

GORMAN RUPP CO
Form 10-Q
July 29, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 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)

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Ohio
(State or Other Jurisdiction of
Incorporation or Organization)

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

600 South Airport Road, Mansfield, Ohio
(Address of Principal Executive Offices)

44903
(Zip Code)

Registrant's telephone number, including area code (419) 755-1011

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required 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 21,002,893 shares of common stock without par value outstanding at July 29, 2013.

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The Gorman-Rupp Company and Subsidiaries

Six Months Ended June 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)**

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| (Dollars in thousands, except per share amounts) | 2013 | 2012 | 2013 | 2012 |
| Net sales | \$ 106,415 | \$ 92,583 | \$ 198,872 | \$ 195,408 |
| Cost of products sold | 79,934 | 69,842 | 151,167 | 145,993 |
| Gross profit | 26,481 | 22,741 | 47,705 | 49,415 |
| Selling, general and administrative expenses | 12,964 | 11,247 | 25,931 | 22,693 |
| Operating income | 13,517 | 11,494 | 21,774 | 26,722 |
| Other income | 153 | 316 | 272 | 504 |
| Other expense | (174) | (223) | (323) | (257) |
| Income before income taxes | 13,496 | 11,587 | 21,723 | 26,969 |
| Income taxes | 4,328 | 4,019 | 6,737 | 9,160 |
| Net income | \$ 9,168 | \$ 7,568 | \$ 14,986 | \$ 17,809 |
| Earnings per share | \$ 0.43 | \$ 0.36 | \$ 0.71 | \$ 0.85 |
| Cash dividends paid per share | \$ 0.100 | \$ 0.100 | \$ 0.200 | \$ 0.190 |
| Average shares outstanding | 20,996,893 | 20,990,893 | 20,996,893 | 20,990,893 |

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

| (Thousands of dollars) | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Net income | \$ 9,168 | \$ 7,568 | \$ 14,986 | \$ 17,809 |
| Cumulative translation adjustments | (726) | (930) | (1,559) | (236) |
| Pension and postretirement medical liability adjustments, net of tax | 1,369 | 1,667 | 2,578 | 899 |
| Total adjustments | 643 | 737 | 1,019 | 663 |
| Comprehensive income | \$ 9,811 | \$ 8,305 | \$ 16,005 | \$ 18,472 |

See notes to condensed consolidated financial statements.

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

| (Thousands of dollars) | June 30, 2013 | December 31, 2012 |
|---|------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 26,851 | \$ 20,119 |
| Short-term investments | 251 | 254 |
| Accounts receivable net | 70,368 | 58,712 |
| Inventories net | 84,689 | 90,898 |
| Deferred income taxes and other current assets | 4,567 | 5,692 |
| Total current assets | 186,726 | 175,675 |
| Property, plant and equipment | 245,461 | 242,780 |
| Less accumulated depreciation | 125,250 | 119,714 |
| Property, plant and equipment net | 120,211 | 123,066 |
| Other assets | 3,604 | 4,156 |
| Goodwill and other intangible assets net | 32,245 | 32,286 |
| Total assets | \$ 342,786 | \$ 335,183 |
| Liabilities and shareholders equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 17,035 | \$ 14,897 |
| Short-term debt | 15,000 | 22,000 |
| Payroll and related liabilities | 11,629 | 10,646 |
| Commissions payable | 6,748 | 7,568 |
| Accrued expenses | 13,207 | 9,710 |
| Total current liabilities | 63,619 | 64,821 |
| Pension benefits | 4,240 | 7,517 |
| Postretirement benefits | 22,729 | 22,399 |
| Deferred and other income taxes | 5,674 | 5,727 |
| Total liabilities | 96,262 | 100,464 |
| Shareholders equity | | |
| Common shares, without par value: | | |
| Authorized 35,000,000 shares | | |
| Outstanding 20,996,893 shares in 2013 and 2012 (after deducting treasury shares of 642,603 in 2013 and 2012) at stated capital amount | 5,130 | 5,130 |
| Additional paid-in capital | 2,693 | 2,693 |
| Retained earnings | 253,964 | 243,178 |
| Accumulated other comprehensive loss | (15,263) | (16,282) |
| Total shareholders equity | 246,524 | 234,719 |
| Total liabilities and shareholders equity | \$ 342,786 | \$ 335,183 |

See notes to condensed consolidated financial statements.

