

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**

☒ **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)**

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

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

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**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
Total current assets	188,649	175,675
Property, plant and equipment	244,545	242,780
Less accumulated depreciation	125,692	119,714
Property, plant and equipment net	118,853	123,066
Other assets	6,248	4,156
Goodwill and other intangible assets net	31,911	32,286
Total assets	\$ 345,661	\$ 335,183
<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
Total current liabilities	59,364	64,821
Pension benefits	3,993	7,517
Postretirement benefits	22,942	22,399
Deferred and other income taxes	5,665	5,727
Total liabilities	91,964	100,464
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)**

	Nine Months Ended September 30,	
(Thousands of dollars)	2013	2012
Cash flows from operating activities:		
Net income	\$ 22,932	\$ 24,515
Adjustments to reconcile net income attributable to net cash provided by operating activities:		
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)
Changes in operating assets and liabilities:		
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
Net cash provided by operating activities	37,714	20,665
Cash flows from investing activities:		
Capital additions	(5,122)	(14,165)
Acquisition net of cash acquired		(4,812)
Change in short-term investments	2	806
Net cash used for investing activities	(5,120)	(18,171)
Cash flows from financing activities:		
Cash dividends	(6,300)	(6,088)
Payments to bank for borrowings	(13,000)	(2,000)
Net cash used for financing activities	(19,300)	(8,088)
Effect of exchange rate changes on cash	150	232
Net increase in cash and cash equivalents	13,444	(5,362)
Cash and cash equivalents:		
Beginning of year	20,119	20,142
September 30,	\$ 33,563	\$ 14,780

*See notes to condensed consolidated financial statements.*





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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

**Table of Contents****PART I CONTINUED****ITEM 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
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 Three Months Ended September 30,		Postretirement Benefits Three Months Ended September 30,	
	2013	2012	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 Nine Months Ended September 30,		Postretirement Benefits Nine Months Ended September 30,	
	2013	2012	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			
Net periodic benefit cost	\$ 5,776	\$ 2,881	\$ 868	\$ 1,034

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

The following table summarizes reclassifications out of accumulated other comprehensive income (loss) as reflected in the unaudited condensed consolidated statements of income:

<i>(Thousands of dollars)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Pension and other postretirement benefits:				
Recognized actuarial loss (a)	\$ 297	\$ 450	\$ 1,080	\$ 1,346
Settlement loss (b)	324		2,298	
Settlement loss (c)	166		1,179	
Total before income tax	\$ 787	\$ 450	\$ 4,557	\$ 1,346
Income tax	(332)	3	(1,524)	5
Net of income tax	\$ 455	\$ 453	\$ 3,033	\$ 1,351

- (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 table summarizes changes in accumulated balances for each component of other comprehensive income (loss) as reflected in the unaudited condensed consolidated balance sheets:

<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)	(879)	4,557	3,678
Income tax expense		(1,524)	(1,524)

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Balance at September 30, 2013	\$ (560)	\$ (13,568)	\$ (14,128)
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	Currency Translation Adjustments	Pension and Other Postretirement Benefits	Accumulated Other Comprehensive Income (Loss)
<i>(Thousands of dollars)</i>			
Balance at January 1, 2012	\$ (118)	\$ (15,926)	\$ (16,044)
Current period credit (charge)	489	1,346	1,835
Income tax expense		5	5
Balance at September 30, 2012	\$ 371	\$ (14,575)	\$ (14,204)

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**PART I CONTINUED**

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

**Executive Overview and Outlook**

Net sales during the third quarter 2013 increased 10.4% to \$101.2 million compared to \$91.6 million during the same period in 2012. Domestic sales increased 18.3% or \$10.7 million while international sales decreased 3.3% or \$1.1 million. The increase in sales in our water end markets of \$1.8 million was primarily due to increased shipments for the agriculture and fire protection markets of \$5.6 million, partially offset by decreased shipments for Gulf Coast flood control projects of \$3.9 million. Sales in our non-water end markets of \$7.7 million increased primarily due to shipments for the OEM market of \$4.3 million related to power generation equipment and military applications and for the industrial market of \$2.2 million.

