



ANNUAL REPORT 2020

*The Pump People®*

# FINANCIAL HIGHLIGHTS



THE GORMAN-RUPP COMPANY

## CASH DIVIDENDS

# 284

CONSECUTIVE  
QUARTERS

# 48

YEARS OF  
INCREASES

### Year ended December 31,

(Dollars in thousands, except per share amounts)

#### Operating Results

	2020	2019	% Change
Net sales	\$348,967	\$398,179	(12.4%)
Net income	25,188	35,815	(29.7%)
Return on net sales	7.2%	9.0%	

#### Financial Position

	2020	2019	% Change
Total assets	\$394,457	\$382,760	3.1%
Equity	315,513	307,878	2.5%
Working Capital	208,320	182,170	14.4%
Current Ratio	6.4	5.0	

#### Shareholder Information

	2020	2019	% Change
Earnings per share, as adjusted*	\$1.11	\$1.37	(19.0%)
Regular Dividends paid per share	0.59	0.55	7.3%
Return on average equity	8.1%	11.9%	

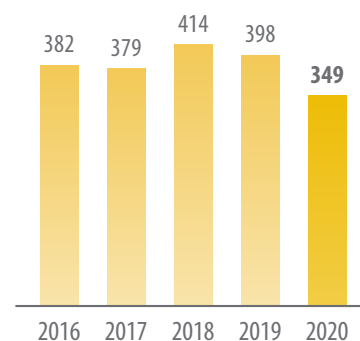
\*2020 - Excludes GAAP-required pension settlement loss of \$3.7 million net of income taxes, or \$0.14 per share.

\*2018 - Excludes GAAP-required pension settlement loss of \$2.2 million net of income taxes, or \$0.08 per share.

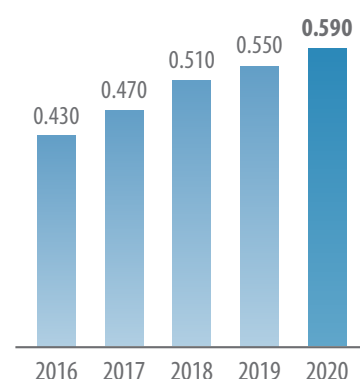
2017 - Excludes GAAP-required goodwill and other intangible asset impairment charge related to Bayou City Pump Company of \$2.7 million net of income taxes, or \$0.10 per share and pension settlement loss of \$2.7 million net of income taxes, or \$0.10 per share.

2016 - Excludes GAAP-required goodwill impairment charge related to Bayou City Pump Company of \$1.2 million net of income taxes, or \$0.05 per share.

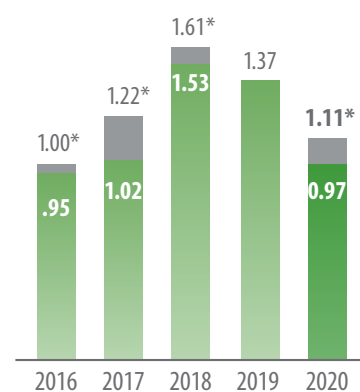
## 5 YEAR PERFORMANCE



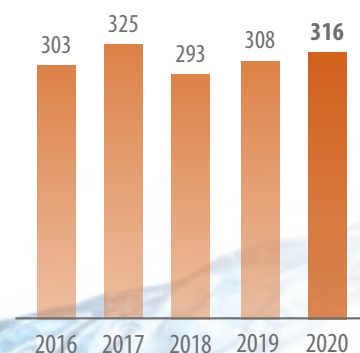
Sales  
(Millions of Dollars)



Regular Dividends Paid Per Share  
(Dollars)



Adjusted Earnings Per Share  
(Dollars)



Equity  
(Millions of Dollars)



# LETTER TO OUR SHAREHOLDERS

## Fellow Shareholders,

Let me start by thanking the 1,100+ employees of The Gorman-Rupp Company for their contributions during what has obviously been a very challenging year. Without their cooperation and dedication to the company, and to our customers, our results would have been much lower. I am very proud of the teamwork shown across the company during this pandemic crisis to help maintain the values that Gorman-Rupp has been known for these past 88 years. Again, thank you.

Our 2020 financial results were impacted by the numerous challenges brought on by COVID-19. Capital spending reductions in most of the markets we service led to an overall decrease in revenue of 12% compared to the previous year. Lowering overall expenses while maintaining customer service and developing new products can be a challenge, however our teams accomplished both.

We ended 2020 in a strong financial position with an ample cash reserve and no debt, allowing us to weather the COVID-19 storm and also look for additional long-term opportunities for the company. The passage of a federal infrastructure bill would also be beneficial to our future prospects.

Another highlight for 2020 was that we raised the cash dividend by 7.3%, maintaining our 48-year record of increased dividends to shareholders.

As we announced last fall, on January 1st of this year, Scott King was promoted to President and Chief Operating Officer of the company by your Board of Directors. Scott will continue coordinating all operations of the company while taking a more active role in strategic planning and initiatives.

We are hopeful the pandemic may be starting to turn the corner allowing a return to a more normal business environment in the not-too-distant future. Until COVID-19 is behind us, we remain committed to our customers, employees and shareholders with the best pumps and service we can safely provide under these ever-changing circumstances.

Thank you for your continued support.



Chairman and  
Chief Executive Officer



## MANY NAMES, ONE STORY:

# The Pump People®

More than 85 years ago, The Gorman-Rupp Company was established upon a straightforward philosophy of product quality and technological leadership. In an industry that lacked a clear market leader, Mr. Gorman and Mr. Rupp saw an opportunity to excel, establishing their new company upon a mission statement that dictated it would "enter a field of pumping service only when able to provide superior products with better performance."

This is the common thread that ties together all 10 of the companies that make up today's Gorman-Rupp family. It's why so many of our pump innovations have become industry standards. And it's why we're committed to state-of-the-art manufacturing facilities, superior employee training and convenient world-wide distribution.

### Gorman-Rupp Pumps USA

Gorman-Rupp's extensive line of pump products includes self-priming centrifugal, standard centrifugal, submersible, rotary gear, engine-driven trash, and priming assisted pumps, packaged lift stations and booster stations.



### Gorman-Rupp Europe B.V.

Gorman-Rupp pumps are exported to over 100 countries around the world. The Company broadens its presence in Europe with its new manufacturing facilities in Waardenburg, The Netherlands which it moved into in January 2020.



### Gorman-Rupp of Canada Ltd.

Since 1960, Gorman-Rupp Canada has manufactured high-performance, high-quality pumps and pumping systems required for lasting service in the municipal, water, wastewater, sewage, industrial, construction, petroleum, fire and OEM markets.



### Gorman-Rupp Belgium SA

Based near Namur, Belgium, Gorman-Rupp converts pumps into packaged pump station systems tailored for the European market. This location is an integral part of the Company's existing European Union distribution network for centrifugal pumps, pump systems and rental pumps in the region.





## Patterson Pump Company

Patterson has built a firm reputation of reliable pump installations worldwide. Applications include fire suppression, water and waste systems, flood control and HVAC.

## Patterson Pump Ireland Ltd.

While its primary market sector is pumping solutions for fire protection, Patterson Pump Ireland also serves other sectors, including water/wastewater treatment. It was established specifically to service European requirements.



## Gorman-Rupp Industries

GRI designs a variety of pumps specifically for OEM customization. Applications include alternative energy, appliances, food & beverage, HVAC, printing, medicine, electronics cooling and transportation.



## Gorman-Rupp Africa Pty Ltd.

Gorman-Rupp Africa is focused on bringing value-added Gorman-Rupp pump products to the African market.

