

GORMAN RUPP CO
Form 10-Q
October 28, 2008

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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, 2008

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, 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. (Check one):

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 September 30, 2008. 16,707,535

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS (UNAUDITED)****THE GORMAN-RUPP COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

| (Thousands of dollars, except per share amounts) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Net sales | \$ 84,188 | \$ 74,629 | \$ 249,653 | \$ 228,737 |
| Cost of products sold | 64,016 | 58,362 | 189,231 | 178,306 |
| Gross profit | 20,172 | 16,267 | 60,422 | 50,431 |
| Selling, general and administrative expenses | 9,140 | 8,342 | 27,995 | 25,068 |
| Operating income | 11,032 | 7,925 | 32,427 | 25,363 |
| Other income | 440 | 575 | 2,003 | 1,643 |
| Other expense | (63) | (68) | (200) | (93) |
| Income before income taxes | 11,409 | 8,432 | 34,230 | 26,913 |
| Income taxes | 4,024 | 2,957 | 11,798 | 9,808 |
| Net income | \$ 7,385 | \$ 5,475 | \$ 22,432 | \$ 17,105 |
| Basic and diluted earnings per share | \$ 0.44 | \$ 0.33 | \$ 1.34 | \$ 1.02 |
| Dividends paid per share | \$ 0.100 | \$ 0.096 | \$ 0.300 | \$ 0.288 |
| Average shares outstanding | 16,707,187 | 16,703,035 | 16,704,429 | 16,700,549 |

*Shares outstanding and per share data reflect the 5 for 4 stock split effective December 10, 2007.
See notes to condensed consolidated financial statements.*

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

| (Thousands of dollars) | Unaudited September 30, 2008 | December 31, 2007 |
|--|---------------------------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 39,835 | \$ 24,604 |
| Short-term investments | | 5,586 |
| Accounts receivable net | 46,652 | 47,256 |
| Inventories net | 56,060 | 53,223 |
| Deferred income taxes and other current assets | 3,501 | 4,619 |
| Total current assets | 146,048 | 135,288 |
| Property, plant and equipment | 164,223 | 155,379 |
| Less allowances for depreciation | 97,625 | 95,409 |
| Property, plant and equipment net | 66,598 | 59,970 |
| Deferred income taxes and other assets | 19,612 | 16,276 |
| Total assets | \$ 232,258 | \$ 211,534 |
| Liabilities and shareholders equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 11,623 | \$ 14,162 |
| Payrolls and related liabilities | 10,862 | 7,122 |
| Accrued expenses | 14,462 | 12,197 |
| Total current liabilities | 36,947 | 33,481 |
| Income taxes payable | 823 | 823 |
| Postretirement benefits | 27,748 | 26,661 |
| Deferred income taxes | 435 | 609 |
| Total liabilities | 65,953 | 61,574 |

| | | |
|--|------------|------------|
| Minority interest | 621 | 520 |
| Shareholders' equity | | |
| Common shares, without par value: | | |
| Authorized - 35,000,000 shares | | |
| Outstanding - 16,707,535 shares in 2008 and 16,703,035 in 2007 (after deducting treasury shares of 604,683 in 2008 and 609,183 in 2007) at stated capital amount | 5,099 | 5,098 |
| Retained earnings | 169,054 | 151,467 |
| Accumulated other comprehensive loss | (8,469) | (7,125) |
| Total shareholders' equity | 165,684 | 149,440 |
| Total liabilities and shareholders' equity | \$ 232,258 | \$ 211,534 |