Net sales for the nine months ended September 30, 2013 were a record \$300.1 million compared to \$287.0 million during the same period in 2012, an increase of 4.5%. The increase in water end market sales of \$11.5 million was primarily due to shipments for the fire and agricultural markets and for Gulf Coast flood control projects in the first half of 2013. This increase was partially offset by reduced construction market demand for pumps from rental businesses as compared to this market's strong sales early last year. Increased international shipments for the petroleum market were the major contributor to the increase in our non-water market sales of \$1.5 million.

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 a total of \$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. A non-cash pension settlement charge was not required to be recognized in 2012 until the actuarial payments threshold was exceeded in the fourth quarter.

Gross profit was \$24.5 million for the third quarter 2013 resulting in gross margin of 24.2% compared to 23.8% in the same period last year. The increase in gross margin was principally due to sales mix changes during the current quarter. Operating income was \$12.0 million resulting in operating margin of 11.9% compared to 11.0% in the third quarter 2012. Excluding the pension settlement charge described above, gross margin would have been 24.5% and operating margin would have been 12.4% for the third quarter of 2013.

Net income increased 18.5% during the quarter to \$7.9 million compared to \$6.7 million in the third quarter 2012 and earnings per share were \$0.38 and \$0.32 for the respective periods. Excluding the non-cash pension settlement charge of \$0.02 per share, earnings would have been \$0.40 for the third quarter 2013.

Gross profit was \$72.2 million for the first nine months of 2013 resulting in gross margin of 24.1% compared to 24.8% in the same period last year. The decline in gross margin was principally due to the non-cash pension settlement charges described above of 70 basis points plus about 20 basis points due to increases in healthcare costs and depreciation expense. Operating income was \$33.8 million resulting in operating margin of 11.3% compared to 12.8% in the first nine months of 2012. Excluding the pension settlement charge, gross margin would have been 24.8% and operating margin would have been 12.4% for the first nine months of 2013.





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**PART I CONTINUED**

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

Net income was \$22.9 million during the first nine months of 2013 compared to \$24.5 million in the same period last year and earnings per share were \$1.09 and \$1.17 for the respective periods. Excluding the non-cash pension settlement charge of \$2.3 million net of income taxes and equating to \$0.11 per share, earnings would have been \$1.20 per share for the current nine months.

The Company's backlog of orders was \$190.7 million at September 30, 2013 compared to \$146.7 million a year ago and \$143.4 million at December 31, 2012. The increase in backlog reflects the award of the Permanent Canal Closure Project ( PCCP ) contract of approximately \$60.0 million to supply major flood control pumps to a member of a joint venture construction group for a significant New Orleans flood control project. The pumps are expected to be shipped primarily in the second half of 2014 and first half of 2015.

The Company's balance sheet continues to remain strong and flexible as cash and short-term investments totaled \$33.8 million and short-term bank debt was reduced to \$9.0 million at September 30, 2013. Working capital increased 16.6% from December 31, 2012 to a record \$129.3 million at September 30, 2013 principally due to increased 2013 net sales and debt reduction. The Company expects net capital expenditures for the fourth quarter of 2013 will be approximately \$12.0 million, primarily for machinery and equipment.

At its October 24, 2013 meeting, the Board of Directors of the Company declared a five-for-four split of the Company's Common Shares in the form of a distribution of one additional Common Share for each four Common Shares previously issued. The distribution will be made on December 10, 2013 to shareholders of record at the close of business on November 15, 2013.

After giving effect to the issuance of the additional Common Shares in the distribution, the most recent quarterly cash dividend rate of \$0.10 per Common Share on a post-split basis would be equivalent to \$0.08 per share.

In an additional action, 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 December 10, 2013, to shareholders of record November 15, 2013. The cash dividend is payable on post-split shares and represents a 12.5% increase over the equivalent post-split dividend paid during the previous quarter. This marks the 255<sup>th</sup> consecutive dividend paid by The Gorman-Rupp Company and the 41st consecutive year of increased dividends paid to its shareholders.

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.

Table of Contents**PART I CONTINUED****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Third Quarter 2013 Compared to Third Quarter 2012****Net Sales**

<i>(Thousands of dollars)</i>	Three Months Ended September 30,		\$ Change	% Change
	2013	2012		
Net sales	\$ 101,186	\$ 91,626	\$ 9,560	10.4%

Sales increased \$1.8 million in our water end markets primarily due to increased shipments for the agriculture and fire protection markets of \$5.6 million, partially offset by decreased shipments for Gulf Coast flood control projects of \$3.9 million.

