

GORMAN RUPP CO
Form 10-Q
July 30, 2014
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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 June 30, 2014

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

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(§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 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 26,260,543 shares of common stock, without par value, outstanding at July 25, 2014.

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Three and Six Months Ended June 30, 2014 and 2013

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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)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------|------------------------------|------------|
| <i>(Dollars in thousands, except per share amounts)</i> | 2014 | 2013 | 2014 | 2013 |
| Net sales | \$ 109,728 | \$ 106,415 | \$ 219,792 | \$ 198,872 |
| Cost of products sold | 82,824 | 79,934 | 165,334 | 151,167 |
| Gross profit | 26,904 | 26,481 | 54,458 | 47,705 |
| Selling, general and administrative expenses | 13,483 | 12,964 | 26,344 | 25,931 |
| Operating income | 13,421 | 13,517 | 28,114 | 21,774 |
| Other income | 184 | 153 | 357 | 272 |
| Other expense | (377) | (174) | (411) | (323) |
| Income before income taxes | 13,228 | 13,496 | 28,060 | 21,723 |
| Income taxes | 4,368 | 4,328 | 9,246 | 6,737 |
| Net income | \$ 8,860 | \$ 9,168 | \$ 18,814 | \$ 14,986 |
| Earnings per share | \$ 0.34 | \$ 0.35 | \$ 0.72 | \$ 0.57 |
| Cash dividends paid per share | \$ 0.09 | \$ 0.08 | \$ 0.18 | \$ 0.16 |
| Average shares outstanding | 26,253,043 | 26,245,543 | 26,253,043 | 26,245,543 |

Share amounts have been restated to reflect the 5-for-4 stock split effective December 10, 2013.

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 | | Six Months Ended | |
|--|--------------------|----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$ 8,860 | \$ 9,168 | \$ 18,814 | \$ 14,986 |
| Cumulative translation adjustments | 207 | (726) | (149) | (1,559) |
| Pension and postretirement medical liability adjustments, net of tax | 37 | 1,369 | 211 | 2,578 |
| Other comprehensive income | 244 | 643 | 62 | 1,019 |
| Total comprehensive income | \$ 9,104 | \$ 9,811 | \$ 18,876 | \$ 16,005 |

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> | June 30, 2014 | December 31, 2013 |
|---|-------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 29,446 | \$ 31,123 |
| Short-term investments | 255 | 253 |
| Accounts receivable - net | 75,864 | 59,374 |
| Inventories - net | 88,376 | 89,946 |
| Deferred income taxes and other current assets | 11,317 | 8,593 |
| Total current assets | 205,258 | 189,289 |
| Property, plant and equipment | 261,923 | 253,758 |
| Less accumulated depreciation | 129,113 | 122,569 |
| Property, plant and equipment - net | 132,810 | 131,189 |
| Other assets | 6,396 | 3,657 |
| Goodwill and other intangible assets - net | 41,170 | 31,503 |
| Total assets | \$ 385,634 | \$ 355,638 |
| Liabilities and shareholders equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 20,252 | \$ 17,882 |
| Short-term debt | 22,667 | 9,000 |
| Payroll and related liabilities | 12,029 | 11,020 |
| Commissions payable | 6,709 | 6,081 |
| Deferred revenue | 5,366 | 7,190 |
| Accrued expenses | 9,001 | 9,587 |
| Total current liabilities | 76,024 | 60,760 |
| Postretirement benefits | 18,988 | 18,393 |
| Deferred and other income taxes | 12,331 | 12,345 |
| Total liabilities | 107,343 | 91,498 |
| Shareholders equity | | |
| Common shares, without par value: | | |
| Authorized - 35,000,000 shares | | |
| Outstanding - 26,253,043 shares in 2014 and in 2013 (after deducting treasury shares of 795,753 in 2014 and in 2013) at stated capital amount | 5,131 | 5,131 |
| Additional paid-in capital | 2,822 | 2,822 |
| Retained earnings | 278,737 | 264,648 |
| Accumulated other comprehensive loss | (8,399) | (8,461) |

| | | |
|--|------------|------------|
| Total shareholders' equity | 278,291 | 264,140 |
| Total liabilities and shareholders' equity | \$ 385,634 | \$ 355,638 |

See notes to condensed consolidated financial statements.

