

GORMAN RUPP CO  
Form 10-Q  
August 03, 2016  
Table of Contents

**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, 2016**

**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 26,091,123 shares of common stock, without par value, outstanding at July 29, 2016.

**Table of Contents**

**The Gorman-Rupp Company and Subsidiaries**

**Three and six months ended June 30, 2016 and 2015**

**PART I. FINANCIAL INFORMATION**

Item 1.	Financial Statements (Unaudited)	
	<u>Condensed Consolidated Statements of Income</u>	
	- <u>Three months ended June 30, 2016 and 2015</u>	
	- <u>Six months ended June 30, 2016 and 2015</u>	3
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	
	- <u>Three months ended June 30, 2016 and 2015</u>	
	- <u>Six months ended June 30, 2016 and 2015</u>	4
	<u>Condensed Consolidated Balance Sheets</u>	
	- <u>June 30, 2016 and December 31, 2015</u>	5
	<u>Condensed Consolidated Statements of Cash Flows</u>	
	- <u>Six months ended June 30, 2016 and 2015</u>	6
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	17
Item 4.	<u>Controls and Procedures</u>	17

**PART II. OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	17
Item 1A.	<u>Risk Factors</u>	17
Item 6.	<u>Exhibits</u>	18
EX-31.1	<u>Section 302 Principal Executive Officer (PEO) Certification</u>	20
EX-31.2	<u>Section 302 Principal Financial Officer (PFO) Certification</u>	21
EX-32	<u>Section 1350 Certifications</u>	22

**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>	2016	2015	2016	2015
Net sales	\$ 96,265	\$ 103,892	\$ 196,522	\$ 203,125
Cost of products sold	73,025	79,751	150,385	155,069
Gross profit	23,240	24,141	46,137	48,056
Selling, general and administrative expenses	13,702	14,258	27,371	27,570
Operating income	9,538	9,883	18,766	20,486
Other income	108	122	202	453
Other expense	(14)	(140)	(77)	(161)
Income before income taxes	9,632	9,865	18,891	20,778
Income taxes	3,012	3,236	5,989	6,874
Net income	\$ 6,620	\$ 6,629	\$ 12,902	\$ 13,904
Earnings per share	\$ 0.25	\$ 0.25	\$ 0.49	\$ 0.53
Cash dividends per share	\$ 0.105	\$ 0.10	\$ 0.21	\$ 0.20
Average number of shares outstanding	26,083,623	26,260,543	26,083,623	26,260,543

*See notes to condensed consolidated financial statements (unaudited).*

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,	
	2016	2015	2016	2015
Net income	\$ 6,620	\$ 6,629	\$ 12,902	\$ 13,904
Cumulative translation adjustments	(254)	621	1,246	(2,215)
Pension and postretirement medical liability adjustments, net of tax	232	1,162	482	1,388
Other comprehensive (loss) income	(22)	1,783	1,728	(827)
Comprehensive income	\$ 6,598	\$ 8,412	\$ 14,630	\$ 13,077

*See notes to condensed consolidated financial statements (unaudited).*

**Table of Contents**

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

<i>(Dollars in thousands)</i>	June 30, 2016	December 31, 2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 49,541	\$ 23,724
Accounts receivable net	74,676	76,758
Inventories net	75,551	82,818
Other current assets	2,561	6,091
<b>Total current assets</b>	<b>202,329</b>	<b>189,391</b>
Property, plant and equipment	273,191	271,739
Less accumulated depreciation	(147,816)	(141,852)
Property, plant and equipment net	125,375	129,887
Other assets	3,867	3,860
Goodwill and other intangible assets net	40,413	41,063
<b>Total assets</b>	<b>\$ 371,984</b>	<b>\$ 364,201</b>
<b>Liabilities and shareholders equity</b>		
Current liabilities:		
Accounts payable	\$ 15,298	\$ 14,529
Payroll and employee related liabilities	11,801	10,871
Commissions payable	10,612	7,950
Deferred revenue	361	1,741
Accrued expenses	8,571	8,369
<b>Total current liabilities</b>	<b>46,643</b>	<b>43,460</b>
Pension benefits	4,084	9,309
Postretirement benefits	21,140	20,784
Deferred and other income taxes	3,943	3,627
<b>Total liabilities</b>	<b>75,810</b>	<b>77,180</b>
Equity:		
Outstanding common shares: 26,083,623 at June 30, 2016 and December 31, 2015 (net of treasury shares of 965,173, respectively), at stated capital amounts	5,095	5,095
Retained earnings	311,766	304,341
Accumulated other comprehensive loss	(20,687)	(22,415)
<b>Total equity</b>	<b>296,174</b>	<b>287,021</b>
<b>Total liabilities and equity</b>	<b>\$ 371,984</b>	<b>\$ 364,201</b>

