GORMAN RUPP CO
Form 10-Q
August 02, 2017
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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 June 30, 2017

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	**34-0253990**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
600 South Airport Road, Mansfield, Ohio	**44903**
(Address of principal executive offices)	**(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, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer , smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated file	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 26,099,123 shares of common stock, without par value, outstanding at July 31, 2017.

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The Gorman-Rupp Company

Three and six months ended June 30, 2017 and 2016

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PART I. FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (UNAUDITED)

THE GORMAN-RUPP COMPANY

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Thousands of dollars, except per share amounts)	2017	2016	2017	2016
Net sales	$ 97,872	$ 96,265	$ 190,475	$ 196,522
Cost of products sold	71,727	73,025	143,135	150,385
Gross profit	26,145	23,240	47,340	46,137
Selling, general and administrative expenses	14,651	13,702	28,865	27,371
Operating income	11,494	9,538	18,475	18,766
Other income, net	313	94	652	125
Income before income taxes	11,807	9,632	19,127	18,891
Income taxes	3,959	3,012	6,214	5,989
Net income	$ 7,848	$ 6,620	$ 12,913	$ 12,902
Earnings per share	$ 0.30	$ 0.25	$ 0.49	$ 0.49
Cash dividends per share	$ 0.115	$ 0.105	$ 0.230	$ 0.210
Average number of shares outstanding	26,096,881	26,083,623	26,095,013	26,083,623

See notes to consolidated financial statements (unaudited).

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Thousands of dollars)	2017	2016	2017	2016
Net income	$ 7,848	$ 6,620	$ 12,913	$ 12,902
Cumulative translation adjustments	1,317	(254)	1,864	1,246
Pension and postretirement medical liability adjustments, net of tax	1,280	232	2,556	482
Other comprehensive income (loss)	2,597	(22)	4,420	1,728
Comprehensive income	$ 10,445	$ 6,598	$ 17,333	$ 14,630

See notes to consolidated financial statements (unaudited).

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THE GORMAN-RUPP COMPANY

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Thousands of dollars)	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 66,974	$ 57,604
Accounts receivable, net	72,884	71,424
Inventories, net	66,781	69,049
Prepaid and other	8,842	5,823
Total current assets	215,481	203,900
Property, plant and equipment, net	119,441	122,067
Other assets	8,206	7,769
Prepaid pension assets	7,856	6,211
Goodwill and other intangible assets, net	42,482	42,871
Total assets	$ 393,466	$ 382,818
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 17,205	$ 16,306
Payroll and employee related liabilities	12,212	11,336
Commissions payable	7,679	11,163
Deferred revenue	1,021	1,361
Accrued expenses	9,834	9,186
Total current liabilities	47,951	49,352
Postretirement benefits	21,055	20,709
Other long-term liabilities	10,070	9,869
Total liabilities	79,076	79,930
Equity:		
Common shares outstanding: 26,099,123 at June 30, 2017 and 26,093,123 at December 31, 2016 (net of treasury shares of 949,673 and 955,673, respectively), at stated capital amounts	5,098	5,097
Additional paid-in capital	363	215
Retained earnings	324,974	318,041
Accumulated other comprehensive loss	(16,045)	(20,465)
Total equity	314,390	302,888
Total liabilities and equity	$ 393,466	$ 382,818

See notes to consolidated financial statements (unaudited).

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THE GORMAN-RUPP COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30,	
(Thousands of dollars)	2017	2016
Cash flows from operating activities:		
Net income	$ 12,913	$ 12,902
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,433	7,777
Pension expense	4,696	1,826
Contributions to pension plan	(2,000)	(6,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	(649)	2,082
Inventories, net	3,227	7,267
Accounts payable	461	769
Commissions payable	(3,642)	2,662
Deferred revenue	(340)	(1,380)
Income taxes	3,227	2,076
Accrued expenses and other	(2,347)	2,893
Benefit obligations	1,008	717
Net cash provided by operating activities	23,987	33,591
Cash used for investing activities:		
Capital additions	(3,345)	(2,547)
Purchases of short-term investments	(5,999)	
Net cash used for investing activities	(9,344)	(2,547)
Cash used for financing activities, cash dividends	(6,002)	(5,478)
Effect of exchange rate changes on cash	729	251
Net increase in cash and cash equivalents	9,370	25,817
Cash and cash equivalents:		
Beginning of period	57,604	23,724
End of period	$ 66,974	$ 49,541

See notes to consolidated financial statements (unaudited).