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

| | Six Months Ended June 30, | |
|--|------------------------------|-----------------|
| <i>(Dollars in thousands)</i> | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | \$ 18,814 | \$ 14,986 |
| Adjustments to reconcile net income attributable to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 7,048 | 6,805 |
| Pension expense, including 2013 non-cash settlement loss | 1,437 | 4,641 |
| Contributions to pension plan | (1,200) | (3,600) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (13,660) | (11,656) |
| Inventories | 3,396 | 5,222 |
| Accounts payable | 1,650 | 2,138 |
| Commissions payable | 628 | (820) |
| Other | (6,128) | 3,372 |
| Net cash provided by operating activities | 11,985 | 21,088 |
| Cash flows from investing activities: | | |
| Capital additions | (5,586) | (3,399) |
| Acquisition, net of cash acquired | (16,280) | |
| Change in short-term investments | (2) | 3 |
| Net cash used for investing activities | (21,868) | (3,396) |
| Cash flows from financing activities: | | |
| Cash dividends | (4,726) | (4,199) |
| Proceeds from bank borrowings | 18,000 | |
| Payments to bank for borrowings | (4,333) | (7,000) |
| Net cash provided by (used for) financing activities | 8,941 | (11,199) |
| Effect of exchange rate changes on cash | (735) | 239 |
| Net (decrease) increase in cash and cash equivalents | (1,677) | 6,732 |
| Cash and cash equivalents: | | |
| Beginning of period | 31,123 | 20,119 |
| End of period | \$ 29,446 | \$ 26,851 |

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 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 six months ended June 30, 2014 are not necessarily indicative of results that may be expected for the year ending December 31, 2014. 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, 2013, from which related information herein has been derived.

NOTE B - RECENTLY ISSUED ACCOUNTING STANDARDS

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. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. The Company is currently assessing the impact of implementing this guidance on the Company s financial position, results of operations, and cash flows. The Company does not expect the adoption of ASU 2014-09 will 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 72% of inventories at June 30, 2014 and 76% of inventories at December 31, 2013 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 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 \$57.4 million and \$55.3 million at June 30, 2014 and December 31, 2013, respectively):

| <i>(Thousands of dollars)</i> | June 30, 2014 | December 31, 2013 |
|-------------------------------|------------------|----------------------|
| Raw materials and in-process | \$ 18,498 | \$ 26,877 |

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| | | |
|-------------------|-----------|-----------|
| Finished parts | 42,069 | 46,491 |
| Finished products | 27,809 | 16,578 |
| Total inventories | \$ 88,376 | \$ 89,946 |

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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>(Thousands of dollars)</i> | June 30, | |
|-------------------------------|----------|----------|
| | 2014 | 2013 |
| Balance at beginning of year | \$ 1,170 | \$ 1,133 |
| Provision | 811 | 676 |
| Claims | (862) | (644) |
| Balance at end of period | \$ 1,119 | \$ 1,165 |

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>(Thousands of dollars)</i> | Pension Benefits | | Postretirement Benefits | |
|-------------------------------|--------------------|--------|-------------------------|--------|
| | Three Months Ended | | Three Months Ended | |
| | June 30, | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Service cost | \$ 726 | \$ 811 | \$ 226 | \$ 289 |
| Interest cost | 728 | 697 | 212 | 181 |

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| | | | | |
|----------------------------------|---------|----------|-------|--------|
| Expected return on plan assets | (1,170) | (1,306) | | |
| Recognized actuarial loss (gain) | 457 | 532 | (380) | (180) |
| Settlement loss | | 1,601 | | |
| Net periodic benefit cost | \$ 741 | \$ 2,335 | \$ 58 | \$ 290 |

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

| <i>(Thousands of dollars)</i> | Pension Benefits | | Postretirement Benefits | |
|----------------------------------|------------------------------|----------|------------------------------|--------|
| | Six Months Ended June 30, | | Six Months Ended June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Service cost | \$ 1,452 | \$ 1,660 | \$ 453 | \$ 577 |
| Interest cost | 1,448 | 1,363 | 424 | 363 |
| Expected return on plan assets | (2,378) | (2,599) | | |
| Recognized actuarial loss (gain) | 915 | 1,144 | (577) | (361) |
| Settlement loss | | 2,987 | | |
| Net periodic benefit cost | \$ 1,437 | \$ 4,555 | \$ 300 | \$ 579 |