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, | |
|---|------------------------------------|---------------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net income | \$ 22,432 | \$ 17,105 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,888 | 5,474 |
| Changes in operating assets and liabilities | (922) | 5,119 |
| Net cash provided by operating activities | 27,398 | 27,698 |
| Cash flows from investing activities: | | |
| Capital additions, net | (11,890) | (8,151) |
| Change in short-term investments | 5,585 | (1,380) |
| Payments for acquisition, net of cash acquired | | (3,693) |
| Net cash used for investing activities | (6,305) | (13,224) |
| Cash flows from financing activities: | | |
| Net cash used for financing activities, cash dividends | (5,010) | (4,810) |
| Effect of exchange rate changes on cash | (852) | 1,107 |
| Net increase in cash and cash equivalents | 15,231 | 10,771 |
| Cash and cash equivalents: | | |
| Beginning of year | 24,604 | 12,654 |
| September 30, | \$ 39,835 | \$ 23,425 |

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, 2008 are not necessarily indicative of results that may be expected for the year ending December 31, 2008. 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, 2007.

NEW ACCOUNTING PRONOUNCEMENTS

In September, 2006 the FASB issued FAS No. 157, *Fair Value Measurements (FAS 157)* which provides guidance for using fair value to measure assets and liabilities. FAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. FAS 157, as originally issued, was effective for fiscal years beginning after November 15, 2007 and was adopted by the Company on January 1, 2008 with no impact on its consolidated financial position or results of operations.

In February, 2007 the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of SFAS 115*, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses arising subsequent to adoption are reported in earnings. SFAS 159 is effective for the Company in fiscal 2008. The Company adopted this statement as of January 1, 2008 and elected not to apply the fair value to any of its financial instruments.

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 non-controlling 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 does not expect the impact to be material on its consolidated financial position or results of operations.

In December, 2007 the FASB issued FAS No. 160, *No controlling 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 non-controlling interests and classified as a component of equity. This new consolidation method significantly changes the accounting for transactions with minority interest

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**

holders. FAS 160 is effective for fiscal years beginning after December 15, 2008. The Company plans to adopt FAS 160 beginning in the first quarter of fiscal 2009. The Company does not expect the impact to be material on its consolidated financial position or results of operations.

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):

| | September 30, 2008 | December 31, 2007 |
|-------------------------------|--------------------------|-------------------------|
| <i>(Thousands of dollars)</i> | | |
| Raw materials and in-process | \$ 31,428 | \$ 27,917 |
| Finished parts | 21,104 | 21,348 |
| Finished products | 3,528 | 3,958 |
| Total inventories | \$ 56,060 | \$ 53,223 |

NOTE C PRODUCT WARRANTIES

A liability is established for estimated future warranty and service claims based on historical claims experience, specific product failures and sales volume. The Company expenses warranty costs directly to cost of products sold. Changes in the Company's product warranty liability are as follows:

| | Nine Months Ended September 30, | |
|-------------------------------|------------------------------------|----------|
| <i>(Thousands of dollars)</i> | 2008 | 2007 |
| Balance at beginning of year | \$ 1,682 | \$ 1,216 |
| Warranty costs | 2,357 | 2,253 |
| Settlements | (2,112) | (1,910) |
| Balance at end of quarter | \$ 1,927 | \$ 1,559 |

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

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

| <i>(Thousands of dollars)</i> | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Net income | \$ 7,385 | \$5,475 | \$22,432 | \$17,105 |
| Changes in cumulative foreign currency translation adjustments | (1,379) | 1,096 | (1,489) | 2,049 |
| Pension benefit adjustments | 169 | 140 | 145 | 421 |
| Total comprehensive income | \$ 6,175 | \$6,711 | \$21,088 | \$19,575 |

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, 2008 was \$997,000. That amount includes \$794,000 of unrecognized tax benefits which, if ultimately recognized, will reduce the Company's annual effective tax rate. At September 30, 2008 the balance of unrecognized tax benefits had increased to approximately \$1,033,000. The increase in the current year is related to a \$78,000 increase in prior period tax positions, a \$142,000 increase in current year tax positions, a \$119,000 settlement with state taxing authorities, a \$3,000 settlement with Canadian taxing authorities, and a \$62,000 lapse in U.S. federal statute of limitations. The September 30, 2008 balance of unrecognized tax benefits includes \$808,000 of unrecognized tax benefits 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 \$112,000 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 E 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. 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 recognizes interest and penalties related to unrecognized tax benefits in income tax expense for all periods presented. The Company had accrued approximately \$154,000 for the payment of interest and penalties at January 1, 2008. An additional accrual of interest and penalties of approximately \$37,000 was recorded for the nine months ended September 30, 2008.