## National Pump Company

National Pump Company manufactures a complete line of vertical lineshaft turbine, submersible, booster pumps for the agricultural, municipal, residential, petroleum, and industrial-commercial markets.



## AMT Pump Company

AMT's product line consists of a wide range of self-priming, straight centrifugal & diaphragm pumps driven by electric motor, gas or diesel engines or pedestal drives in various materials and a broad array of electric submersible pumps.





# THE SUREST WAY TO BUILD A MORE SUSTAINABLE WORKPLACE IS TO CREATE A SMARTER WORKFORCE.

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Perhaps because Gorman-Rupp is at heart an engineering-based company, we have a longstanding commitment to higher education and the advancement of knowledge. Our 100% Employee Tuition Reimbursement Program dates back at least to 1974. Over the past 12 years, we have spent more than \$1.5 million on this program, which has benefited 120 employees. And our commitment to education extends to the communities where we live and work.

Educational outreach efforts include:

- Financial and instructional support for the apprenticeship programs at North Central State College;
- Participation in National Manufacturing Day through the Regional Manufacturing Coalition, which introduces high school students to the job opportunities available in manufacturing;
- Financial support for the award-winning online business education programs at Ashland University; and
- Financial support for The Ohio State University-Mansfield.



*Visit [www.ashland.edu](http://www.ashland.edu) for more information on Ashland University's online business education programs.*



*Visit [www.mansfield.osu.edu](http://www.mansfield.osu.edu) to learn more about The Ohio State University at Mansfield and [www.ncstatecollege.edu](http://www.ncstatecollege.edu) for information on apprenticeship programs at North Central State College.*



*Naturally grown, fresh healthy produce and other products available to the community at the Urban Farm facility located on Gorman-Rupp donated land in Mansfield, Ohio.*



Beyond education, Gorman-Rupp companies work to advance the health, safety and wellness of our employees, customers and communities by:

- Making a positive impact on our communities through philanthropy and social engagement;
- Reducing our impact on the environment through resource conservation and waste prevention;
- Treating all employees fairly, with dignity, and without discrimination — and expecting the same of our supply chain partners; and
- Providing training and development programs that attract diverse, motivated employees and help them reach their full potential.

Here are just a few of the sustainability measures Gorman-Rupp has undertaken over the past few years:

## ENVIRONMENTAL

- Environmental Management Systems certified to the ISO 14000 standard
- Energy recovery through flammable waste fuel blending
- Automated lighting controls, programmable thermostats and reduced run time on pump tests to reduce our energy footprint
- Patterson Pump Company's test lab is certified through the Hydraulic Institute's Pump Test Lab Approval Program (PTLAP), demonstrating compliance to its established quality program, procedures, instrument calibration and pump testing capabilities at or above industry standards

## SOCIAL

- Mansfield Urban Farm Project
- Sherman Elementary School Reading Program

## GOVERNANCE

- Code of Ethics for all employees
- Human Rights Policy
- Supplier Code of Conduct
- Conflict Minerals Compliance

# SUSTAINABILITY. A FUTURE THAT'S BUILT TO LAST.





# Fire

## MARKET

The durable performance of Gorman-Rupp pumps makes them the preferred choice for fire protection worldwide. In countless large public buildings, centrifugal pumps from Patterson Pump Company and Patterson Pump Ireland meet a growing global demand for hydrant-based systems.



Where hydrants are not available, AMT pumps are used to siphon fire-quenching water from pools or ponds.

# Construction

## MARKET

Construction crews worldwide trust Gorman-Rupp pumps in heavy-duty dewatering and sewer bypass applications. AMT Pump Company's line of engine-driven centrifugal and diaphragm pumps provides excellent performance and rock-solid dependability. And our diaphragm pumps have earned a workhorse reputation for their ability to strong-arm heavy mud and sand-laden water from construction sites, quarries, streams and ditches. Gorman-Rupp pumps are market leaders in the construction industry.







# Municipal

## MARKET

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The cities of the world rely on Gorman-Rupp pumps for clean drinking water, efficient wastewater handling, and flood control solutions. Patterson Pump Company's ability to move up to a million gallons of water per minute (per pump) has made it a worldwide leader in high-volume flood control, most notably the Permanent Canal Closures & Pumps Project in New Orleans. When electrical power fails, Gorman-Rupp Auto-Start



Lift Stations keep water moving until the grid powers up again.

# Industrial

## MARKET

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Pumps from Gorman-Rupp Pumps USA, Patterson and AMT keep steel mills, paper mills and hundreds of other facilities running at peak capacity worldwide, handling everything from clear liquids to abrasive slurries. Patterson Pump Company, National Pump Company and AMT Pump Company serve the commercial plumbing and the heating, ventilation, and air conditioning (HVAC) markets. National Pump Company's vertical turbine and submersible pumps provide efficient industrial water supply solutions.



# Petroleum

## MARKET

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Gorman-Rupp companies engineer pumps that address evolving petroleum market needs as new fuels, new vehicles, and new transportation systems emerge. Our technology powers the movement of petroleum products from the well to the refinery to the fueling station. Solutions range from our Roto-Prime® series for the safe bulk handling of volatile fluids to National Pump's vertical turbine pumping systems.



# Original Equipment

## Manufacturer

### MARKET

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From transportation, appliance manufacturing and food processing to chemical processing, printing, electronics, solar heating and laser cooling, Gorman-Rupp Industries pumps are routinely designed into a wide variety of larger products and systems. Gorman-Rupp pumps are an integral part of U.S. military equipment like tank trailers, portable bulk water units and complete mobile fueling systems.





# Agriculture

## MARKET

Gorman-Rupp pumps have brought life-giving water to the world's farms for more than 70 years. National Pump's strategically located branches deliver the right pumps domestically and internationally to wheat, corn, cotton, soybeans, rice and produce fields. Beyond irrigation, Gorman-Rupp Pumps USA produces a complete selection of pumps for animal waste and pit agitation, liquid fertilizer, and basic utility and dewatering applications.



# International

## MARKET

With international manufacturing and distribution facilities in Europe, South Africa, the Middle East and the Americas, we are positioned to take advantage of growth opportunities worldwide. Shipping to approximately 130 countries, Gorman-Rupp has established an international presence and a global reputation for reliability.



This reputation spans applications from municipal water projects to fire protection to irrigation to refineries.

# BOARD OF DIRECTORS



**Jeffrey S. Gorman**

*Chairman and Chief Executive Officer*  
The Gorman-Rupp Company  
Elected to Board 1989



**M. Ann Harlan, Esq.**

*Lead Director*  
*Retired Vice President and General Counsel*  
The J.M. Smucker Company  
Elected to Board 2009



**Donald H. Bullock, Jr.**

*Retired Senior Vice President of Investor Relations*  
Eaton Corporation  
Elected to Board 2020



**Christopher H. Lake**

*President and Chief Operating Officer*  
SRI Quality System Registrar  
Elected to Board 2000



**Sonja K. McClelland**

*Executive Vice President, Secretary, Treasurer and Chief Financial Officer*  
Hurco Companies, Inc.  
Elected to Board 2019



**Vincent K. Petrella**

*Retired Executive Vice President, Chief Financial Officer and Treasurer*  
Lincoln Electric Holdings, Inc.  
Elected to Board 2020



**Kenneth R. Reynolds**

*Retired Executive Vice President and Treasurer*  
Ariel Corporation  
Elected to Board 2014



**Rick R. Taylor**

*President*  
Jay Industries, Inc.  
Elected to Board 2003

## DIRECTORS' COMMITTEES

### Audit Committee

Sonja K. McClelland (Chair)  
Donald H. Bullock, Jr.  
Vincent K. Petrella  
Kenneth R. Reynolds