NOTE F ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes reclassifications out of accumulated other comprehensive income (loss):

| <i>(Thousands of dollars)</i> | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|----------|---------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Pension and other postretirement benefits: | | | | |
| Recognized actuarial loss (a) | \$ 77 | \$ 352 | \$ 338 | \$ 783 |
| Settlement loss (b) | | 1,058 | | 1,974 |
| Settlement loss (c) | | 543 | | 1,013 |
| Total before income tax | 77 | 1,953 | 338 | 3,770 |
| Income tax | (40) | (584) | (127) | (1,192) |
| Net of income tax | \$ 37 | \$ 1,369 | \$ 211 | \$ 2,578 |

- (a) The recognized actuarial loss is included in the computation of net periodic benefit cost. See Note D for additional details.
- (b) This portion of the settlement loss is included in Cost of products sold on the Statements of Income.
- (c) This portion of the settlement loss is included in Selling, general & administrative expenses on the Statements of Income.

The following tables summarize changes in accumulated balances for each component of other comprehensive income (loss):

| <i>(Thousands of dollars)</i> | Currency Translation Adjustments | Pension and Other Postretirement Benefits | Accumulated Other Comprehensive Income (Loss) |
|--------------------------------|--|--|---|
| Balance at January 1, 2014 | \$ (1,062) | \$ (7,399) | \$ (8,461) |
| Current period credit (charge) | (149) | 338 | 187 |
| Income tax expense | | (127) | (127) |
| Balance at June 30, 2014 | \$ (1,211) | \$ (7,188) | \$ (8,399) |

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

| <i>(Thousands of dollars)</i> | Currency Translation Adjustments | Pension and Other Postretirement Benefits | Accumulated Other Comprehensive Income (Loss) |
|--------------------------------|--|--|---|
| Balance at January 1, 2013 | \$ 319 | \$ (16,601) | \$ (16,282) |
| Current period credit (charge) | (1,559) | 3,770 | 2,211 |
| Income tax expense | | (1,192) | (1,192) |
| Balance at June 30, 2013 | \$ (1,240) | \$ (14,023) | \$ (15,263) |

NOTE G ACQUISITION

In June 2014, the Company's wholly-owned subsidiary, National Pump Company, acquired substantially all of the assets and certain liabilities of Bayou City Pump, Inc. (BCP). Founded in 1973, BCP is a leading manufacturer of and service provider for highly-reliable and energy-efficient vertical turbine pumping systems primarily for the inland and coastal marine liquid petroleum and chemical transportation market. BCP has steadily expanded its product designs and service capabilities in recent years to become a significant market share provider in North American marine transportation. BCP also has developed and manufactures a specialty sludge pumping system for use in a variety of industrial applications. During 2013, BCP had approximately \$16 million in revenue from sales of its products and services through its Houston, Texas headquarters and its service facility location in Baton Rouge, Louisiana. BCP's strong customer relationships and long history will help expand sales in targeted niche markets complementary to National Pump Company's significant and growing vertical turbine products leadership position. In addition, its Houston, Texas base will provide additional capacity and machining capabilities in combination with National Pump's existing location acquired late in 2012, which together will assist The Gorman-Rupp Company in expanding its growing Gulf Coast operations.

The results of operations of the acquired business have been included in Gorman-Rupp's consolidated results since the effective date of the transaction. The company financed the all-cash acquisition through a short-term unsecured bank loan of \$18.0 million. Supplemental pro forma information has not been provided as the acquisition did not have a material impact on the Company's consolidated results of operations.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS****Executive Overview and Outlook**

Net sales during the second quarter of 2014 increased 3.1% to \$109.7 million compared to \$106.4 million during the same period in 2013. Domestic sales increased 11.9% or \$8.3 million while international sales decreased 13.5% or

\$5.0 million. Sales in water end markets increased 1.1% or \$0.7 million and sales in non-water end markets increased 5.7% or \$1.8 million during the second quarter.