NOTE F PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company sponsors a defined benefit pension plan covering substantially all employees. 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, 2007 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. Employees hired prior to January 1, 2008 are not affected by the change.

The Company has adopted FAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (FAS 158)*, for the fiscal year ending December 31, 2006. FAS 158 requires that, no later than 2008, assumptions used to measure the obligations associated with single-employer defined benefit pension, retiree healthcare, and other postretirement plans be determined as of the balance sheet date, and all plan assets and liabilities be reported as of that date. Accordingly, as of the beginning of the Company's 2008 fiscal year, the Company changed the measurement date for annual pension and retiree healthcare expense and all plan assets and liabilities from October 31 to December 31. As a result of this change in measurement date, the Company recorded an after-tax \$363,000 decrease to 2008 opening shareholders' equity.

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CONTINUED****NOTE F PENSION AND OTHER POSTRETIREMENT BENEFITS CONTINUED**

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

| <i>(Thousands of dollars)</i> | Pension Benefits | | Postretirement Benefits | |
|--------------------------------|-------------------|----------|-------------------------|---------|
| | Nine Months Ended | | Nine Months Ended | |
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Service cost | \$ 1,975 | \$ 1,859 | \$ 894 | \$ 939 |
| Interest cost | 2,293 | 2,012 | 1,247 | 1,207 |
| Expected return on plan assets | (3,145) | (2,564) | | |
| Amortization of loss | 511 | 691 | | |
| Benefit cost | \$ 1,634 | \$ 1,998 | \$2,141 | \$2,146 |

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.

Third Quarter 2008 Compared to Third Quarter 2007**Net Sales**

| <i>(Thousands of Dollars)</i> | Three Months Ended | | \$ Change | % Change |
|-------------------------------|--------------------|----------|-----------|----------|
| | September 30, | | | |
| | 2008 | 2007 | | |
| Net sales | \$84,188 | \$74,629 | \$9,559 | 12.8% |

The increase in net sales was principally due to increased international sales of \$7.4 million. Product sales increased in most major markets, including increased fire protection pump sales and fabricated component sales from the Company's Patterson Pump Company subsidiary.

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> | Three Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|-------------------------------------|--------------|-----------|-------------|
| | 2008 | 2007 | | |
| Cost of products sold | \$64,016 | \$58,362 | \$5,654 | 9.7% |
| <i>% of Net sales</i> | <i>76.0%</i> | <i>78.2%</i> | | |

The increase in cost of products sold was primarily due to higher sales volume which resulted in increased material costs of \$5.0 million, including higher LIFO expense of \$628,000 related to increased inventory levels and inflation. Manufacturing costs included increases in labor of \$489,000 and supplies, patterns and tooling of \$322,000 due to increased production levels. Partially offsetting these increases are reduced healthcare costs of \$569,000 due to reduced claims experience. The overall reduction in cost of products sold as a percent of net sales was due primarily to favorable product mix and increased operating leverage on sales volume.

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

| <i>(Thousands of Dollars)</i> | Three Months Ended September 30, | | \$ Change | % Change |
|---|-------------------------------------|--------------|-----------|-------------|
| | 2008 | 2007 | | |
| Selling, general, and administrative expenses (SG&A) | \$9,140 | \$8,342 | \$798 | 9.6% |
| <i>% of Net sales</i> | <i>10.9%</i> | <i>11.2%</i> | | |

The increase in SG&A expenses is principally due to \$221,000 of additional compensation and related costs, and \$289,000 additional accrued profit sharing expense based on operating results.