Sales increased \$7.2 million in the non-water markets primarily due to increased shipments for the OEM market of \$4.3 million related to power generation equipment and military applications and for the industrial market of \$2.2 million.

**Cost of Products Sold and Gross Profit**

<i>(Thousands of dollars)</i>	Three Months Ended September 30,		\$ Change	% Change
	2013	2012		
Cost of products sold	\$ 76,701	\$ 69,796	\$ 6,905	9.9%
% of Net sales	75.8%	76.2%		
Gross profit	24.2%	23.8%		

The increase in gross margin was principally due to sales mix changes during the quarter, but was reduced by 30 basis points as a result of the non-cash pension settlement charge described above.

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

<i>(Thousands of dollars)</i>	Three Months Ended September 30,		\$ Change	% Change
	2013	2012		
Selling, general and administrative expenses (SG&A)	\$ 12,448	\$ 11,727	\$ 721	6.1%

*% of Net sales*

*12.3%*

*12.8%*

The decrease in SG&A expenses as a percent of net sales is principally due to increased sales during the quarter, partially offset by 50 basis points as a result of the non-cash pension settlement charge described above. Third quarter 2012 included costs related to the completion of the Pumptron acquisition which did not reoccur in third quarter 2013.

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

	Three Months Ended September 30,			
<i>(Thousands of dollars)</i>	2013	2012	\$ Change	% Change
Income before income taxes	\$ 11,967	\$ 10,141	\$ 1,826	18.0%
<i>% of Net sales</i>	11.8%	11.1%		
Income taxes	\$ 4,021	\$ 3,435	\$ 586	17.1%
<i>Effective tax rate</i>	33.6%	33.9%		
Net income	\$ 7,946	\$ 6,706	\$ 1,240	18.5%
<i>% of Net sales</i>	7.9%	7.3%		
Earnings per share	\$ 0.38	\$ 0.32	\$ 0.06	18.8%

The increase in net income was primarily due to the factors described above, including increased sales during the current quarter of \$9.6 million and acquisition-related costs in third quarter 2012 which did not reoccur third quarter 2013. The increase was partially offset by the \$326,000 non-cash pension settlement charge, net of income taxes, described above. Excluding the non-cash pension settlement charge of \$0.02 per share, earnings would have been \$0.40 for the third quarter 2013. The difference in the effective tax rate between the two periods is primarily due to the federal research and development tax credit which was reinstated and extended in January 2013 from January 1, 2012 to December 31, 2013, and was not permitted to be recorded in 2012 under current accounting rules based on the date of the reinstatement's enactment.

**Nine Months 2013 Compared to Nine Months 2012****Net Sales**

	Nine Months Ended September 30,			
<i>(Thousands of dollars)</i>	2013	2012	\$ Change	% Change
Net sales	\$ 300,058	\$ 287,034	\$ 13,024	4.5%

Sales increased \$11.5 million in our water end markets primarily due to increased shipments for Gulf Coast flood control projects of \$4.3 million and for the fire and agriculture markets of \$8.0 million and \$8.3 million, respectively. This increase was partially offset by reduced construction market demand of \$9.3 million primarily related to pumps from rental businesses as compared to the strong sales in the first quarter of 2012.

Sales increased \$2.3 million in the non-water markets primarily due to international shipments for the petroleum market.



**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**

	Nine Months Ended September 30,			
<i>(Thousands of dollars)</i>	2013	2012	\$ Change	% Change
Cost of products sold	\$ 227,868	\$ 215,789	\$ 12,079	5.6%
% of Net sales	75.9%	75.2%		
Gross profit	24.1%	24.8%		

The decrease in the gross profit percentage was principally due to the non-cash pension settlement charge described above of \$2.3 million or 70 basis points.

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

	Nine Months Ended September 30,			
<i>(Thousands of dollars)</i>	2013	2012	\$ Change	% Change
Selling, general and administrative expenses (SG&A)	\$ 38,379	\$ 34,420	\$ 3,959	11.5%
% of Net sales	12.8%	12.0%		

The increase in SG&A expenses is principally due to the expenses incurred in the first nine months of 2013 from the two acquisitions made in late 2012 and the non-cash pension settlement charge described above of \$1.2 million or 40 basis points.

