

GORMAN RUPP CO  
Form 10-Q  
October 28, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended September 30, 2013**

**OR**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-6747**

**The Gorman-Rupp Company**

**(Exact name of Registrant as Specified in its Charter)**

<b>Ohio</b> <b>(State or Other Jurisdiction of</b>	<b>34-0253990</b> <b>(I.R.S. Employer</b>
<b>Incorporation or Organization)</b>	<b>Identification No.)</b>
<b>600 South Airport Road, Mansfield, Ohio</b> <b>(Address of Principal Executive Offices)</b>	<b>44903</b> <b>(Zip Code)</b>
<b>Registrant's telephone number, including area code (419) 755-1011</b>	

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. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 21,002,893 shares of common stock without par value outstanding at October 25, 2013.

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**The Gorman-Rupp Company and Subsidiaries**

**Nine Months Ended September 30, 2013 and 2012**

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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)**

(Dollars in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net sales	\$ 101,186	\$ 91,626	\$ 300,058	\$ 287,034
Cost of products sold	76,701	69,796	227,868	215,789
Gross profit	24,485	21,830	72,190	71,245
Selling, general and administrative expenses	12,448	11,727	38,379	34,420
Operating income	12,037	10,103	33,811	36,825
Other income	135	161	407	665
Other expense	(205)	(123)	(528)	(380)
Income before income taxes	11,967	10,141	33,690	37,110
Income taxes	4,021	3,435	10,758	12,595
Net income	\$ 7,946	\$ 6,706	\$ 22,932	\$ 24,515
Earnings per share	\$ 0.38	\$ 0.32	\$ 1.09	\$ 1.17
Cash dividends paid per share	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.29
Average shares outstanding	21,002,893	20,996,828	20,998,915	20,992,886

**Table of Contents****THE GORMAN-RUPP COMPANY AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

(Thousands of dollars)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income	\$ 7,946	\$ 6,706	\$ 22,932	\$ 24,515
Cumulative translation adjustments	680	726	(879)	489
Pension and postretirement medical liability adjustments, net of tax	455	453	3,033	1,351
Total adjustments	1,135	1,179	2,154	1,840
Comprehensive income	\$ 9,081	\$ 7,885	\$ 25,086	\$ 26,355

*See notes to condensed consolidated financial statements.*

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

(Thousands of dollars)	September 30, 2013	December 31, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 33,563	\$ 20,119
Short-term investments	252	254
Accounts receivable net	64,492	58,712
Inventories net	81,147	90,898
Deferred income taxes and other current assets	9,195	5,692
<b>Total current assets</b>	<b>188,649</b>	<b>175,675</b>
Property, plant and equipment	244,545	242,780
Less accumulated depreciation	125,692	119,714
<b>Property, plant and equipment net</b>	<b>118,853</b>	<b>123,066</b>
Other assets	6,248	4,156
Goodwill and other intangible assets net	31,911	32,286
<b>Total assets</b>	<b>\$ 345,661</b>	<b>\$ 335,183</b>
<b>Liabilities and shareholders equity</b>		
Current liabilities:		
Accounts payable	\$ 14,554	\$ 14,897
Short-term debt	9,000	22,000
Payroll and related liabilities	13,845	10,646
Commissions payable	6,407	7,568
Accrued expenses	15,558	9,710
<b>Total current liabilities</b>	<b>59,364</b>	<b>64,821</b>
Pension benefits	3,993	7,517
Postretirement benefits	22,942	22,399
Deferred and other income taxes	5,665	5,727
<b>Total liabilities</b>	<b>91,964</b>	<b>100,464</b>
Shareholders equity		
Common shares, without par value:		
Authorized 35,000,000 shares		
Outstanding 21,002,893 shares in 2013 and 20,996,893 shares in 2012 (after deducting treasury shares of 636,603 in 2013 and 642,603 in 2012) at stated capital amount	5,131	5,130
Additional paid-in capital	2,856	2,693
Retained earnings	259,838	243,178

Accumulated other comprehensive loss	(14,128)	(16,282)
Total shareholders' equity	253,697	234,719
Total liabilities and shareholders' equity	\$ 345,661	\$ 335,183