Other Income

| <i>(Thousands of Dollars)</i> | Three Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|-------------------------------------|-------------|-----------|-------------|
| | 2008 | 2007 | | |
| Other income | \$440 | \$575 | \$(135) | (23.5)% |
| <i>% of Net sales</i> | <i>0.5%</i> | <i>0.8%</i> | | |

The decrease in other income is principally due to reduced interest income resulting from lower interest rates.

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

| <i>(Thousands of Dollars)</i> | Three Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|-------------------------------------|--------------|-----------|----------|
| | 2008 | 2007 | | |
| Income before income taxes | \$ 11,409 | \$ 8,432 | \$ 2,977 | 35.3% |
| <i>% of Net sales</i> | <i>13.6%</i> | <i>11.3%</i> | | |
| Income taxes | \$ 4,024 | \$ 2,957 | \$ 1,067 | 36.1% |
| <i>Effective tax rate</i> | <i>35.3%</i> | <i>35.1%</i> | | |
| Net income | \$ 7,385 | \$ 5,475 | \$ 1,910 | 34.9% |
| <i>% of Net sales</i> | <i>8.8%</i> | <i>7.3%</i> | | |
| Earnings per share | \$ 0.44 | \$ 0.33 | \$ 0.11 | 33.3% |

Earnings per share reflect the five-for-four stock split distributed December 10, 2007.

Nine Months 2008 Compared to Nine Months 2007**Net Sales**

| <i>(Thousands of Dollars)</i> | Nine Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|------------------------------------|------------|-----------|----------|
| | 2008 | 2007 | | |
| Net sales | \$ 249,653 | \$ 228,737 | \$ 20,916 | 9.1% |

The record sales for the nine months were principally due to increases in most major markets, including increased fire protection pump sales and fabricated component sales from the Company's Patterson Pump Company subsidiary totaling \$18.2 million, which more than replaced the \$11.1 million in custom pump revenues for a flood control project shipped in 2007. International sales increased \$15.5 million, which included Gorman-Rupp Europe B.V. acquired in the second quarter 2007.

The record backlog at September 30, 2008 was \$128.3 million compared to \$123.7 million at September 30, 2007, representing a 3.7% increase primarily due to orders in the fire protection and original equipment market.

Cost of Products Sold

| <i>(Thousands of Dollars)</i> | Nine Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|------------------------------------|--------------|-----------|----------|
| | 2008 | 2007 | | |
| Cost of products sold | \$ 189,231 | \$ 178,306 | \$ 10,925 | 6.1% |
| <i>% of Net sales</i> | <i>75.8%</i> | <i>78.0%</i> | | |

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

The increase in cost of products sold was primarily due to higher sales volume which resulted in increased material costs of \$8.1 million, including higher LIFO expense of \$1.1 million related to increased inventory levels and inflation. Manufacturing costs increased \$2.8 million primarily due to the addition of Gorman-Rupp Europe B.V. purchased in the second quarter of 2007, and supplies, patterns and tooling due to increased manufacturing levels. Partially offsetting these increases are reduced healthcare costs of \$1.1 million due to reduced claims experience and a subrogation settlement of \$300,000 received from a third-party carrier. The overall reduction in cost of products sold as a percent of net sales was due primarily to favorable product mix and increased operating leverage on added sales volume.

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

| <i>(Thousands of Dollars)</i> | Nine Months Ended September 30, | | \$ Change | % Change |
|---|------------------------------------|--------------|-----------|----------|
| | 2008 | 2007 | | |
| Selling, general, and administrative expenses (SG&A) | \$27,995 | \$25,068 | \$2,927 | 11.7% |
| <i>% of Net sales</i> | <i>11.2%</i> | <i>11.0%</i> | | |

The increase in SG&A expenses is principally due to increases in advertising costs of \$461,000 and travel and supplies of \$337,000 primarily related to the Construction Expo trade show and the International Trade Fair for Water Sewage Refuse Recycling, both of which are held every three years. In addition, accrued profit sharing based on increased operating results rose by \$766,000, and compensation and related costs increased \$698,000. Also, amortization expense increased \$227,000 as a result of the inclusion of Gorman-Rupp Europe B.V. for nine months in 2008.