### Compensation Committee

Christopher H. Lake (Chair)  
M. Ann Harlan  
Vincent K. Petrella  
Rick R. Taylor

### Governance & Nominating Committee

Rick R. Taylor (Chair)  
Donald H. Bullock, Jr.  
Sonja K. McClelland  
Kenneth R. Reynolds

## CORPORATE OFFICERS

### Jeffrey S. Gorman

Chairman and Chief Executive Officer\*  
Joined the Company 1978

### Scott A. King

President & Chief Operating Officer\*  
Joined the Company 2004

### Angela M. Morehead

Treasurer & Assistant Secretary  
Joined the Company 1994

### Barbara A. Woodward

Vice President, Human Resources  
Joined the Company 2013

### James C. Kerr

Executive Vice President & Chief Financial Officer\*  
Joined the Company 2016

### Brigette A. Burnell, Esq.

Senior Vice President, General Counsel & Corporate Secretary\*  
Joined the Company 2014

### D. Patrick Wischmeier

Vice President, Information Technology  
Joined the Company 2010

\*Executive Officer



# GORMAN-RUPP PUMPS GROUP



USA

## Gorman-Rupp Pumps USA

**D. J. Daniels**

*General Manager*

600 South Airport Road  
Mansfield, OH 44903-7831

Phone: (419) 755-1011

Fax: (419) 755-1251

[www.grpumps.com](http://www.grpumps.com)



CANADA

## Gorman-Rupp of Canada Limited

**Michael Broadhead**  
*Managing Director*

70 Burwell Road,  
St. Thomas, Ontario  
N5P 3R7 Canada

Phone: +1 (519) 631-2870

Fax: +1 (519) 631-4624

[www.grpumps.ca](http://www.grpumps.ca)



AFRICA

## Gorman-Rupp Africa Proprietary Limited

**Roger Cordeiro**

*Managing Director*

4 Harold Flight Road, Jet  
Park  
Boksburg, 1469 South Africa

Phone: +27 (011) 397-3536

Fax: +27 (011) 397-3512

[www.gormanrupp.co.za](http://www.gormanrupp.co.za)



EUROPE

## Gorman-Rupp Europe B.V.

**Chris van der Gaag**  
*Managing Director*

Zandweistraat 19  
4181CG Waardenburg  
The Netherlands

Phone: +31 857 730 080

Fax: +31 582 132 057

[www.grpumps.eu](http://www.grpumps.eu)



EUROPE

## Gorman-Rupp Belgium SA

**Chris van der Gaag**  
*Managing Director*

Zi de Rhisnes  
Rue des Métiers  
B-5020 Suarlée, Belgium

Phone: +32 81 409 409

Fax: +32 81 409 400

[www.grpumps.eu](http://www.grpumps.eu)

# PATTERSON PUMPS GROUP



## Patterson Pump Company

**Kerby Pope**  
*President*

2129 Ayersville Road,  
Toccoa, GA 30577-3554

Phone: (706) 886-2101

Fax: (706) 886-0023

[www.pattersonpumps.com](http://www.pattersonpumps.com)



## Patterson Pump Ireland Limited

**Gordon Dowling**  
*Managing Director*

Unit 1 IDA Ardmore Business  
& Technology Park  
Marlinstown, Mullingar, Co.  
Westmeath,  
N91 R762  
Republic of Ireland

Phone: 353 44 934 7078

Fax: 353 44 934 7896

[www.ie.pattersonpumps.com](http://www.ie.pattersonpumps.com)

# NATIONAL PUMP COMPANY



## National Pump Company

**Steve Anglin**  
*President*

7706 North 71st Avenue  
Glendale, AZ 85303-1703

Phone: (623) 979-3560

Fax: (623) 979-2177

[www.nationalpumpcompany.com](http://www.nationalpumpcompany.com)

# CUSTOM PUMPS GROUP



## Gorman-Rupp Industries

**Jody Hastings**  
*General Manager*

180 Hines Avenue  
Bellville, OH 44813-1234

Phone: (419) 886-3001

Fax: (419) 886-2338

[www.gripumps.com](http://www.gripumps.com)



A Gorman-Rupp Company



## AMT Pump Company

**Keith Bearde**  
*President*

400 Spring Street  
Royersford, PA 19468-2519

Phone: (610) 948-3800

Fax: (610) 948-5300

[www.amtpump.com](http://www.amtpump.com)

*The Pump People®*





UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-6747

**THE GORMAN-RUPP COMPANY**

(Exact name of Registrant as specified in its charter)

**Ohio**  
(State or other jurisdiction of incorporation or organization)

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

**600 South Airport Road, Mansfield, Ohio**  
(Address of principal executive offices)

**44903**  
(Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
<b>Common Shares, without par value</b>	<b>GRC</b>	<b>New York Stock Exchange</b>

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 every Interactive Data File required to be submitted 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 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 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.

Large accelerated filer ☐ 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes ☒ No ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the common shares, without par value, of The Gorman-Rupp Company held by non-affiliates based on the closing sales price as of June 30, 2020 was approximately \$621,510,000.

On February 28, 2021, there were 26,109,185 common shares, without par value, of The Gorman-Rupp Company outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Notice of 2021 Annual Meeting of Shareholders and related Proxy Statement are incorporated by reference into Part III (Items 10-14).

**The Gorman-Rupp Company and Subsidiaries**

**Annual Report on Form 10-K  
For the Year Ended December 31, 2020**

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## PART I

### Cautionary Note Regarding Forward-Looking Statements

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 Annual Report on Form 10-K 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: company specific risk factors including (1) loss of key personnel; (2) intellectual property security; (3) acquisition performance and integration; (4) impairment in the value of intangible assets, including goodwill; (5) defined benefit pension plan settlement expense; and (6) family ownership of common equity; and general risk factors including; (7) continuation of the current and projected future business environment, including the duration and scope of the COVID-19 pandemic, the impact of the pandemic and actions taken in response to the pandemic; (8) highly competitive markets; (9) availability and costs of raw materials; (10) cyber security threats; (11) compliance with, and costs related to, a variety of import and export laws and regulations; (12) environmental compliance costs and liabilities; (13) exposure to fluctuations in foreign currency exchange rates; (14) conditions in foreign countries in which The Gorman-Rupp Company conducts business; (15) changes in our tax rates and exposure to additional income tax liabilities; and (16) risks described from time to time in our reports filed with the Securities and Exchange Commission. 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 1. BUSINESS

The Gorman-Rupp Company (“Registrant”, “Gorman-Rupp”, the “Company”, “we” or “our”) was incorporated in Ohio in 1934. The Company designs, manufactures and globally sells pumps and pump systems for use in water, wastewater, construction, dewatering, industrial, petroleum, original equipment, agriculture, fire protection, heating, ventilating and air conditioning (“HVAC”), military and other liquid-handling applications.

### PRODUCTS

The Company operates in one business segment, the manufacture and sale of pumps and pump systems. The following table sets forth, for the years 2018 through 2020, the total net sales, income before income taxes and year-end total assets of the Company.

	(Dollars in thousands)		
	2020	2019	2018
Net sales	\$ 348,967	\$ 398,179	\$ 414,334
Income before taxes	31,246	45,166	50,316
Total assets	394,457	382,760	368,282

The Company’s product line consists of pump models ranging in size from 1/4” to nearly 15 feet and ranging in rated capacity from less than one gallon per minute to nearly one million gallons per minute. The types of pumps which the Company produces include self-priming centrifugal, standard centrifugal, magnetic drive centrifugal, axial and mixed-flow, vertical turbine line shaft, submersible, high-pressure booster, rotary gear, diaphragm, bellows and oscillating.

