

GORMAN RUPP CO  
Form 10-Q  
October 28, 2015  
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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, 2015**

**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)**

**Ohio**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**34-0253990**  
**(I.R.S. Employer**  
**Identification No.)**

**600 South Airport Road, Mansfield, Ohio**  
**(Address of principal executive offices)**

**44903**  
**(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

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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  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

There were 26,083,623 shares of common stock, without par value, outstanding at October 23, 2015.

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**The Gorman-Rupp Company and Subsidiaries**

**Three and Nine Months Ended September 30, 2015 and 2014**

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	Three Months Ended September 30,		Nine Months Ended September 30,	
<i>(Dollars in thousands, except per share amounts)</i>	2015	2014	2015	2014
Net sales	\$ 104,229	\$ 110,159	\$ 307,354	\$ 329,951
Cost of products sold	80,917	82,093	235,986	247,427
Gross profit	23,312	28,066	71,368	82,524
Selling, general and administrative expenses	14,363	14,046	41,933	40,390
Operating income	8,949	14,020	29,435	42,134
Other income	99	261	515	605
Other expense			(124)	(398)
Income before income taxes	9,048	14,281	29,826	42,341
Income taxes	3,155	4,842	10,029	14,088
Net income	\$ 5,893	\$ 9,439	\$ 19,797	\$ 28,253
Earnings per share	\$ 0.22	\$ 0.36	\$ 0.75	\$ 1.08
Cash dividends per share	\$ 0.10	\$ 0.09	\$ 0.30	\$ 0.27
Average number of shares outstanding	26,165,810	26,260,543	26,228,618	26,255,570

*See notes to condensed consolidated financial statements.*

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

<i>(Dollars in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income	\$ 5,893	\$ 9,439	\$ 19,797	\$ 28,253
Cumulative translation adjustments	(1,342)	(1,939)	(3,557)	(2,089)
Pension and postretirement medical liability adjustments, net of tax	1,448	15	2,836	227
Other comprehensive income (loss)	106	(1,924)	(721)	(1,862)
Comprehensive income	\$ 5,999	\$ 7,515	\$ 19,076	\$ 26,391

*See notes to condensed consolidated financial statements.*

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

<i>(Dollars in thousands)</i>	September 30, 2015	December 31, 2014
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 33,822	\$ 24,491
Accounts receivable net	74,544	70,734
Inventories	82,790	94,760
Deferred income taxes and other current assets	9,051	10,724
<b>Total current assets</b>	<b>200,207</b>	<b>200,709</b>
Property, plant and equipment	272,701	266,660
Less accumulated depreciation	140,706	132,696
Property, plant and equipment - net	131,995	133,964
Deferred income taxes and other	4,481	6,313
Goodwill and other intangible assets - net	41,141	39,918
<b>Total assets</b>	<b>\$ 377,824</b>	<b>\$380,904</b>
<b>Liabilities and shareholders equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 16,330	\$17,908
Short-term debt	1,970	12,000
Payroll and related liabilities	14,684	11,355
Commissions payable	9,707	9,448
Deferred revenue	2,192	4,166
Accrued expenses	7,905	9,469
<b>Total current liabilities</b>	<b>52,788</b>	<b>64,346</b>
Pension benefits	5,666	4,496
Postretirement benefits	21,720	21,297
Deferred and other income taxes	8,834	8,798
<b>Total liabilities</b>	<b>89,008</b>	<b>98,937</b>
<b>Shareholders equity</b>		
Outstanding common shares: 26,083,623 at September 30, 2015 and 26,260,543 at December 31, 2014 (net of 965,173 and 788,253 treasury shares, respectively), at stated capital amounts	5,095	5,133
Additional paid-in capital		3,059
Retained earnings	301,768	291,101
Accumulated other comprehensive loss	(18,047)	(17,326)

Total shareholders equity	288,816	281,967
Total liabilities and shareholders equity	\$ 377,824	\$380,904