Other Income

| <i>(Thousands of Dollars)</i> | Nine Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|------------------------------------|-------------|-----------|----------|
| | 2008 | 2007 | | |
| Other income | \$2,003 | \$1,643 | \$360 | 21.9% |
| <i>% of Net sales</i> | <i>0.8%</i> | <i>0.7%</i> | | |

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

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

| <i>(Thousands of Dollars)</i> | Nine Months Ended September 30, | | \$ Change | % Change |
|-------------------------------|------------------------------------|--------------|-----------|----------|
| | 2008 | 2007 | | |
| Income before income taxes | \$34,230 | \$26,913 | \$7,317 | 27.2% |
| <i>% of Net sales</i> | <i>13.7%</i> | <i>11.8%</i> | | |
| Income taxes | \$11,798 | \$ 9,808 | \$1,990 | 20.3% |
| <i>Effective tax rate</i> | <i>34.5%</i> | <i>36.4%</i> | | |
| Net income | \$22,432 | \$17,105 | \$5,327 | 31.1% |
| <i>% of Net sales</i> | <i>9.0%</i> | <i>7.5%</i> | | |
| Earnings per share | \$ 1.34 | \$ 1.02 | \$ 0.32 | 31.4% |

The decline in the effective tax rate was due to a deferred tax benefit of \$170,000 recorded in 2008, and a lower effective foreign tax rate due to the inclusion in 2008 of Gorman-Rupp Europe B.V. as previously noted. Earnings per share reflect the five-for-four stock split distributed December 10, 2007.

Liquidity and Sources of Capital

| <i>(Thousands of Dollars)</i> | Nine Months Ended September 30, | | \$ Change | % Change |
|---|------------------------------------|----------|-----------|----------|
| | 2008 | 2007 | | |
| Net cash provided by operating activities | \$27,398 | \$27,698 | \$ (300) | (1.1)% |
| Net cash used for investing activities | 6,305 | 13,224 | (6,919) | (52.3) |
| Net cash used for financing activities | 5,010 | 4,810 | 200 | 4.2 |

Cash provided by operating activities resulted primarily from net income plus noncash charges.

Investing activities for the nine months ended September 30, 2008 primarily consisted of capital expenditures related to the consolidation and expansion of the Mansfield, Ohio facilities of \$7.3 million and machinery and equipment additions of \$5.7 million, partially offset by proceeds from short-term investments of \$5.6 million. Total capital expenditures for the previously announced consolidation and expansion of the Mansfield, Ohio facilities of \$9.7 million have been incurred as of September 30, 2008.

Financing activities consisted of payments for dividends, which were \$5.0 million and \$4.8 million for the nine months ended September 30, 2008 and 2007, respectively. The Company continues to finance its capital expenditures and working capital requirements principally through internally generated funds, available unsecured lines of credit and proceeds from short-term investments. The ratio of current assets to current liabilities was 4.0 to 1 at September 30, 2008 and 3.9 to 1 at September 30, 2007.

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PART I CONTINUED

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 September 30, 2008.

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, 2007.

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, 2007.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Information regarding this subject was previously reported to the Securities and Exchange Commission on July 17, 2008 on Form 4 - Statement of Changes in Beneficial Ownership of Securities which is incorporated herein. (See accompanying Exhibit 99.)

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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. |
| Exhibit 99 | Form 4 - Statement of Changes in Beneficial Ownership of Securities filed with the Securities and Exchange Commission on July 17, 2008. |

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, 2008

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