, general, and administrative expenses (SG&A)	\$8,790	\$9,356	\$(566)	(6.1)%
<i>% of Net sales</i>	<i>12.9%</i>	<i>11.1%</i>		

The decrease in SG&A expenses is principally due to lower advertising and travel expenses of \$295,000 and \$245,000, respectively, as the previous year included expenses related to the Construction Expo and IFAT trade shows held every three years. In addition, these types of expenses have been curtailed due to the economic downturn. Also, profit sharing expense decreased \$215,000 related to lower operating income. Partially offsetting these decreases is increased healthcare expense of \$215,000 due to increased medical claims and higher medical costs.

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

<i>(Thousands of dollars)</i>	Three Months Ended June 30,		\$ Change	% Change
	2009	2008		
Other income	\$ 144	\$ 947	\$ (803)	(84.8)%
<i>% of Net sales</i>	<i>0.2%</i>	<i>1.1%</i>		

The decrease in other income is primarily due to the final accounting in the second quarter of 2008 for insurance proceeds related to property damage caused by flooding of a facility at the Company's Mansfield Division in August 2007.

**Net Income**

<i>(Thousands of dollars)</i>	Three Months Ended June 30,		\$ Change	% Change
	2009	2008		
Income before income taxes	\$ 7,202	\$ 11,933	\$ (4,731)	(39.7)%
<i>% of Net sales</i>	<i>10.5%</i>	<i>14.2%</i>		
Income taxes	\$ 2,335	\$ 4,038	\$ (1,703)	(42.2)%
<i>Effective tax rate</i>	<i>32.4%</i>	<i>33.8%</i>		
Net income	\$ 4,867	\$ 7,895	\$ 3,028	(38.4)%
<i>% of Net sales</i>	<i>7.1%</i>	<i>9.4%</i>		
Earnings per share	\$ 0.29	\$ 0.47	\$ (0.18)	(38.3)%

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

<i>(Thousands of Dollars)</i>	Six Months Ended June 30,		\$ Change	% Change
	2009	2008		
Net sales	\$ 139,943	\$ 165,465	\$ (25,522)	(15.4)%

The global economic downturn continues to have a negative impact on the Company's business, as declines in sales in the first six months of 2009 were across most of the markets the Company serves. The largest declines were in the construction and rental markets of \$8.0 million, the fire protection market of \$4.1 million, the OEM market of \$3.7 million and wastewater of \$2.5 million.

The backlog at June 30, 2009 was \$82.9 million compared to \$119.6 million at June 30, 2008, representing a 31% decrease primarily due to a lessening of orders in the fire protection and original equipment markets.

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

<i>(Thousands of Dollars)</i>	Six Months Ended		\$ Change	% Change
	2009	2008		
Cost of products sold	\$108,808	\$125,215	\$(16,407)	(13.1)%
<i>% of Net sales</i>	<i>77.8%</i>	<i>75.7%</i>		

The decrease in cost of products sold was primarily due to lower sales volume, which resulted in decreased material costs of \$12.5 million, including a \$1.4 million decrease in LIFO expense due to reduced inventory levels resulting in partial liquidation of LIFO quantities carried at lower costs from earlier years compared to current year costs and lower inflation expectations for the remainder of 2009. Manufacturing costs included decreases in compensation and payroll taxes of \$2.8 million and supplies, patterns and tooling of \$840,000 primarily due to lower production levels. Also, profit sharing expense decreased \$510,000 related to lower operating income. Partially offsetting these decreases are increases in pension expense of \$929,000 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. 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>	Six Months Ended		\$ Change	% Change
	2009	2008		
Selling, general, and administrative expenses (SG&A)	\$17,778	\$18,855	\$(1,077)	(5.7)%
<i>% of Net sales</i>	<i>12.7%</i>	<i>11.4%</i>		

The decrease in SG&A expenses is principally due to lower advertising and travel expenses of \$428,000 and \$365,000, respectively, as the previous year included expenses related to the Construction Expo and IFAT trade shows held every three years. In addition, these types of expenses have been curtailed due to the economic downturn. Also, profit sharing expense decreased \$316,000 related to lower operating income and business tax decreased \$213,000 due to an amended franchise tax return. Partially offsetting these decreases are increases in pension expense of \$361,000 resulting from the significant market value declines in the worldwide equity markets in 2008 and in healthcare expense of \$316,000 due to increased medical claims and higher medical costs.