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

| (Thousands of dollars) | Six Months Ended | |
|--|------------------|-----------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net income | \$ 14,986 | \$ 17,809 |
| Adjustments to reconcile net income attributable to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,805 | 5,885 |
| Pension expense, including 2013 non-cash settlement loss | 4,641 | 2,002 |
| Contributions to pension plan | (3,600) | (3,000) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (11,656) | (5,899) |
| Inventories | 5,222 | (12,246) |
| Accounts payable | 2,138 | 4,122 |
| Commissions payable | (820) | 423 |
| Other | 3,372 | 2,856 |
| Net cash provided by operating activities | 21,088 | 11,952 |
| Cash flows from investing activities: | | |
| Capital additions | (3,399) | (10,979) |
| Change in short-term investments | 3 | 212 |
| Net cash used for investing activities | (3,396) | (10,767) |
| Cash flows from financing activities: | | |
| Cash dividends | (4,199) | (3,988) |
| Payments to bank for borrowings | (7,000) | (1,000) |
| Net cash used for financing activities | (11,199) | (4,988) |
| Effect of exchange rate changes on cash | 239 | (99) |
| Net increase (decrease) in cash and cash equivalents | 6,732 | (3,902) |
| Cash and cash equivalents: | | |
| Beginning of year | 20,119 | 20,142 |
| June 30, | \$ 26,851 | \$ 16,240 |

See notes to condensed consolidated financial statements.

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by GAAP for complete financial statements. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. In the opinion of management of The Gorman-Rupp Company (the Company or Gorman-Rupp), all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 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 June 30, 2013 and 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 \$55.1 million and \$53.2 million at June 30, 2013 and December 31, 2012, respectively):

| <i>(Thousands of dollars)</i> | June 30, 2013 | December 31, 2012 |
|-------------------------------|------------------|----------------------|
| Raw materials and in-process | \$ 21,796 | \$ 23,967 |
| Finished parts | 47,211 | 52,607 |
| Finished products | 15,682 | 14,324 |
| Total inventories | \$ 84,689 | \$ 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:

| <i>(Thousands of dollars)</i> | June 30, | |
|-------------------------------|--------------|------------|
| | 2013 | 2012 |
| Balance at beginning of year | \$ 1,133 | \$ 1,228 |
| Provision | 676 | 443 |
| Claims | (644) | (678) |
| Balance at end of period | \$ 1,165 | \$ 993 |

Table of Contents**PART I CONTINUED****ITEM 1. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****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 continued increased lump-sum retirement payments, the Company recorded a GAAP-required \$1.6 million non-cash pension settlement charge during the second quarter of 2013 relating to its defined benefit pension plan. The Company has recorded \$3.0 million in non-cash pension settlement charges during the first six months of 2013. These required charges were driven by exceeding the actuarial payments threshold relating to retirees receiving lump-sum distributions during 2013.

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

| <i>(Thousands of dollars)</i> | Pension Benefits | | Postretirement Benefits | |
|----------------------------------|--------------------|---------|-------------------------|--------|
| | Three Months Ended | | Three Months | |
| | June 30, | | Ended June 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Service cost | \$ 811 | \$ 797 | \$ 289 | \$ 289 |
| Interest cost | 697 | 701 | 181 | 217 |
| Expected return on plan assets | (1,306) | (1,147) | | |
| Recognized actuarial loss (gain) | 532 | 610 | (180) | (162) |
| Settlement loss | 1,601 | | | |
| Net periodic benefit cost | \$ 2,335 | \$ 961 | \$ 290 | \$ 344 |