**Net Income**

	Nine Months Ended September 30,			
<i>(Thousands of dollars)</i>	2013	2012	\$ Change	% Change
Income before income taxes	\$ 33,690	\$ 37,110	\$ (3,420)	(9.2)%
% of Net sales	11.2%	12.9%		
Income taxes	\$ 10,758	\$ 12,595	\$ (1,837)	(14.6)%
Effective tax rate	31.9%	33.9%		
Net income	\$ 22,932	\$ 24,515	\$ (1,583)	(6.5)%
% of Net sales	7.6%	8.5%		

Earnings per share	\$ 1.09	\$ 1.17	\$ (0.08)	(6.8)%
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**Table of Contents****PART I CONTINUED****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTINUED**

The decrease in net income was primarily due to the factors explained above, including the \$2.3 million non-cash pension settlement charge described above, net of income taxes. Excluding the non-cash pension settlement charge of \$0.11 per share, earnings would have been \$1.20 for the current nine months. The difference in the effective tax rate between the two periods is primarily due to the federal research and development tax credit which was reinstated and extended in January 2013 from January 1, 2012 to December 31, 2013, and was not permitted to be recorded in 2012 under current accounting rules based on the date of the reinstatement's enactment.

**Liquidity and Capital Resources**

<i>(Thousands of dollars)</i>	Nine Months Ended September 30,	
	2013	2012
Net cash provided by operating activities	\$ 37,714	\$ 20,665
Net cash used for investing activities	(5,120)	(18,171)
Net cash used for financing activities	(19,300)	(8,088)

Cash and cash equivalents and short-term investments totaled \$33.8 million, and there was \$9.0 million in outstanding bank debt at September 30, 2013. In addition, the Company had \$25.6 million available in bank lines of credit after deducting \$4.4 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 September 30, 2013.

Working capital increased 16.6% from December 31, 2012 to a record \$129.3 million at September 30, 2013 principally due to record 2013 net sales and debt reduction.

The primary driver of operating cash flows during the first nine months of 2013 was net earnings after removing the impact of the non-cash pension settlement charges and reduced inventory levels, partially offset by increased accounts receivable due to record sales during the first nine months of 2013. During this same period in 2012 operating cash flows were primarily driven by a reduction in the use of cash required to fund inventory and changes in accounts payable balances compared to the first nine months of 2011.

During the first nine months of 2013, investing activities of \$5.1 million primarily consisted of capital expenditures for machinery and equipment. Net capital expenditures for 2013, consisting principally of machinery and equipment, are estimated to be in the range of \$16 to \$17 million and are expected to be principally financed through internally generated funds. During the first nine months of 2012, investing activities of \$18.2 million consisted primarily of capital expenditures of \$2.4 million for an expansion of the National Pump Company facilities and \$10.8 million of machinery and equipment. In addition, \$4.8 million of cash was used for the acquisition of Pumpton.



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**PART I CONTINUED**

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

Net cash used for financing activities for the nine months ended September 30, 2013 consisted of dividend payments of \$6.3 million and re-payment of \$13.0 million in short-term debt. The ratio of current assets to current liabilities was 3.2 to 1 at September 30, 2013 and 2.7 to 1 at December 31, 2012.

On October 24, 2013 meeting, the Board of Directors of the Company declared a five-for-four split of the Company's Common Shares in the form of a distribution of one additional Common Share for each four Common Shares previously issued. The distribution will be made on December 10, 2013 to shareholders of record at the close of business on November 15, 2013.

In an additional action, 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 December 10, 2013, to shareholders of record November 15, 2013. The cash dividend is payable on post-split shares and represents a 12.5% increase over the equivalent post-split dividend paid during the previous quarter. This marks the 255th consecutive dividend paid by The Gorman-Rupp Company and the 41st consecutive year of increased dividends paid to its shareholders.

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, 2012 contained in our Fiscal 2012 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 Quarterly Report on 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.



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**PART I CONTINUED**

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

Such factors include, but are not limited to: (1) continuation of the current and expected future business environment; (2) changes in government budgets and in laws and regulations, including taxes; (3) the successful integration of acquisitions; (4) the Company's future non-cash pension settlement charges; (5) unforeseen delays or disruptions in the New Orleans flood control project; and (6) the Company's future cash flow and financial condition. 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. 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.

**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 September 30, 2013.

**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.

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**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, 2012.

**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, 2012.

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**ITEM 6. EXHIBITS**

- 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 September 30, 2013, 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.

- \*    In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and is otherwise not subject to liability under these sections.

**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 28, 2013

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