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

<i>(Thousands of Dollars)</i>	Six Months Ended June 30,		\$ Change	% Change
	2009	2008		
Other income	\$ 909	\$ 1,563	\$ (654)	(41.8)%
<i>% of Net sales</i>	<i>0.7%</i>	<i>0.9%</i>		

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>	Six Months Ended June 30,		\$ Change	% Change
	2009	2008		
Income before income taxes	\$ 14,070	\$ 22,821	\$ (8,751)	(38.4)%
<i>% of Net sales</i>	<i>10.1%</i>	<i>13.8%</i>		
Income taxes	\$ 4,697	\$ 7,774	\$ (3,077)	(39.6)%
<i>Effective tax rate</i>	<i>33.4%</i>	<i>34.1%</i>		
Net income	\$ 9,373	\$ 15,047	\$ (5,674)	(37.7)%
<i>% of Net sales</i>	<i>6.7%</i>	<i>9.1%</i>		
Earnings per share	\$ 0.56	\$ 0.90	\$ (0.34)	(37.8)%

**Liquidity and Sources of Capital**

<i>(Thousands of dollars)</i>	Six Months Ended June 30,		\$ Change	% Change
	2009	2008		
Net cash provided by operating activities	\$ 27,147	\$ 15,518	\$ 11,629	74.9%
Net cash used for investing activities	21,994	6,070	15,924	262.3
Net cash provided by (used for) financing activities	13,492	(3,341)	16,833	503.8

Cash provided by operating activities resulted primarily from cash being made available due to reduced inventory levels of \$9.0 million and lower accounts receivable balances of \$7.1 million due to lower sales volume. Partially offsetting these increases to cash was a decrease in accounts payable of \$6.3 million.

Investing activities for the six months ended June 30, 2009 primarily consisted of capital expenditures related to the consolidation and expansion of the Mansfield, Ohio facilities of \$19.6 million and



**Table of Contents**

**PART I CONTINUED**

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

machinery and equipment additions of \$3.8 million. Total capital expenditures for the previously announced expansion of the Mansfield, Ohio facilities (facilities) of \$42.9 million have been incurred as of June 30, 2009. Financing activities for the six months ended June 30, 2009 consisted of short-term borrowings of \$16.8 million at LIBOR plus 75 basis points to partially finance the above mentioned facilities. Also included were payments for dividends of \$3.3 million. The ratio of current assets to current liabilities was 2.8 to 1 at June 30, 2009 and 4.4 to 1 at June 30, 2008.

As well publicized, a severe global recession is underway and negatively impacted the Company in the fourth quarter 2008 and the six months ended June 30, 2009. Current consensus expectations are that this recession will persist throughout most of 2009 and possibly into 2010. 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 are denominated predominately in U.S. Dollars and made on open account or under letters of credit.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. An evaluation was carried out under the supervision and with the participation of the Company's Management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by 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 June 30, 2009.

**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.

**Table of Contents****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.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The annual meeting of the shareholders of the Company was held on April 23, 2009. At this meeting the shareholders approved the following management proposals:

1. Fix the number of Directors of the Company at eight and elect eight Directors to hold office until the next annual meeting of shareholders and until their successors are elected and qualified.

	Number of votes	
	For	Abstain/Withheld
James C. Gorman	13,872,826	96,647
Jeffrey S. Gorman	13,876,103	93,370
M. Ann Harlan	13,876,543	92,930
Thomas E. Hoaglin	13,770,291	199,182
Christopher H. Lake	13,022,859	946,614
Dr. Peter B. Lake	13,746,447	223,026
Rick R. Taylor	13,885,065	84,408
W. Wayne Walston	13,880,728	88,745

2. Ratify the appointment by the Audit Review Committee of the Board of Directors of Ernst & Young LLP as independent public accountants for the Company during the year ending December 31, 2009.

For	Number of votes	
	Against	Abstain/Withheld
13,861,202	85,252	23,019

**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 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: July 28, 2009

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