The pumps have drives that range from 1/35 horsepower electric motors up to much larger electric motors or internal combustion engines capable of producing several thousand horsepower. Many of the larger units comprise encased, fully-integrated water and wastewater pumping stations. In certain cases, units are designed for the inclusion of customer-supplied drives.

The Company's larger pumps are sold principally for use in the construction, industrial, water and wastewater handling fields; for flood control; for boosting low residential water pressure; for pumping refined petroleum products, including the ground refueling of aircraft; for fluid control in HVAC applications; and for various agricultural purposes.

The Company's pumps are also utilized for dewatering purposes. Additionally, pumps manufactured for fire protection are used for sprinkler back-up systems, fire hydrants, stand pipes, fog systems and deluge systems at hotels, banks, factories, airports, schools, public buildings and hundreds of other types of facilities throughout the world.

Many of the Company's smallest pumps are sold to customers for incorporation into such products as food processing, chemical processing, medical applications, waste treatment, HVAC equipment, appliances and solar heating.

## **MARKETING**

The Company's pumps are marketed in the United States and worldwide through a broad network of distributors, through manufacturers' representatives (for sales to many original equipment manufacturers), through third-party distributor catalogs, direct sales, and commerce. The Company regularly seeks alliances with distributors and other partners to further enhance marketing opportunities. Export sales are made primarily through foreign distributors and representatives. The Company has long-standing relationships with many of the leading independent distributors in the markets it serves and provides specialized training programs to distributors on a regular basis with a focus on meeting the world's water and wastewater pumping needs.

During 2020, 2019 and 2018, there were no shipments to any single customer that exceeded 10% of total net sales. Gorman-Rupp continued to actively pursue international business opportunities and, in 2020, shipped its pumps to approximately 130 countries around the world. No sales made to customers in any one foreign country amounted to more than 5% of total net sales for 2020, 2019 or 2018.

## **COMPETITION**

The pump industry is highly fragmented and therefore Gorman-Rupp competes with a large number of businesses. Numerous pump competitors exist as subsidiaries, divisions or departments within significantly larger corporations. The Company also faces increased competition from foreign-sourced pumps in most of the Company's domestic markets.

Most commercial and industrial pumps are specifically designed and engineered for a particular customer's application. The Company believes that proper application, product performance, and quality of delivery and service are its principal methods of competition, and attributes its success to its continued emphasis in these areas. In the sale of products and services, the Company benefits from its large base of previously installed products, which periodically require replacement parts due to the critical application and nature of the products and the conditions under which they operate.

## **PURCHASING AND PRODUCTION**

Substantially all of the materials, supplies, components and accessories used by the Company in the fabrication of its products, including all castings (for which most patterns are made and owned by the Company), structural steel, bar stock, motors, solenoids, engines, seals, and plastic and elastomeric components are purchased by the Company from other suppliers and manufacturers. The Company does not purchase materials under long-term contracts and is not dependent upon a single source for any materials, supplies, components or accessories which are of material importance to its business.



The Company purchases motor components for its large submersible pumps, and motors and engines for its pump systems, from a limited number of suppliers, while motors for its polypropylene bellows pumps and magnetic drive pumps are purchased from several alternative vendors. Products requiring small motors are also sourced from alternative suppliers.

The other production operations of the Company consist of the machining of castings, the cutting, shaping and welding of bar stock and structural members, the design and assembly of electrical control panels, the manufacture of some small motors and a few minor components, and the assembling, painting and testing of its products. Substantially all of the Company's products are tested prior to shipment.

## **HUMAN CAPITAL**

As of December 31, 2020, the Company employed approximately 1,150 persons, of whom approximately 625 were hourly employees. The majority of the Company's manufacturing operations take place in the United States, as evidenced by 86% of its employees being in the Company's U.S. locations and 14% of its employees being in its international locations.

Our approach is to develop talent from within and supplement with external hires. We invest resources to develop the talent needed to remain a leading designer and manufacturer of pumps and pump systems. We provide our employees with training opportunities and educational benefits to assist in the expansion of their careers and skills. This approach has resulted in a deep understanding among our employee base of our business, products, and customers. We believe that our average tenure of 11.9 years, as of the end of 2020, reflects both the strong engagement of our employees and our positive workplace culture. The Company has no collective bargaining agreements and has never experienced a work stoppage.

We provide competitive compensation and benefits programs to help meet the needs of our employees. In addition to salaries, these programs (which vary by country and region) include profit sharing, a 401(k) plan, medical insurance and benefits, health savings accounts, domestic care and flexible savings accounts, paid time off, and tuition assistance, among others. Certain domestic employees hired prior to January 1, 2008 participate in a defined benefit plan. Employees hired after this date, in eligible locations, participate in an enhanced 401(k) plan instead of the defined benefit plan. To create performance incentives and to encourage share ownership by our employees, we have implemented an employee stock purchase plan, which enables eligible employees worldwide to purchase the Company's common shares at a discount through payroll contributions.

The health and safety of our workforce is fundamental to the success of our business. We provide our employees upfront and ongoing safety training to ensure that safety policies and procedures are effectively communicated and implemented. We also provide personal protective equipment to those employees who need it to perform their job functions safely. We have experienced personnel on-site at each of our manufacturing locations who are tasked with environmental, health and personal safety education and compliance, and in certain locations we have an on-site nurse available to our employees for medical needs.

In response to the COVID-19 pandemic, we have enabled employees to work from home where possible. Because our business involves the manufacturing of essential products, many of our employees are unable to work from home. In an effort to keep our employees safe and to maintain operations during the pandemic, we have implemented a number of new health-related measures, including social distancing, increased cleaning and sanitation measures, providing additional personal protective equipment, restricting visitor access to our facilities, and limiting in-person meetings and other gatherings.

We are committed to upholding fundamental human rights and believe that all human beings should be treated with dignity, fairness and respect. We strive to promote inclusion and diversity in the workplace, engage with our communities, and encourage our suppliers to treat their employees in a manner that respects human rights. We utilize an on-line platform to provide training to all employees worldwide in key areas such as harassment and discrimination prevention and our code of conduct. We also internally publicize the availability of an anonymous ethics hotline through which any employee may report any ethics, safety or other employment concerns.

## OTHER ASPECTS

Although the Company owns a number of patents, several of which are important to its business, the Company does not consider its business to be materially dependent upon any one or more patents. The Company's patents, trademarks and other intellectual property are adequate for its business purposes.

## AVAILABLE INFORMATION

The Company maintains a website accessible through its internet address of [www.gormanrupp.com](http://www.gormanrupp.com). Gorman-Rupp makes available free of charge on or through [www.gormanrupp.com](http://www.gormanrupp.com) its Annual Report to Shareholders, its annual Proxy Statement, its annual report on Form 10-K, its quarterly reports on Form 10-Q, and its current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after those reports (and any amendments) are electronically filed with or furnished to the Securities and Exchange Commission ("Commission"). However, the information contained on the Company's website is not a part of this Form 10-K or any other report filed with or furnished to the Commission.

A paper copy of the Company's Form 10-K is also available free of charge upon written request to the Company's Corporate Secretary.

## ITEM 1A. RISK FACTORS

Gorman-Rupp's business and financial performance are subject to various risks and uncertainties, some of which are beyond its control. In addition to the risks discussed elsewhere in this Form 10-K, the following risks and uncertainties could materially adversely affect the Company's business, prospects, financial condition, results of operations, liquidity and access to capital markets. These risks could cause the Company's actual results to differ materially from its historical experience and from expected results discussed in forward-looking statements made by the Company related to conditions or events that it anticipates may occur in the future.