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PART I

ITEM 1. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Amounts in tables in thousands of dollars)

NOTE 1 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The accompanying unaudited 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. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of results that may be expected for the year ending December 31, 2017. 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, 2016, from which related information herein has been derived.

NOTE 2 - 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 either to be not applicable or are expected to have minimal impact on the Company s consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost , which provides additional guidance on the presentation of net periodic pension and postretirement benefit costs in the income statement and on the components eligible for capitalization. The amendments in this ASU require that an employer report the service cost component of the net periodic benefit costs in the same income statement line item as other compensation costs arising from services rendered by employees during the period. The non-service-cost components of net periodic benefit costs are to be presented in the income statement separately from the service cost components and outside a subtotal of income from operations. The ASU also allows for the capitalization of the service cost components, when applicable (i.e., as a cost of internally manufactured inventory or a self-constructed asset). The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The amendments in this ASU are to be applied retrospectively. The Company is currently assessing the impact this ASU will have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment , which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit s carrying amount over its fair value. The ASU is effective for impairment tests performed in fiscal years, and interim periods within those years, beginning after December 15, 2019. The amendments in this ASU are to be applied on a prospective basis and are not expected to have a significant 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 U.S. GAAP. 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 will have a material impact on its consolidated financial statements as its future minimum lease commitments are not material.

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. Subsequent accounting standards updates have been issued, which amend and/or clarify the application of ASU 2014-09. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company is in the process of executing its implementation plan and has determined it will use the modified retrospective method as its transition method in the adoption of the new revenue standard. The Company has identified all material revenue streams and is currently evaluating its significant contracts, accumulating information that will be necessary for implementation disclosures and assessing the impact the adoption of ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company is in the process of identifying and implementing changes to processes and controls to meet the ASU s updated reporting and disclosure requirements and continues to update its assessment of the impact of the ASU. The Company will continue its evaluation of this new guidance through the date of adoption.

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NOTE 3 - INVENTORIES

Inventories are stated at the lower of cost or market. The costs for approximately 72% of inventories at June 30, 2017 and December 31, 2016 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. Replacement cost approximates current cost and the excess over LIFO cost was approximately $59.7 million and $58.4 million at June 30, 2017 and December 31, 2016, respectively. 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.

Allowances for excess and obsolete inventory totaled $4.7 million and $4.5 million at June 30, 2017 and December 31, 2016, respectively.

The major components of net inventories are as follows:

	June 30, 2017	December 31, 2016
Raw materials and in-process	$ 18,254	$ 17,986
Finished parts	41,850	43,423
Finished products	6,677	7,640
Total net inventories	$ 66,781	$ 69,049

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	June 30, 2017	December 31, 2016
Land	$ 4,157	$ 4,099
Buildings	105,733	104,952
Machinery and equipment	168,461	165,157
	278,351	274,208
Less accumulated depreciation	(158,910)	(152,141)
Property, plant and equipment, net	$ 119,441	$ 122,067

NOTE 5 - 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:

	June 30, 2017	June 30, 2016
Balance at beginning of year	$ 1,435	$ 1,380
Provision	815	1,160
Claims	(1,012)	(884)
Balance at end of period	$ 1,238	$ 1,656

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NOTE 6 - PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company sponsors a defined benefit pension plan (Plan) covering certain domestic employees. Benefits are based on each covered employee s years of service and compensation. The Plan is funded in conformity with the funding requirements of applicable U.S. regulations. The Plan was closed to new participants effective January 1, 2008. Employees hired after this date, in eligible locations, participate in an enhanced 401(k) plan instead of the Plan. Employees hired prior to this date continue to accrue benefits.

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

The Company also sponsors a non-contributory defined benefit postretirement health care plan that provides health benefits to certain domestic and Canadian retirees and their spouses. The Company funds the cost of these benefits as incurred.

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

	Pension Benefits Three Months Ended June 30,		Postretirement Benefits Three Months Ended June 30,	
	2017	2016	2017	2016
Service cost	$ 671	$ 709	$ 312	$ 298
Interest cost	650	661	204	211
Expected return on plan assets	(1,191)	(983)		