| <i>(Thousands of dollars)</i> | Pension Benefits | | Postretirement Benefits | |
|----------------------------------|------------------|----------|-------------------------|--------|
| | Six Months Ended | | Six Months Ended | |
| | June 30, | | June 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Service cost | \$ 1,660 | \$ 1,594 | \$ 577 | \$ 578 |
| Interest cost | 1,363 | 1,402 | 363 | 435 |
| Expected return on plan assets | (2,599) | (2,295) | | |
| Recognized actuarial loss (gain) | 1,144 | 1,220 | (361) | (324) |
| Settlement loss | 2,987 | | | |
| Net periodic benefit cost | \$ 4,555 | \$ 1,921 | \$ 579 | \$ 689 |

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

| <i>(Thousands of dollars)</i> | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|---------------|------------------------------|-----------------|
| | 2013 | 2012 | 2013 | 2012 |
| Pension and other postretirement benefits: | | | | |
| Recognized actuarial loss (a) | \$ 352 | \$ 772 | \$ 783 | \$ 1,220 |
| Settlement loss (b) | 1,058 | | 1,974 | |
| Settlement loss (c) | 543 | | 1,013 | |
| Total before income tax | 1,953 | \$ 772 | \$ 3,770 | \$ 1,220 |
| Income tax | (584) | (171) | (1,192) | (321) |
| Net of income tax | \$ 1,369 | \$ 601 | \$ 2,578 | \$ 899 |

- (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.

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

The Gorman-Rupp Company is a leading designer, manufacturer and international marketer of pumps and pump systems for use in diverse water, wastewater, construction, dewatering, industrial, petroleum, original equipment, agriculture, fire protection, heating, ventilating and air conditioning (HVAC), military and other liquid-handling applications. The Company attributes its success to long-term product quality, applications and performance combined with delivery and service, and continually develops initiatives to improve performance in these key areas.

Gorman-Rupp actively pursues growth opportunities through organic growth, international business opportunities and acquisitions. We continually invest in training for our employees, new product development and modern manufacturing equipment and technology designed to increase production efficiency and capacity and drive growth by delivering innovative solutions to our customers.

The following discussion of results of operations includes certain non-GAAP financial measures. The adjusted gross margins, operating margins and earnings per share amounts exclude non-cash pension settlement charges. Management utilizes these adjusted financial measures to assess comparative operations against those of prior periods without the distortion of this non-operating factor. The Company believes that these non-GAAP financial measures will be useful to investors as well as to assess the continuing strength of the Company's underlying operations.

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PART I CONTINUED

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

Net sales during the second quarter 2013 increased 14.9% to a new quarterly record of \$106.4 million compared to \$92.6 million during the same period in 2012. Domestic sales increased 28.4% or \$15.4 million while international sales decreased 4.0% or \$1.6 million. The increase in sales in our water end markets of \$10.2 million was primarily due to increased shipments for Gulf Coast flood control projects and for the agriculture market. Increased shipments for the industrial and OEM markets of \$2.9 million were major contributors to the increase in our non-water end market sales.

Net sales for the six months ended June 30, 2013 were a record \$198.9 million compared to \$195.4 million during the same period in 2012, an increase of 1.8%. The increase in water end market sales of \$9.1 million was primarily due to increased shipments for Gulf Coast flood control projects and for the fire and agriculture markets. This increase was partially offset by reduced construction market demand for pumps from rental businesses as compared to the strong sales in the first six months of 2012. The decrease in non-water market sales of \$5.7 million was primarily in the OEM market due to reduced shipments related to power generation equipment.