### COMPANY SPECIFIC RISK FACTORS

#### *Loss of key personnel*

The Company's success depends to a significant extent on the continued service of its executive management team and the ability to recruit, hire and retain other key management personnel to support the Company's growth and operational initiatives and replace executives who retire or resign. Failure to retain key management personnel and attract and retain other highly-skilled personnel could limit the Company's global growth and ability to execute operational initiatives, or may result in inefficient and ineffective management and operations, which could harm the Company's revenues, operations and product development efforts and could eventually result in a decrease in profitability.

#### *Intellectual property security*

The Company possesses a wide array of intellectual property rights, including patents, trademarks, copyrights, and applications for the above, as well as other proprietary information. There is a risk that third parties would attempt to copy, in full or in part, the Company's products, technologies or industrial designs, or to obtain unauthorized access and use of Company technological know-how or other protected intellectual property rights. Also, other companies could successfully develop technologies, products or industrial designs similar to the Company's, and thus potentially compete with the Company. From time to time, the Company has been faced with instances where competitors have infringed or unfairly used its intellectual property or taken advantage of its design and development efforts. The ability to protect and enforce intellectual property rights varies across jurisdictions. Competitors who may attempt to copy the Company's products, technologies or industrial designs are becoming more prevalent, particularly in Asia. If the Company is unable to adequately enforce and protect its intellectual property rights, it could adversely affect its revenues and profits and hamper its ability to grow.



Competitors and others may also challenge the validity of the Company's intellectual property or allege that it has infringed their intellectual property, including through litigation. The Company may be required to pay substantial damages if it is determined its products infringe the intellectual property of others. The Company may also be required to develop an alternative, non-infringing product that could be costly and time-consuming, or acquire a license (if available) on terms that are not favorable to it. Regardless of whether infringement claims against the Company are successful, defending against such claims could significantly increase the Company's costs, divert management's time and attention away from other business matters, and otherwise adversely affect the Company's results of operations and financial condition.

#### ***Acquisition performance and integration***

The Company's historical growth has depended, and its future growth is likely to continue to depend, in part on its acquisition strategy and the successful integration of acquired businesses into existing operations. The Company intends to continue to seek additional acquisition opportunities that have the potential to support and strengthen its operations. The Company cannot assure it will be able to successfully identify suitable acquisition opportunities, prevail against competing potential acquirers, negotiate appropriate acquisition terms, obtain financing that may be needed to consummate such acquisitions, complete proposed acquisitions, successfully integrate acquired businesses into existing operations or expand into new markets. In addition, the Company cannot assure that any acquisition, even if successfully integrated, will perform as planned, be accretive to earnings, or prove to be beneficial to the Company's operations and cash flows.

#### ***Impairment in the value of intangible assets, including goodwill***

The Company's total assets reflect goodwill from acquisitions, representing the excess cost over the fair value of the identifiable net assets acquired, including other indefinite-lived and finite-lived intangible assets. Goodwill and other indefinite-lived intangible assets are not amortized but are reviewed annually for impairment as of October 1 or whenever events or changes in circumstances indicate there may be a possible permanent loss of value using either a quantitative or qualitative analysis. Finite-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recovered through future net cash flows generated by the assets. If future operating performance at one or more of the Company's reporting units were to fall significantly below forecast levels or if market conditions for one or more of its acquired businesses were to decline, the Company could be required to incur a non-cash charge to operating income for impairment. Any impairment in the value of these assets could have an adverse non-cash impact on the Company's reported results of operations.

#### ***Defined benefit pension plan settlement expense***

The Company sponsors a defined benefit pension plan covering certain domestic employees and accrues amounts for funding of its obligations under the plan. The defined benefit pension plan allows eligible retiring employees to receive a lump-sum distribution for benefits earned in lieu of annual payments and most of the Company's retirees historically have elected this option. Under applicable accounting rules, if the lump-sum distributions made for a plan year exceed an actuarially-determined threshold of the total of the service cost and interest cost for the plan year, the Company at such point would be required to recognize for that year's results of operations settlement expense for the resulting unrecognized actuarial loss. The Company has been required to make such adjustments in some prior years, and, if such non-cash adjustments are necessary in future periods, they may negatively impact the Company's operating results.

In 2020 and 2018, the Company recorded pre-tax non-cash pension settlement charges of \$4.6 million and \$2.9 million respectively, driven by lump-sum distributions discussed above. There was no pension settlement charge recorded in 2019. See Note 9 to the Consolidated Financial Statements, Pensions and Other Postretirement Benefits.

### ***Family ownership of common equity***

A substantial percentage of the Company's common shares is held by various members of the Gorman family and their respective affiliates. Because of this concentrated ownership relative to many other publicly-traded companies, the market price of the Company's common shares may be influenced by lower trading volume and therefore more susceptible to price fluctuations than many other companies' shares. If any one or more of the Company's significant shareholders were to sell all or a portion of their holdings of Company common shares at once or within short periods of time, or there was an expectation that such a sale was imminent, then the market price of the Company's common shares could be negatively affected.

## **GENERAL RISK FACTORS**

### ***The COVID-19 Pandemic***

Our business has been, and may continue to be, materially and adversely affected by the present coronavirus (or COVID-19) pandemic. The pandemic has disrupted our operations and may continue to affect our business, including through government imposed mandatory closures, work-from-home orders, social distancing protocols, voluntary facility closures and other government restrictions that, to the extent required, could materially adversely affect our ability to adequately staff and maintain our operations. While we have largely avoided facility closures and production disruptions thus far, we may experience temporary facility closures in response to government mandates in certain jurisdictions in which we operate or in response to positive diagnoses for COVID-19 in certain facilities for the safety of our employees. Our supply chain has thus far remained largely intact, however, if the COVID-19 pandemic persists or worsens, it may increase disruption to our supply chain and materially adversely impact our ability to secure supplies for our facilities and production, and to provide personal protective equipment for our employees, which could materially adversely affect our operations. There may also be long-term negative economic effects on our customers in, and the economies of, affected countries. Any of the foregoing within the countries in which we or our customers and suppliers operate may severely disrupt our operations and have a material adverse effect on our business, results of operations, cash flows and financial condition. In addition, future changes in the Company's cost of capital, expected cash flows, or other factors as a result of the above may cause the Company's goodwill to be impaired, resulting in a non-cash charge against results of operations to write down goodwill for the amount of the impairment. The negative financial impact to our future results cannot be reasonably estimated, but could be material.

Our internal controls may also be impacted by the COVID-19 pandemic. A large portion of our financial and accounting personnel have been required to work from home for extended periods due to the pandemic, requiring them to adapt to new or modified processes, procedures, and controls. These changes could potentially negatively impact our internal controls over financial reporting.

### ***Continuation of current and projected future business environment***

The overall pump industry is cyclical in nature, and some of its business activity is related to general business conditions in the durable goods and capital equipment markets. Demand for most of the Company's products and services is affected by the level of new capital investment and planned maintenance expenditures by its customers. The level of such investment and expenditures by our customers depends, in turn, on factors such as general economic conditions, availability of credit, economic conditions within their respective industries and expectations of future market behavior. Volatility in prices of commodities such as oil and agricultural products can negatively affect the levels of investment and expenditures of certain customers and result in postponement of capital investment decisions or the delay or cancellation of existing orders, either of which may negatively impact the Company's sales.



### ***Highly competitive markets***

Gorman-Rupp sells its products in highly competitive markets. Maintaining and improving the Company's competitive position requires periodic investment in manufacturing, engineering, quality standards, marketing, customer service and support, and distribution networks. Even with such investment, the Company may not be successful in maintaining its competitive position. The Company's competitors may develop products that are superior to its products, or may develop methods of more efficiently and effectively providing products and services, or may adapt more quickly to new technologies or evolving customer requirements. Pricing pressures may require the Company to adjust the prices of its products downward to stay competitive. The Company may not be able to compete successfully with its existing competitors or with new competitors. Failure to compete successfully could negatively impact the Company's sales, operating margins and overall financial performance.