*See notes to condensed consolidated financial statements (unaudited).*

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>	2016	2015
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,902	\$ 13,904
<b>Adjustments to reconcile net income attributable to net cash provided by operating activities:</b>		
Depreciation and amortization	7,777	7,532
Pension expense	1,826	3,277
Contributions to pension plan	(6,000)	
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable net	2,082	(6,060)
Inventories net	7,267	1,510
Accounts payable	769	(11)
Commissions payable	2,662	(40)
Deferred revenue	(1,380)	(1,999)
Prepaid income taxes	2,076	(435)
Payroll and benefit obligations	717	(213)
Accrued expenses and other	2,893	49
<b>Net cash provided by operating activities</b>	<b>33,591</b>	<b>17,514</b>
<b>Cash flows from investing activities:</b>		
Capital additions net	(2,547)	(4,104)
Acquisition, net of cash acquired		34
<b>Net cash used for investing activities</b>	<b>(2,547)</b>	<b>(4,070)</b>
<b>Cash flows from financing activities:</b>		
Cash dividends	(5,478)	(5,252)
Payments to bank for borrowings		(6,000)
<b>Net cash used for financing activities</b>	<b>(5,478)</b>	<b>(11,252)</b>
Effect of exchange rate changes on cash	251	(694)
<b>Net increase in cash and cash equivalents</b>	<b>25,817</b>	<b>1,498</b>
<b>Cash and cash equivalents:</b>		
Beginning of period	23,724	24,491
<b>End of period</b>	<b>\$ 49,541</b>	<b>\$ 25,989</b>

*See notes to condensed consolidated financial statements (unaudited).*





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**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 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 considered necessary for a fair presentation have been included. Certain amounts for 2015 have been reclassified to conform to the 2016 presentation. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of results that may be expected for the year ending December 31, 2016. 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, 2015, 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 February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with a term of more than one year. Accounting by lessors will remain similar to existing generally accepted accounting principles. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company currently does not expect the adoption of ASU 2016-02 to have a material impact on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* which amended accounting guidance related to the presentation of deferred tax liabilities and assets. The amended guidance requires that all deferred tax liabilities and assets be classified as noncurrent on the balance sheet. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016; however, early adoption is permitted. The Company adopted ASU 2015-17 during the quarter ended December 31, 2015. No prior periods were retrospectively adjusted.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory (Topic 330)*, which revises the measurement of inventory at the lower of cost or market. Currently, market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. In accordance with ASU 2015-11, an entity will measure inventory at the lower of cost and net realizable value which is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The amendment does not apply to inventory that is measured using last-in, first out (LIFO). The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016; however, early adoption is permitted. The Company currently does not expect the adoption of ASU 2015-11 to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, 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 guidance is effective for fiscal years, and interim periods within those 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 72% of inventories at June 30, 2016 and 73% of inventories at December 31, 2015 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.

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

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 \$60.0 million and \$59.1 million at June 30, 2016 and December 31, 2015, respectively):

<i>(Dollars in thousands)</i>	June 30, 2016	December 31, 2015
Raw materials and in-process	\$ 24,088	\$ 25,652
Finished parts	42,936	46,270
Finished products	8,527	10,896
Total inventories	\$ 75,551	\$ 82,818

**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>	June 30,	
	2016	2015
Balance at beginning of year	\$ 1,380	\$ 1,189
Provision	1,160	734
Claims	(884)	(727)
Balance at end of period	\$ 1,656	\$ 1,196

**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 that date, in eligible locations, are eligible to participate in an enhanced 401(k) plan instead of the defined benefit pension plan. Employees hired prior to January 1, 2008 continue to accrue benefits under the Plan.

Additionally, the Company sponsors defined contribution pension plans made available to all domestic and Canadian employees. The Company funds the cost of these benefits as incurred.

**Table of Contents****PART I CONTINUED****ITEM 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
CONTINUED****NOTE E - PENSION AND OTHER POSTRETIREMENT BENEFITS CONTINUED**

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

	Pension Benefits		Postretirement Benefits	
	Three Months Ended June 30,		Three Months Ended June 30,	
<i>(Dollars in thousands)</i>	2016	2015	2016	2015
Service cost	\$ 709	\$ 783	\$ 298	\$ 299
Interest cost	661	659	211	199
Expected return on plan assets	(983)	(1,067)		
Recognized actuarial loss (gain)	526	537	(175)	(164)
Settlement loss		1,452		
Net periodic benefit cost	\$ 913	\$ 2,364	\$ 334	\$ 334