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PART I CONTINUED

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

The second quarter increase in water end market sales was largely due to increased sales in the municipal market of \$5.1 million driven by large volume pumps related to wastewater and flood control. This increase was partially offset by lower fire protection sales of \$3.2 million due to timing of shipments and lower agriculture sales driven by wet weather conditions. Sales increased \$1.8 million in non-water markets primarily due to increased shipments for the OEM market related to power generation equipment and pumps for residential appliances.

Net sales for the six months ended June 30, 2014 were a record \$219.8 million compared to \$198.9 million during the same period in 2013, an increase of 10.5%. Domestic sales increased 16.0% or \$20.7 million while international sales were comparable to the same period in 2013. Sales increased \$12.7 million in water end markets primarily due to higher sales in the municipal market of \$9.4 million driven by large volume pumps related to wastewater, water supply and flood control. In addition, sales in the construction market increased \$4.6 million principally for pumps for rental businesses and for oil and gas drilling and fracking within North America. These increases were reduced by lower agriculture sales of \$2.1 million in large part driven by wet weather conditions. Sales increased \$6.6 million in non-water markets primarily due to increased shipments for the OEM market related to power generation equipment and pumps for military applications and residential appliances.

Gross profit was \$26.9 million for the second quarter of 2014, resulting in gross margin of 24.5% compared to 24.9% in the same period in 2013. The decrease in gross margin was principally due to increased cost of material primarily from the purchase of completed components for our previously disclosed Permanent Canal Closure and Pumps (PCCP) project driven by timing and capacity constraints, and freight costs due mostly to PCCP flood control project specialized shipments. These costs and some additional temporary labor totaled 160 basis points. Operating income was \$13.4 million, resulting in operating margin of 12.2% in the second quarter of 2014 compared to 12.7% in the same period in 2013. The gross margin and operating margin for the second quarter of 2013 were reduced by 100 and 150 basis points, respectively, due to a non-cash pension settlement charge which did not recur in the second quarter of 2014.

Net income was \$8.9 million during the second quarter of 2014 compared to \$9.2 million in the second quarter of 2013 and earnings per share were \$0.34 and \$0.35 for the respective periods. Earnings per share for the second quarter of 2013 included a reduction of \$0.04 due to a non-cash pension settlement charge which did not recur in the second quarter of 2014.

Gross profit was a record \$54.5 million in the first six months of 2014 resulting in gross margin of 24.8% compared to 24.0% in 2013. Operating income also was a record \$28.1 million resulting in operating margin of 12.8% in the first six months of 2014 compared to 10.9% in 2013. The gross margin and operating margin for the first six months of 2013 were reduced by 100 and 160 basis points, respectively, due to a non-cash pension settlement charge which did not recur in the second quarter of 2014.

Net income for the first six months of 2014 was a record \$18.8 million compared to \$15.0 million in 2013 and earnings per share were \$0.72 and \$0.57 for the respective periods. Earnings per share for the first six months of 2013 included a reduction of \$0.07 due to a non-cash pension settlement charge which did not recur in the first six months

of 2014.

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

The Company's backlog of orders was \$173.8 million at June 30, 2014 compared to \$182.2 million at December 31, 2013. Incoming orders grew 12.6% during the current quarter compared to the previous quarter reflecting increased activity across both our water and non-water end markets. The \$8.4 million decrease in backlog is principally due to record shipments during the first six months of 2014. Approximately \$53.5 million of the PCCP project to supply major flood control pumps to a member of a joint venture construction group for a significant New Orleans flood control project remain in the June 30, 2014 backlog total. The pumps for this project are expected to be shipped primarily in the second half of 2014 and first half of 2015.

Cash and short-term investments totaled \$29.7 million and short-term bank debt was \$22.7 million at June 30, 2014. During the second quarter of 2014, \$18.0 million was borrowed to fund the acquisition of the assets of Bayou City Pump Company. Working capital rose \$0.7 million from December 31, 2013 to \$129.2 million at June 30, 2014. Net capital expenditures for 2014, consisting principally of machinery and equipment and building improvements, are estimated to be in the range of \$12 to \$14 million and are expected to be financed through internally generated funds.