### ***Availability and costs of raw materials***

The Company could be adversely affected by raw material price volatility or an inability of its suppliers to meet quality and delivery requirements. We are required to maintain sufficient inventories to accommodate the needs of our customers, often with short lead times. Our business could be adversely affected if we fail to source and maintain adequate inventory levels. Raw material and energy expenses are substantial drivers of costs in the manufacture of pumps and changes in these costs are often unpredictable. While the Company manufactures certain parts and components used in its products, the Company's business requires substantial amounts of raw materials, parts and components to be purchased from suppliers. The availability and prices of raw materials, parts and components purchased from the Company's suppliers may be subject to curtailment or change due to, among other things, suppliers' allocations to other purchasers, interruptions in production or deliveries by suppliers, changes in exchange rates, tariffs, changes in duty rates and changes in other trade barriers and import and export licensing requirements. The Company may not be able to pass along any increased material costs to customers for competitive or other reasons. A change in the availability of, or increases in the price for, these raw materials, parts and components could materially affect our business, financial condition, results of operations or cash flows.

### ***Cyber security threats***

Increased global information technology security threats and more sophisticated and targeted computer crime pose a risk to the security of Gorman-Rupp's systems and networks and to the confidentiality, availability, and integrity of its data. While the Company attempts to mitigate these risks by employing a number of measures, including employee training, comprehensive monitoring of its networks and systems, and the deployment of backup and protective systems, the Company's systems, networks, proprietary information, products, solutions and services remain potentially vulnerable to advanced persistent threats. Depending on their nature and scope, such threats could potentially lead to liability for damages or the loss of confidential information including as a result of, but not limited to, the compromising of confidential information relating to customer, supplier, or employee data, improper use of the Company's systems and networks, manipulation and destruction of data, defective products, production downtimes and operational disruptions which, in turn, could adversely affect Gorman-Rupp's reputation, competitiveness and results of operations.

### ***Compliance with, and costs related to, a variety of import and export laws and regulations***

The Company is subject to a variety of laws and regulations regarding international operations, including regulations issued by the U.S. Department of Commerce Bureau of Industry and Security and various other domestic and foreign governmental agencies. Actual or alleged violations of import-export laws could result in enforcement actions and/or financial penalties. The Company cannot predict the nature, scope or effect of future regulatory requirements to which our international operations and trading practices might be subject or the manner in which existing laws or regulations might be administered or interpreted. Future legislation or regulations could limit the countries in which certain of our products may be manufactured or sold or could restrict our access to, and increase the cost of obtaining, products from foreign sources.

### ***Environmental compliance costs and liabilities***

The Company's operations and properties are subject to numerous domestic and foreign environmental laws and regulations which can impose operating and/or financial sanctions for violations. Moreover, environmental and sustainability initiatives, practices, rules and regulations are under increasing scrutiny of both governmental and non-governmental bodies and may require changes to the Company's operational practices, standards and expectations and, in turn, increase the Company's compliance costs. Periodically, the Company has incurred, and it expects to continue to incur, operating and capital costs to comply with environmental requirements. The Company monitors its environmental responsibilities, together with trends in the related laws, and believes it is in substantial compliance with current regulations. If the Company is required to incur increased compliance costs or violates environmental laws or regulations, future environmental compliance expenditures or liabilities could have a material adverse effect on our financial condition, results of operations or cash flows.

### ***Exposure to fluctuations in foreign currency exchange rates***

The Company is exposed to fluctuations in foreign currency exchange rates, particularly with respect to the Euro, Canadian Dollar, South African Rand and British Pound. Any significant change in the value of these currencies could affect the Company's ability to sell products competitively and control its cost structure, which could have a material effect on its financial condition, results of operations or cash flows.

### ***Conditions in foreign countries in which the Company conducts business***

In 2020, 29% of the Company's net sales were to customers outside the United States. The Company expects its international and export sales to continue to be a significant portion of its revenue and it has placed a particular emphasis on increasing its growth and presence internationally. The Company's sales from international operations and export sales are subject, in varying degrees, to risks inherent to doing business outside the United States. These risks include, but are not limited to, the following, some of which are further addressed in our other Risk Factors:

- Possibility of unfavorable circumstances arising from host country laws or regulations;
- Currency exchange rate fluctuations and restrictions on currency repatriation;
- Potential negative consequences from changes to taxation policies;
- Disruption of operations from labor or political disturbances, or public health crises;
- Changes in tariffs, duty rates, and other trade barriers and import and export licensing requirements;
- Increased costs and risks of developing, staffing and simultaneously managing a number of global operations as a result of distance as well as language and cultural differences; and
- Insurrections, armed conflicts, terrorism or war.

Any of these events could have an adverse impact on the Company's business and operations.

### ***Changes in our tax rates and exposure to additional income tax liabilities***

Gorman-Rupp is subject to income and other taxes in the United States federal jurisdiction and various local, state and foreign jurisdictions. The Company's future effective income tax rates could be unfavorably affected by various factors, including changes in the tax rates as well as rules and regulations in relevant jurisdictions. In addition, the amount of income taxes paid is subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. authorities. If these audits result in assessments different from amounts recorded, the Company's future financial results may include unfavorable adjustments.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.



## ITEM 2. PROPERTIES

The Company's corporate headquarters are located in Mansfield, Ohio. The production operations of the Company are conducted at several locations throughout the United States and other countries as set forth below. The Company is a lessee under a number of operating leases for certain real properties, none of which is material to its operations.

The Company's principal production operations are:

### **United States**

Mansfield (two) and Bellville, Ohio  
Toccoa, Georgia

Royersford, Pennsylvania (two)  
Glendale, Arizona

Olive Branch, Mississippi  
Lubbock, Texas

### **Other Countries**

St. Thomas, Ontario, Canada  
Johannesburg, South Africa

County Westmeath, Ireland  
Namur, Belgium

Waardenburg, The Netherlands

The Company owns a facility in Dallas, Texas comprising a training center and warehouse. In addition, the Company leases a warehouse facility in Jebel Ali, Dubai.

Gorman-Rupp considers its plants, machinery and equipment to be well maintained, in good operating condition and adequate for the present uses and business requirements of the Company.

## ITEM 3. LEGAL PROCEEDINGS

For over twenty years, numerous business entities in the pump and fluid-handling industries, as well as a multitude of companies in many other industries, have been targeted in a series of lawsuits in several jurisdictions by various individuals seeking redress to claimed injury as a result of the entities' alleged use of asbestos in their products. Since 2001, the Company and some of its subsidiaries have been involved in this mass-scaled litigation, typically as one of many co-defendants in a particular proceeding. The allegations in the lawsuits involving the Company and/or its subsidiaries have been vague, general and speculative. Most of these lawsuits have been dismissed without advancing beyond the early stage of discovery, some as a result of nominal monetary settlements recommended for payment by the Company's insurers. The claims and related legal expenses generally have been covered by the Company's insurance, subject to applicable deductibles and limitations. Accordingly, this series of lawsuits has not, cumulatively or individually, had a material adverse impact on the Company's consolidated results of operations, liquidity or financial condition, nor is it expected to have any such impact in the future, based on the current knowledge of the Company.

In addition, the Company and/or its subsidiaries are parties in a small number of legal proceedings arising in the ordinary course of business. Management does not currently believe that these proceedings will materially impact the Company's consolidated results of operations, liquidity or financial condition.

## ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

## INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The following table sets forth certain information with respect to the executive officers of the Company as of January 29, 2021:

<b>Name</b>	<b>Age</b>	<b>Office</b>	<b>Date Elected to Executive Office Position</b>
Jeffrey S. Gorman	68	Chairman and Chief Executive Officer	1998
Scott A. King	46	President and Chief Operating Officer	2019
James C. Kerr	58	Executive Vice President and Chief Financial Officer	2017
Brigitte A. Burnell	45	Senior Vice President, General Counsel and Corporate Secretary	2014

Mr. Gorman was elected Chairman of the Board on April 25, 2019 and has served as Chief Executive Officer since May 1, 1998. He also served as President from 1998 to 2020 after having served as Senior Vice President since 1996. Mr. Gorman also held the position of General Manager of the Gorman-Rupp Pumps USA division from 1989 through 2005. He served as Assistant General Manager from 1986 to 1988; and he held the office of Corporate Secretary from 1982 to 1990. He has served as a Director of the Company continuously since 1989.

Mr. King was elected President effective January 1, 2021 in addition to his role as Chief Operating Officer after previously serving as Vice President and Chief Operating Officer since April 25, 2019. Mr. King also previously served as Vice President of Operations effective March 1, 2018 and as Vice President from April 1, 2017 to February 28, 2018. Mr. King previously held positions with the Gorman-Rupp Pumps USA division of the Company as Vice President and General Manager from January 1, 2014 until March 31, 2017, Vice President of Operations from June 1, 2010 until December 31, 2013, Director of Manufacturing from July 1, 2007 until May 31, 2010 and Manufacturing Manager from November 1, 2004 until June 30, 2007.

Mr. Kerr was elected Executive Vice President and Chief Financial Officer effective January 1, 2021 after previously serving as Vice President and Chief Financial Officer since March 1, 2018. Mr. Kerr previously served as Chief Financial Officer effective January 1, 2017 and as Vice President of Finance from July 18, 2016 to December 31, 2016. Prior to 2016, Mr. Kerr served as both Executive Vice President and Chief Financial Officer of Jo-Ann Stores from 2006 to 2015 and as Vice President, Controller of Jo-Ann Stores from 1998 to 2006.

Ms. Burnell was elected Senior Vice President, General Counsel and Corporate Secretary effective January 1, 2021 after previously serving as Vice President, General Counsel and Corporate Secretary since March 1, 2018. Ms. Burnell previously served as General Counsel effective May 1, 2015 and as Corporate Secretary effective May 1, 2014. Ms. Burnell previously served as Corporate Counsel effective May 1, 2014. Ms. Burnell joined the Company as Corporate Attorney on January 2, 2014. Prior to 2014, Ms. Burnell served as Corporate Counsel of Red Capital Group from 2011 to 2013 and as an Associate at Jones Day from 2002 to 2011.

## PART II

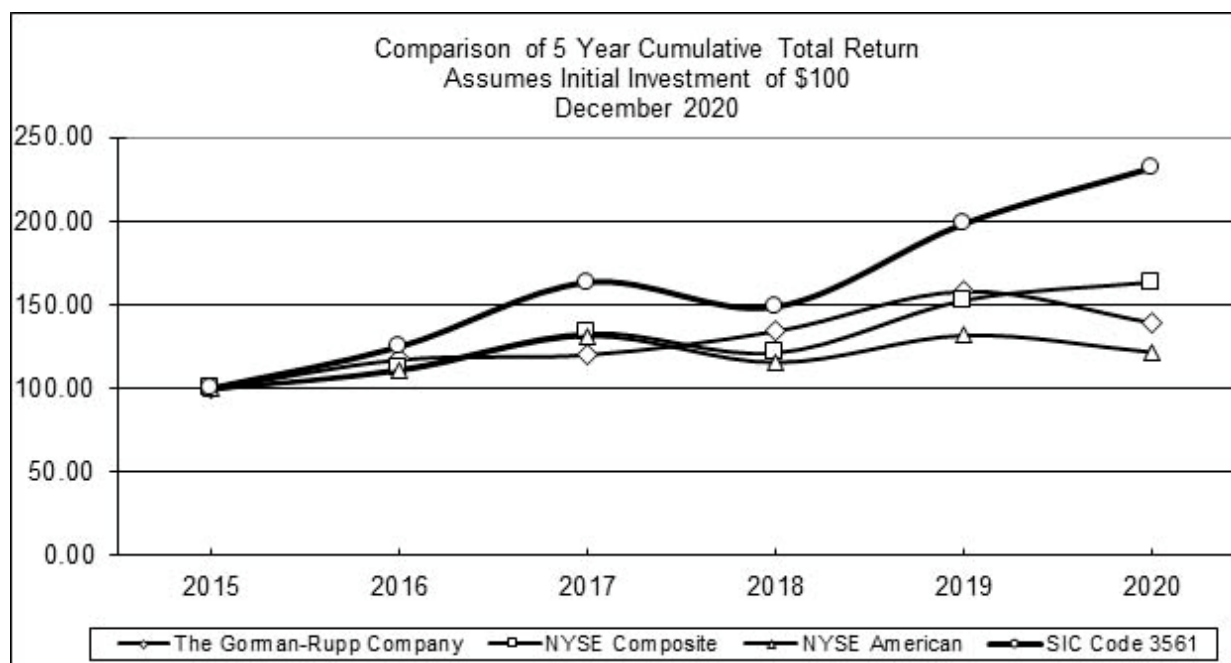
### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock is listed on the New York Stock Exchange under the ticker symbol "GRC". On February 1, 2021, there were 1,546 registered holders of the Company's common shares.

The Company currently expects to continue its exceptional 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 an assessment of the Company's financial condition and business outlook at the applicable time.

## PERFORMANCE GRAPH

The following stock price performance graph and related table compares the cumulative total returns (assuming reinvestment of dividends) on \$100 invested on December 31, 2015 through December 31, 2020 in the Company's common shares, the NYSE Composite Index, the NYSE American Index and a peer group of companies in the SIC Code 3561 Index — Pumps and Pumping Equipment. The stock price performance graph and related table is not necessarily indicative of future investment performance. This graph is not deemed to be "soliciting material" or "filed" with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the graph shall not be deemed to be incorporated by reference into any prior or subsequent filing by us under the Securities Act of 1933, as amended, or the Exchange Act.



	2015	2016	2017	2018	2019	2020
The Gorman-Rupp Company	100.00	117.67	120.59	134.80	158.60	139.78
NYSE Composite	100.00	112.08	133.26	121.53	152.81	163.49
NYSE American	100.00	110.64	131.16	115.73	131.61	121.73
SIC Code 3561	100.00	124.89	163.48	148.88	198.68	232.12



## ITEM 6. SELECTED FINANCIAL DATA

### Five-Year Summary of Selected Financial Data

(Dollars in thousands, except per share amounts)

	2020	2019	2018	2017	2016
<b>Operating Results</b>					
Net sales	\$ 348,967	\$ 398,179	\$ 414,334	\$ 379,389	\$ 382,071
Gross profit	89,555	102,675	109,921	101,208	92,528
Income taxes	6,058	9,351	10,337	12,823	11,599
Net income	25,188	35,815	39,979	26,555	24,883
Depreciation and amortization	12,692	13,749	14,484	15,053	15,529
Return on net sales (%)	7.2	9.0	9.6	7.0	6.5
Sales dollars per employee	304.5	331.5	349.1	327.9	313.2
Income dollars per employee	22.0	29.8	33.7	23.0	20.4
<b>Financial Position</b>					
Current assets	\$ 246,821	\$ 227,665	\$ 208,686	\$ 227,934	\$ 203,900
Current liabilities	38,501	45,495	48,465	45,696	49,352
Working capital	208,320	182,170	160,221	182,238	154,548
Current ratio	6.4	5.0	4.3	5.0	4.1
Property, plant and equipment, net	\$ 108,666	\$ 111,779	\$ 113,493	\$ 117,071	\$ 122,067
Capital additions	7,999	10,912	10,947	7,754	6,877
Total assets	394,457	382,760	368,282	395,015	382,818
Equity	315,513	307,878	293,132	325,495	302,888
Dividends paid	15,394	14,370	65,551 <sup>(1)</sup>	12,268	11,218
Average number of employees	1,146	1,201	1,187	1,157	1,220
<b>Shareholder Information</b>					
Earnings per share	\$ 0.97	\$ 1.37	\$ 1.53	\$ 1.02	\$ 0.95
Cash dividends per share	0.59	0.55	2.51 <sup>(1)</sup>	0.47	0.43
Equity per share at December 31	12.09	11.78	11.22	12.47	11.61
Average number of shares outstanding	26,092,576	26,127,168	26,112,138	26,100,865	26,087,721

(1) Includes a special dividend of \$52,234 or \$2.00 per share.