Due to continued increased lump-sum retirement payments, the Company recorded a GAAP-required \$1.6 million non-cash pension settlement charge during the second quarter of 2013 relating to its defined benefit pension plan which negatively impacted margins and earnings as detailed below. The Company has recorded \$3.0 million in non-cash pension settlement charges during the first six months of 2013. These required charges were driven by exceeding the actuarial payments threshold relating to retirees receiving lump-sum distributions during 2013. Therefore, it is likely that margins and earnings will continue to be negatively impacted as a result of lump-sum retirement payments during the remainder of the year, although we expect in lesser amounts. A non-cash pension settlement charge was not required to be recognized in 2012 until the fourth quarter when the actuarial payments threshold was exceeded.

Gross profit was \$26.5 million for the second quarter 2013 resulting in gross margin of 24.9% compared to 24.6% in the same period last year. The increase in gross margin was principally due to leverage from the record sales during the quarter, but was reduced by 100 basis points as a result of the non-cash pension settlement charge described above. Additionally, healthcare costs and depreciation expense increased \$474,000. Operating income was \$13.5 million resulting in operating margin of 12.7% compared to 12.4% in the second quarter 2012. Excluding the pension settlement charge, gross margin was 25.9% and 24.6% and operating margin was 14.2% and 12.4% for the second quarters of 2013 and 2012, respectively.

Net income increased 21.1% during the quarter to \$9.2 million compared to \$7.6 million in the second quarter 2012 and earnings per share were \$0.43 and \$0.36 for the respective periods. Excluding the non-cash pension settlement charge of \$0.05 per share, earnings were \$0.48 and \$0.36 per share for the respective periods.

Gross profit was \$47.7 million for the first six months of 2013 resulting in gross margin of 24.0% compared to 25.3% in the same period last year. The decline in gross margin was principally due to a more favorable product mix in the first quarter of 2012 combined with the non-cash pension settlement charges described above. Additionally, healthcare costs and depreciation expense increased \$934,000. Operating income was \$21.8 million resulting in operating margin of 10.9% compared to 13.7% in the first six months of 2012. Excluding the pension settlement charge, gross margin was 25.0% and 25.3% and operating margin was 12.5% and 13.7% for the first six months of 2013 and 2012, respectively. The current operating margin was also reduced due to SG&A expenses incurred in the first six months of 2013 from the two acquisitions made in the fourth quarter of 2012.

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

Net income was \$15.0 million during the first six months of 2013 compared to a record \$17.8 million in the same period last year and earnings per share were \$0.71 and \$0.85 for the respective periods. Excluding the non-cash pension settlement charge of \$0.09 per share, earnings were \$0.80 and \$0.85 per share for the respective periods.

The Company's backlog of orders was \$195.4 million at June 30, 2013 compared to \$133.7 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 beginning in late 2013 through 2016, with the majority of the shipments occurring in 2014 and 2015.

The Company's balance sheet continues to remain strong and flexible as cash and short-term investments totaled \$27.1 million and short-term bank debt was reduced to \$15.0 million at June 30, 2013. Working capital increased 11.1% from December 31, 2012 to \$123.1 million at June 30, 2013 largely due to record sales during the second quarter of 2013.

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 pumps and pump systems for industrial and agricultural applications, will provide excellent growth opportunities for Gorman-Rupp in the future.

Second Quarter 2013 Compared to Second Quarter 2012**Net Sales**

| <i>(Thousands of dollars)</i> | Three Months Ended | | \$ Change | % Change |
|-------------------------------|--------------------|-----------|-----------|----------|
| | June 30, | | | |
| | 2013 | 2012 | | |
| Net sales | \$ 106,415 | \$ 92,583 | \$ 13,832 | 14.9% |

Sales increased \$10.2 million in our water end markets primarily due to increased shipments for domestic flood control projects of \$5.4 million and for the agriculture market of \$3.5 million.

Sales increased \$3.6 million in the non-water markets primarily due to increases in the OEM market of \$1.7 million and in the industrial market of \$1.2 million.