At its July 24, 2014 meeting, the Board of Directors of the Company declared a quarterly cash dividend of \$0.09 per share on the common stock of the Company, payable September 10, 2014, to shareholders of record August 15, 2014. This marks the 258th consecutive dividend paid by The Gorman-Rupp Company.

We believe that the Company is well positioned to grow organically at generally comparable operating margins over the long term by expanding our customer base both domestically and globally, and through new product offerings. We expect that the increasing need for water and wastewater infrastructure rehabilitation within the United States, and similar needs internationally, along with increasing demand for high quality pumps and pump systems for industrial and agricultural applications, will provide excellent growth opportunities for Gorman-Rupp in the future.

Second Quarter 2014 Compared to Second Quarter 2013**Net Sales**

| <i>(Thousands of dollars)</i> | Three Months Ended | | | |
|-------------------------------|--------------------|------------|-----------|----------|
| | June 30, | | \$ Change | % Change |
| | 2014 | 2013 | | |
| Net sales | \$ 109,728 | \$ 106,415 | \$ 3,313 | 3.1% |

Sales increased \$0.7 million in water end markets due to increased sales in the municipal market of \$5.1 million driven by large volume pumps related to wastewater and flood control. This increase was reduced by lower fire protection sales of \$3.2 million due to timing of shipments and lower agriculture sales driven by wet weather conditions.

Sales increased \$1.8 million in non-water markets primarily due to increased shipments for the OEM market related to power generation equipment and pumps for residential appliances.

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 and Gross Profit**

| <i>(Thousands of dollars)</i> | Three Months Ended | | \$ Change | % Change |
|-------------------------------|--------------------|-----------|-----------|----------|
| | 2014 | 2013 | | |
| Cost of products sold | \$ 82,824 | \$ 79,934 | \$ 2,890 | 3.6% |
| <i>% of Net sales</i> | 75.5% | 75.1% | | |
| Gross margin | 24.5% | 24.9% | | |

The decrease in gross margin was principally due to increased cost of materials of 80 basis points primarily from the purchase of completed components for the PCCP project driven by capacity and timing constraints and increased freight cost. In addition, labor increased 70 basis points due to increased headcount. Cost of products sold for the second quarter of 2013 as a percent of net sales included 100 basis points due to a pension settlement charge which did not recur in the second quarter of 2014.

Selling, General and Administrative Expenses (SG&A)

| <i>(Thousands of dollars)</i> | Three Months Ended | | \$ Change | % Change |
|---|--------------------|-----------|-----------|----------|
| | 2014 | 2013 | | |
| Selling, general and administrative expenses (SG&A) | \$ 13,483 | \$ 12,964 | \$ 519 | 4.0% |
| <i>% of Net sales</i> | 12.3% | 12.2% | | |

The increase in SG&A expenses as a percent of net sales is principally due to increases in travel and advertising of 20 basis points related to trade shows and in professional fees of 21 basis points due to legal and recruitment fees. The remaining increase in SG&A expenses as a percent of net sales is a combination of several smaller expense changes. SG&A expenses for the second quarter of 2013 as a percent of net sales included 50 basis points due to a pension settlement charge which did not recur in the second quarter of 2014.

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 | | \$ Change | % Change |
|-------------------------------|--------------------|--------------|-----------|----------|
| | 2014 | 2013 | | |
| Income before income taxes | \$ 13,228 | \$ 13,496 | \$ (268) | (2.0)% |
| <i>% of Net sales</i> | <i>12.1%</i> | <i>12.7%</i> | | |
| Income taxes | \$ 4,368 | \$ 4,328 | \$ 40 | 0.9% |
| <i>Effective tax rate</i> | <i>33.0%</i> | <i>32.1%</i> | | |
| Net income | \$ 8,860 | \$ 9,168 | \$ (308) | (3.4)% |
| <i>% of Net sales</i> | <i>8.1%</i> | <i>8.6%</i> | | |
| Earnings per share | \$ 0.34 | \$ 0.35 | \$ (0.01) | (2.9)% |

The decreases in net income and earnings per share were primarily due to the factors explained above, including higher cost of materials, labor and SG&A expenses. The difference in the effective tax rate between the two periods is primarily due to the federal research and development tax credit that has not been extended for 2014.