*See notes to condensed consolidated financial statements.*

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

<i>(Dollars in thousands)</i>	Nine Months Ended	
	September 30, 2015	2014
Cash flows from operating activities:		
Net income	\$ 19,797	\$ 28,253
Adjustments to reconcile net income attributable to net cash provided (used) by operating activities:		
Depreciation and amortization	11,356	10,751
Pension expense, including 2015 non-cash settlement loss	6,157	2,145
Contributions to pension plan		(2,500)
Changes in operating assets and liabilities:		
Accounts receivable - net	(2,536)	(8,297)
Inventories - net	12,604	(519)
Accounts payable	(2,195)	1,294
Commissions payable	260	1,039
Deferred revenue	(1,974)	(3,174)
Accrued expenses	1,678	2,673
Benefit obligations and other	(245)	(6,841)
Net cash provided by operating activities	44,902	24,824
Cash flows from investing activities:		
Capital additions - net	(6,647)	(7,680)
Acquisition, net of cash acquired	(3,386)	(16,280)
Net cash used for investing activities	(10,033)	(23,960)
Cash flows from financing activities:		
Cash dividends	(7,860)	(7,089)
Treasury stock purchase	(4,579)	
Proceeds from bank borrowings		18,000
Payments to bank for borrowings	(12,044)	(9,833)
Net cash (used for) provided by financing activities	(24,483)	1,078
Effect of exchange rate changes on cash	(1,055)	(125)
Net increase in cash and cash equivalents	9,331	1,817
Cash and cash equivalents:		
Beginning of period	24,491	31,123
End of period	\$ 33,822	\$ 32,940

*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 U.S. generally accepted accounting principles ( U.S. 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 U.S. GAAP for complete financial statements. The consolidated financial statements include the accounts of The Gorman-Rupp Company (the Company or Gorman-Rupp ) and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. In the opinion of management of the Company, 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, 2015 are not necessarily indicative of results that may be expected for the year ending December 31, 2015. 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, 2014, from which related information herein has been derived.

**NOTE B - RECENTLY ISSUED ACCOUNTING STANDARDS**

The Company considers the applicability and impact of all Accounting Standard Updates ( ASUs ). ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company s consolidated financial statements.

In May 2014, the Financial Accounting Standards Board issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes most current revenue recognition guidance, including industry-specific guidance, and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The original standard was effective for fiscal years beginning after December 15, 2016; however, in July 2015, the FASB approved a one-year deferral of this standard, with a new effective date for fiscal years beginning after December 15, 2017. The Company currently does not expect the adoption of ASU 2014-09 to have a material impact on its consolidated financial statements.

**NOTE C - INVENTORIES**

Inventories are stated at the lower of cost or market. The costs for approximately 73% of inventories at September 30, 2015 and 75% of inventories at December 31, 2014 are determined using the last-in, first-out (LIFO) method, with the remainder determined using the first-in, first-out (FIFO) method applied on a consistent basis. An annual 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 \$59.7 million and \$57.9 million at September 30, 2015 and December 31, 2014, respectively):

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<i>(Dollars in thousands)</i>	September 30, 2015	December 31, 2014
Raw materials and in-process	\$ 22,704	\$ 16,217
Finished parts	48,390	42,414
Finished products	11,696	36,129
Total inventories	\$ 82,790	\$ 94,760

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CONTINUED****NOTE D - 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:

<i>(Dollars in thousands)</i>	September 30,	
	2015	2014
Balance at beginning of year	\$ 1,166	\$ 1,170
Provision	1,104	1,161
Claims	(1,003)	(1,214)
Balance at end of period	\$ 1,267	\$ 1,117

**NOTE E - 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, in eligible locations, participate in an enhanced 401(k) plan instead of the defined benefit pension plan. Employees hired prior to this date continue to accrue benefits. Additionally, the Company sponsors defined contribution pension plans made available to all domestic and 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.

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

<i>(Dollars in thousands)</i>	Pension Benefits		Postretirement Benefits	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014
Service cost	\$ 765	\$ 726	\$ 299	\$ 227
Interest cost	664	723	198	212
Expected return on plan assets	(1,009)	(1,188)		
Recognized actuarial loss (gain)	571	333	(163)	(311)

Settlement loss	1,890			
Net periodic benefit cost	\$ 2,881	\$ 594	\$ 334	\$ 128

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

<i>(Dollars in thousands)</i>	Pension Benefits		Postretirement Benefits	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Service cost	\$ 2,332	\$ 2,178	\$ 897	\$ 680
Interest cost	1,982	2,171	595	636
Expected return on plan assets	(3,144)	(3,566)		
Recognized actuarial loss (gain)	1,645	1,248	(490)	(888)
Settlement loss	3,342			