*See notes to condensed consolidated financial statements.*

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

(Thousands of dollars)	Nine Months Ended September 30,	
	2013	2012
<b>Cash flows from operating activities:</b>		
Net income	\$ 22,932	\$ 24,515
<b>Adjustments to reconcile net income attributable to net cash provided by operating activities:</b>		
Depreciation and amortization	10,183	8,927
Pension expense, including 2013 non-cash settlement loss	5,914	3,011
Contributions to pension plan	(4,200)	(4,200)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(5,779)	(2,062)
Inventories	8,764	(7,118)
Accounts payable	(343)	(4,492)
Commissions payable	(1,160)	(2,084)
Other	1,403	4,168
<b>Net cash provided by operating activities</b>	<b>37,714</b>	<b>20,665</b>
<b>Cash flows from investing activities:</b>		
Capital additions	(5,122)	(14,165)
Acquisition net of cash acquired		(4,812)
Change in short-term investments	2	806
<b>Net cash used for investing activities</b>	<b>(5,120)</b>	<b>(18,171)</b>
<b>Cash flows from financing activities:</b>		
Cash dividends	(6,300)	(6,088)
Payments to bank for borrowings	(13,000)	(2,000)
<b>Net cash used for financing activities</b>	<b>(19,300)</b>	<b>(8,088)</b>
Effect of exchange rate changes on cash	150	232
<b>Net increase in cash and cash equivalents</b>	<b>13,444</b>	<b>(5,362)</b>
<b>Cash and cash equivalents:</b>		
Beginning of year	20,119	20,142
<b>September 30,</b>	<b>\$ 33,563</b>	<b>\$ 14,780</b>

*See notes to condensed consolidated financial statements.*





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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles ( GAAP ) for interim financial information and in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by GAAP for complete financial statements. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. In the opinion of management of The Gorman-Rupp Company (the Company or Gorman-Rupp ), 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, 2013 are not necessarily indicative of results that may be expected for the year ending December 31, 2013. 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, 2012, from which related information herein has been derived.

**NOTE B INVENTORIES**

Inventories are stated at the lower of cost or market. The costs for approximately 74% of inventories at September 30, 2013 and 73% of inventories at December 31, 2012 are determined using the last-in, first-out (LIFO) method, with the remainder generally determined using the first-in, first-out (FIFO) method applied on a consistent basis. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Interim LIFO calculations are based on management s estimate of expected year-end inventory levels and costs and are subject to the final year-end LIFO inventory valuation.

The major components of inventories are as follows (net of LIFO reserves of \$55.6 million and \$53.2 million at September 30, 2013 and December 31, 2012, respectively):

<i>(Thousands of dollars)</i>	September 30, 2013	December 31, 2012
Raw materials and in-process	\$ 19,036	\$ 23,967
Finished parts	45,903	52,607
Finished products	16,208	14,324
Total inventories	\$ 81,147	\$ 90,898

**NOTE C PRODUCT WARRANTIES**

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

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<i>(Thousands of dollars)</i>	September 30,	
	2013	2012
Balance at beginning of year	\$ 1,133	\$ 1,228
Provision	1,023	1,059
Claims	(995)	(1,117)
Balance at end of period	\$ 1,161	\$ 1,170

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

The Company sponsors a defined benefit pension plan ( Plan ) covering certain domestic employees. Benefits are based on each covered employee's years of service and compensation. The Plan is funded in conformity with the funding requirements of applicable U.S. regulations. The Plan was closed to new participants effective January 1, 2008. Employees hired after this date participate in an enhanced 401(k) plan instead of the defined benefit pension plan.

Additionally, the Company sponsors defined contribution pension plans available to all domestic employees and all Canadian employees.

The Company also sponsors a non-contributory defined benefit health care plan that provides health benefits to certain domestic and Canadian retirees and their spouses. The Company funds the cost of these benefits as incurred.

Due to continuing lump-sum retirement payments, the Company recorded a GAAP-required \$490,000 non-cash pension settlement charge during the third quarter of 2013 relating to its defined benefit pension plan. The Company has recorded \$3.5 million in non-cash pension settlement charges during the first nine months of 2013. These required charges were driven by exceeding the actuarial payments threshold relating to retirees electing to receive lump-sum distributions during 2013.

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

<i>(Thousands of dollars)</i>	Pension Benefits		Postretirement Benefits	
	Three Months Ended September 30, 2013	2012	Three Months Ended September 30, 2013	2012
Service cost	\$ 748	\$ 797	\$ 288	\$ 288
Interest cost	734	700	182	218
Expected return on plan assets	(1,229)	(1,148)		
Recognized actuarial loss (gain)	478	611	(181)	(161)
Settlement loss	490			
Net periodic benefit cost	\$ 1,221	\$ 960	\$ 289	\$ 345

<i>(Thousands of dollars)</i>	Pension Benefits		Postretirement Benefits	
	Nine Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012

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Service cost	\$ 2,408	\$ 2,391	\$ 865	\$ 866
Interest cost	2,097	2,102	545	653
Expected return on plan assets	(3,828)	(3,443)		
Recognized actuarial loss (gain)	1,622	1,831	(542)	(485)
Settlement loss	3,477			