Six Months 2014 Compared to Six Months 2013**Net Sales**

| <i>(Thousands of dollars)</i> | Six Months Ended | | \$ Change | % Change |
|-------------------------------|------------------|------------|-----------|----------|
| | 2014 | 2013 | | |
| Net sales | \$ 219,792 | \$ 198,872 | \$ 20,920 | 10.5% |

Sales increased \$12.7 million in water end markets due to increased sales in the municipal market of \$9.4 million driven by large volume pumps related to wastewater, water supply and flood control. In addition, sales in the construction market increased \$4.6 million principally for pumps for rental businesses and for oil and gas drilling and fracking within North America. These increases were reduced by lower agriculture sales of \$2.1 million driven in large part by wet weather conditions.

Sales increased \$6.6 million in non-water markets primarily due to increased shipments for the OEM market related to power generation equipment and pumps for military applications and residential appliances.

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 and Gross Profit**

| <i>(Thousands of dollars)</i> | Six Months Ended June 30, | | \$ Change | % Change |
|-------------------------------|------------------------------|------------|-----------|----------|
| | 2014 | 2013 | | |
| Cost of products sold | \$ 165,334 | \$ 151,167 | \$ 14,167 | 9.4% |
| <i>% of Net sales</i> | 75.2% | 76.0% | | |
| Gross margin | 24.8% | 24.0% | | |

The increase in gross margin for the six month period ended June 30, 2014 was principally due to a pension settlement charge in the first six month of 2013 of 100 basis points which did not recur during the same period of 2014.

Selling, General and Administrative Expenses (SG&A)

| <i>(Thousands of dollars)</i> | Six Months Ended June 30, | | \$ Change | % Change |
|--|------------------------------|-----------|-----------|----------|
| | 2014 | 2013 | | |
| Selling, general and administrative expenses (SG&A) | \$ 26,344 | \$ 25,931 | \$ 413 | 1.6% |
| <i>% of Net sales</i> | 12.0% | 13.0% | | |

The decrease in SG&A expenses as a percent of net sales is principally due to a pension settlement charge in the first six months of 2013 of 50 basis points which did not recur in the first six months of 2014.

Net Income

| <i>(Thousands of dollars)</i> | Six Months Ended June 30, | | \$ Change | % Change |
|-------------------------------|------------------------------|-----------|-----------|----------|
| | 2014 | 2013 | | |
| Income before income taxes | \$ 28,060 | \$ 21,723 | \$ 6,337 | 29.2% |
| <i>% of Net sales</i> | 12.8% | 10.9% | | |
| Income taxes | \$ 9,246 | \$ 6,737 | \$ 2,509 | 37.2% |
| <i>Effective tax rate</i> | 33.0% | 31.0% | | |
| Net income | \$ 18,814 | \$ 14,986 | \$ 3,828 | 25.5% |
| <i>% of Net sales</i> | 8.6% | 7.5% | | |

| | | | | |
|--------------------|---------|---------|---------|-------|
| Earnings per share | \$ 0.72 | \$ 0.57 | \$ 0.15 | 26.3% |
|--------------------|---------|---------|---------|-------|

The increases in net income and earnings per share were primarily due to increased sales during the six month period ended June 30, 2014 of \$20.9 million, and a pension settlement charge, net of income taxes, of \$2.0 million in the first six months of 2013 which did not recur in the first six months of 2014. The difference in the effective tax rate between the two periods is primarily due to the federal research and development tax credit that has not been extended for 2014.

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

| <i>(Thousands of dollars)</i> | Six Months Ended | |
|--|------------------|-----------|
| | June 30, | |
| | 2014 | 2013 |
| Net cash provided by operating activities | \$ 11,985 | \$ 21,088 |
| Net cash used for investing activities | (21,868) | (3,396) |
| Net cash provided by (used for) financing activities | 8,941 | (11,199) |

Cash and cash equivalents and short-term investments totaled \$29.7 million, and there was \$22.7 million in outstanding bank debt at June 30, 2014. In addition, the Company had \$26.1 million available in bank lines of credit after deducting \$3.9 million in outstanding letters of credit primarily related to customer orders. The Company was in compliance with its nominal restrictive covenants, including limits on additional borrowings and maintenance of certain operating and financial ratios, at June 30, 2014.