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 June 30, | | \$ Change | % Change |
|-------------------------------|--------------------------------|-----------|-----------|----------|
| | 2013 | 2012 | | |
| Cost of products sold | \$ 79,934 | \$ 69,842 | \$ 10,092 | 14.5% |
| <i>% of Net sales</i> | 75.1% | 75.4% | | |
| Gross profit | 24.9% | 24.6% | | |

The increase in the gross profit percentage was principally due to leverage from the record sales during the quarter, but was reduced by \$1.1 million or 100 basis points as a result of the non-cash pension settlement charge described above. Additionally, healthcare costs and depreciation expense increased \$474,000.

Selling, General and Administrative Expenses (SG&A)

| <i>(Thousands of dollars)</i> | Three Months Ended June 30, | | \$ Change | % Change |
|---|--------------------------------|-----------|-----------|----------|
| | 2013 | 2012 | | |
| Selling, general and administrative expenses (SG&A) | \$ 12,964 | \$ 11,247 | \$ 1,717 | 15.3% |
| <i>% of Net sales</i> | 12.2% | 12.1% | | |

The increase in SG&A expenses is principally due to the expenses incurred in the first three months of 2013 from the two acquisitions made in the fourth quarter of 2012 and the non-cash pension settlement charge described above of \$543,000 or 50 basis points.

Net Income

| <i>(Thousands of dollars)</i> | Three Months Ended June 30, | | \$ Change | % Change |
|-------------------------------|--------------------------------|-----------|-----------|----------|
| | 2013 | 2012 | | |
| Income before income taxes | \$ 13,496 | \$ 11,587 | \$ 1,909 | 16.5% |
| <i>% of Net sales</i> | 12.7% | 12.5% | | |
| Income taxes | \$ 4,328 | \$ 4,019 | \$ 309 | 7.7% |
| <i>Effective tax rate</i> | 32.1% | 34.7% | | |
| Net income | \$ 9,168 | \$ 7,568 | \$ 1,600 | 21.1% |
| <i>% of Net sales</i> | 8.6% | 8.2% | | |
| Earnings per share | \$ 0.43 | \$ 0.36 | \$ 0.07 | 19.4% |

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

The increase in net income was primarily due to the factors described above, including record sales during the current quarter of \$106.4 million partially offset by the \$1.1 million non-cash pension settlement charge, net of income taxes. 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 enactment.

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

| <i>(Thousands of dollars)</i> | Six Months Ended June 30, | | \$ Change | % Change |
|-------------------------------|------------------------------|------------|-----------|----------|
| | 2013 | 2012 | | |
| Net sales | \$ 198,872 | \$ 195,408 | \$ 3,464 | 1.8% |

Sales increased \$9.1 million in our water end markets primarily due to increased shipments for flood control projects of \$6.4 million and for the fire and agriculture markets of \$5.3 million each. This increase was partially offset by reduced construction market demand for pumps from rental businesses of \$7.2 million as compared to the strong sales in the first six months of 2012.

Sales decreased \$5.7 million in the non-water markets primarily due to decreased shipments in the OEM market in as a result of reduced shipments related to power generation equipment.

Cost of Products Sold and Gross Profit

| <i>(Thousands of dollars)</i> | Six Months Ended June 30, | | \$ Change | % Change |
|-------------------------------|------------------------------|------------|-----------|----------|
| | 2013 | 2012 | | |
| Cost of products sold | \$ 151,167 | \$ 145,993 | \$ 5,174 | 3.5% |
| % of Net sales | 76.0% | 74.7% | | |
| Gross profit | 24.0% | 25.3% | | |

The decrease in the gross profit percentage was principally due to a more favorable product mix in the first six months of 2012 combined with the non-cash pension settlement charge described above of \$2.0 million or 100 basis points.