Working capital increased \$0.7 million from December 31, 2013 to \$129.2 million at June 30, 2014 principally due to higher accounts receivable driven by record sales during the first six months of 2014.

The primary driver of operating cash flows during the first six months of 2014 was increased accounts receivable due to record sales during the period. During this same period in 2013 operating cash flows were primarily driven by a reduction in the use of cash required to fund inventory, partially offset by increased accounts receivable.

During the first six months of 2014, investing activities of \$21.9 million primarily consisted of the purchase of the business of Bayou City Pump Company and capital expenditures for machinery and equipment and building improvements. Net capital expenditures for 2014, consisting principally of machinery and equipment and building improvements, are estimated to be in the range of \$12 to \$14 million and are expected to be principally financed through internally generated funds. During the first six months of 2013, investing activities of \$3.4 million consisted primarily of capital expenditures for machinery and equipment.

Net cash used for financing activities for the first six months of 2014 consisted of dividend payments of \$4.7 million and re-payment of \$4.3 million in short-term debt. During the second quarter of 2014, \$18.0 million was borrowed to fund the acquisition of Bayou City Pump Company. The ratio of current assets to current liabilities was 2.7 to 1 at June 30, 2014 and 3.1 to 1 at December 31, 2013.

On July 24, 2014, the Board of Directors of the Company declared a quarterly cash dividend of \$0.09 per share on the common stock of the Company, payable September 10, 2014, to shareholders of record August 15, 2014. This marks the 258th consecutive dividend paid by The Gorman-Rupp Company.

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PART I CONTINUED

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

The Company currently expects to continue its distinguished history of paying regular quarterly dividends and increased annual dividends. However, any future dividends will be reviewed individually and declared by our Board of Directors at its discretion, dependent on our assessment of the Company's financial condition and business outlook at the applicable time.

Critical Accounting Policies

Our critical accounting policies are described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and in the notes to our Consolidated Financial Statements for the year ended December 31, 2013 contained in our Fiscal 2013 Annual Report on Form 10-K. Any new accounting policies or updates to existing accounting policies as a result of new accounting pronouncements have been discussed in the notes to our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q. The application of our critical accounting policies may require management to make judgments and estimates about the amounts reflected in the Consolidated Financial Statements. Management uses historical experience and all available information to make these estimates and judgments, and different amounts could be reported using different assumptions and estimates.

Safe Harbor Statement

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: This Form 10-Q contains various forward-looking statements based on 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 risks and uncertainties, 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, but are not limited to: (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 initiatives of The Gorman-Rupp Company; (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; (7) unforeseen delays or disruptions in the New Orleans flood control project; and (8) continuation of the favorable environment to make acquisitions, domestic and foreign, including regulatory requirements and market values of candidates and our ability to successfully integrate and realize the anticipated benefits of completed acquisitions. Except to the extent required by law, we do not undertake and specifically decline any obligation to review or update any forward-looking statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's foreign operations do not involve material risks due to their relative size, both individually and collectively. Approximately 90% of the Company's sales are domiciled within or originated from the United States. The Company is not exposed to material market risks as a result of its diversified export sales. Export sales generally are denominated in U.S. Dollars and made on open account or under letters of credit.

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PART I CONTINUED

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. The Company's disclosure controls and procedures are also designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act of 1934 is accumulated and communicated to the Company's Management, including the principal executive officer and the principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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 were effective as of June 30, 2014.

Changes in Internal Control Over Financial Reporting

There have been 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, 2013.

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, 2013.

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ITEM 6. EXHIBITS

- Exhibit 10.1 Amended and Restated Non-Employee Directors Compensation Plan
- 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.
- Exhibit 101 Financial statements from the Quarterly Report on Form 10-Q of The Gorman-Rupp Company for the quarter ended June 30, 2014, formatted in eXtensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements.

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 30, 2014

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