Table of Contents**PART I CONTINUED****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTINUED****Selling, General and Administrative Expenses (SG&A)**

| <i>(Thousands of dollars)</i> | Six Months Ended June 30, | | \$ Change | % Change |
|---|------------------------------|--------------|-----------|----------|
| | 2013 | 2012 | | |
| Selling, general and administrative expenses (SG&A) | \$ 25,931 | \$ 22,693 | \$ 3,238 | 14.3% |
| <i>% of Net sales</i> | <i>13.0%</i> | <i>11.6%</i> | | |

The increase in SG&A expenses is principally due to the expenses incurred in the first six months of 2013 from the two acquisitions made in the fourth quarter of 2012 and the non-cash pension settlement charge described above of \$1.0 million or 50 basis points.

Net Income

| <i>(Thousands of dollars)</i> | Six Months Ended June 30, | | \$ Change | % Change |
|-------------------------------|------------------------------|--------------|------------|----------|
| | 2013 | 2012 | | |
| Income before income taxes | \$ 21,723 | \$ 26,969 | \$ (5,246) | (19.5)% |
| <i>% of Net sales</i> | <i>10.9%</i> | <i>13.8%</i> | | |
| Income taxes | \$ 6,737 | \$ 9,160 | \$ (2,423) | (26.4)% |
| <i>Effective tax rate</i> | <i>31.0%</i> | <i>34.0%</i> | | |
| Net income | \$ 14,986 | \$ 17,809 | \$ (2,823) | (15.9)% |
| <i>% of Net sales</i> | <i>7.5%</i> | <i>9.1%</i> | | |
| Earnings per share | \$ 0.71 | \$ 0.85 | \$ (0.14) | (16.5)% |

The decrease in net income was primarily due to the factors explained above, including the \$2.0 million non-cash pension settlement charge described above, net of income taxes. 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 enactment.

Liquidity and Capital Resources

| <i>(Thousands of dollars)</i> | Six Months Ended June 30, | |
|---|------------------------------|-----------|
| | 2013 | 2012 |
| Net cash provided by operating activities | \$ 21,088 | \$ 11,952 |
| Net cash used for investing activities | (3,396) | (10,767) |
| Net cash used for financing activities | (11,199) | (4,988) |

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PART I CONTINUED

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

Cash and cash equivalents and short-term investments totaled \$27.1 million, and there was \$15.0 million in outstanding bank debt at June 30, 2013. In addition, the Company had \$24.5 million available in bank lines of credit after deducting \$5.5 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, 2013.

Working capital increased 11.1% from December 31, 2012 to \$123.1 million at June 30, 2013 primarily due to increased current accounts receivable from record sales.

The primary driver of operating cash flows during the first six 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 six months of 2013. During this same period in 2012 operating cash flows were primarily driven by growth in sales and related improved operating results compared to the first six months of 2011.

During the first six months of 2013, investing activities of \$3.4 million primarily consisted of capital expenditures for machinery and equipment. Capital expenditures for 2013, consisting principally of machinery and equipment, are estimated to be in the range of \$17 to \$19 million and are expected to be financed through internally generated funds and existing lines of credit. During the first six months of 2012, investing activities of \$10.8 million consisted primarily of capital expenditures for an expansion of the National Pump facilities of \$2.4 million and machinery and equipment of \$8.6 million.

Net cash used for financing activities for the six months ended June 30, 2013 consisted of dividend payments of \$4.2 million and re-payment of \$7.0 million in short-term debt. The ratio of current assets to current liabilities was 2.9 to 1 at June 30, 2013 and 2.7 to 1 at December 31, 2012.

On July 25, 2013 the Board of Directors of the Company declared a quarterly cash dividend of \$0.105 per share on the common stock of the Company, payable September 10, 2013, to shareholders of record on August 15, 2013. This marks the 254th consecutive quarterly dividend paid by The Gorman-Rupp Company and represents a 5.0% increase over the \$0.10 dividend paid during the previous quarter.

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.

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PART I CONTINUED

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

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.

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.

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PART I CONTINUED

ITEM 4. CONTROLS AND PROCEDURES CONTINUED

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, 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.

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 June 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: July 29, 2013

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