### Summary of Quarterly Results of Operations

(Dollars in thousands, except per share amounts)

Quarter Ended 2020	Net Sales	Gross Profit	Net Income	Earnings per Share
First quarter	\$ 91,671	\$ 23,448	\$ 5,486	\$ 0.21
Second quarter	85,814	21,849	5,634	0.22
Third quarter	88,982	22,971	7,261	0.28
Fourth quarter	82,500	21,287	6,807	0.26
Total	<u>\$ 348,967</u>	<u>\$ 89,555</u>	<u>\$ 25,188</u>	<u>\$ 0.97</u>
Quarter Ended 2019	Net Sales	Gross Profit	Net Income	Earnings per Share
First quarter	\$ 96,859	\$ 23,313	\$ 7,222	\$ 0.28
Second quarter	108,330	28,192	10,480	0.40
Third quarter	99,298	25,792	9,775	0.37
Fourth quarter	93,692	25,378	8,338	0.32
Total	<u>\$ 398,179</u>	<u>\$ 102,675</u>	<u>\$ 35,815</u>	<u>\$ 1.37</u>

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Amounts in tables in thousands of dollars, except for per share data)

### Executive Overview

The following discussion of Results of Operations includes certain non-GAAP financial data and measures such as adjusted earnings before interest, taxes, depreciation and amortization and adjusted earnings per share amounts which exclude non-cash pension settlement charges in 2020 and 2018. Management utilizes these adjusted financial data and measures to assess comparative operations against those of prior periods without the distortion of non-comparable factors. The Gorman-Rupp Company believes that these non-GAAP financial data and measures also will be useful to investors in assessing the strength of the Company's underlying operations from period to period. Provided below is a reconciliation of adjusted earnings per share amounts and adjusted earnings before interest, taxes, depreciation and amortization.

	2020	2019	2018
<b>Adjusted earnings per share:</b>			
Reported earnings per share – GAAP basis	\$ 0.97	\$ 1.37	\$ 1.53
Plus pension settlement charge	0.14	-	0.08
Non-GAAP adjusted earnings per share	<u>\$ 1.11</u>	<u>\$ 1.37</u>	<u>\$ 1.61</u>
<b>Adjusted earnings before interest, taxes, depreciation and amortization:</b>			
Reported net income – GAAP basis	\$ 25,188	\$ 35,815	\$ 39,979
Plus interest	18	1	1
Plus income taxes	6,058	9,351	10,337
Plus depreciation and amortization	<u>12,692</u>	<u>13,749</u>	<u>14,484</u>
Non-GAAP earnings before interest, taxes, depreciation and amortization	43,956	58,916	64,801
Plus pension settlement charge	<u>4,583</u>	<u>-</u>	<u>2,852</u>
Non-GAAP adjusted earnings before interest, taxes, depreciation and amortization	<u>\$ 48,539</u>	<u>\$ 58,916</u>	<u>\$ 67,653</u>

The Gorman-Rupp Company ("we", "our", "Gorman-Rupp" or the "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 timely delivery and service, and continually seeks to develop initiatives to improve performance in these key areas.

Gorman-Rupp actively pursues growth opportunities through organic growth, international business expansion and acquisitions.

We regularly invest in training for our employees, in new product development and in modern manufacturing equipment, technology and facilities all designed to increase production efficiency and capacity and drive growth by delivering innovative solutions to our customers. We believe that the diversity of our markets is a major contributor to the generally stable financial growth we have produced for more than 85 years.

The Company places a strong emphasis on cash flow generation and maintaining excellent liquidity and financial flexibility. This focus has afforded us the ability to reinvest our cash resources and preserve a strong balance sheet to position us for future acquisition and product development opportunities. The Company had no bank debt as of December 31, 2020. The \$154.5 million of aggregate cash generated by operating activities over the past three years was utilized primarily to pay dividends, including a special dividend of \$2.00 per share paid on December 10, 2018, and the purchase of productivity-enhancing capital equipment. The Company's cash position increased \$27.6 million during 2020 to \$108.2 million at December 31, 2020.

The Company generated \$48.5 million in adjusted earnings before interest, taxes, depreciation and amortization during 2020. From these earnings, the Company invested \$8.0 million primarily in buildings, machinery and equipment and returned \$15.4 million in dividends to shareholders.

Capital expenditures for 2021 are planned to be in the range of \$15-\$20 million primarily for building improvements and machinery and equipment purchases, and are expected to be financed through internally-generated funds.

Net sales for 2020 were \$349.0 million compared to \$398.2 million for 2019, a decrease of 12.4% or \$49.2 million. Domestic sales decreased 10.3% or \$28.4 million while international sales decreased 17.0% or \$20.8 million compared to 2019. Sales have decreased across most of our markets primarily as a result of the COVID-19 pandemic, along with a slowdown in the oil and gas industry.

Gross profit was \$89.6 million for 2020, resulting in gross margin of 25.7%, compared to gross profit of \$102.7 million and gross margin of 25.8% for 2019. Gross margin decreased 10 basis points largely due to an unfavorable LIFO impact of 60 basis points compared to 2019 and decreased 120 basis points from the loss of leverage on fixed labor and overhead attributable to lower sales volume. Largely offsetting these items were lower material costs of 170 basis points compared to 2019.

SG&A expenses were \$53.8 million and 15.4% of net sales for 2020 compared to \$58.8 million and 14.8% of net sales for 2019. SG&A expenses decreased 8.6% or \$5.0 million due to reduced payroll related and travel expenses combined with overall expense management. SG&A expenses as a percentage of sales increased 60 basis points primarily as a result of loss of leverage from lower sales volume.

Operating income was \$35.8 million for 2020, resulting in an operating margin of 10.2%, compared to operating income of \$43.8 million and operating margin of 11.0% for 2019. Operating margin decreased 80 basis points primarily as a result of loss of leverage from lower sales volume.

Other income (expense), net was \$4.5 million of expense for 2020 compared to income of \$1.3 million for the same period in 2019. The increase to expense was due primarily to non-cash pension settlement charges of \$4.6 million.

Net income was \$25.2 million for 2020 compared to \$35.8 million in 2019, and earnings per share were \$0.97 for 2020 and \$1.37 for 2019. Earnings per share in 2020 included a non-cash pension settlement charge of \$0.14 per share. In 2019, earnings benefited from a favorable LIFO impact of \$0.04 per share.

The Company's backlog of orders was \$113.1 million at December 31, 2020 compared to \$105.0 million at December 31, 2019, an increase of 7.7%. Approximately 91% of the Company's backlog of unfilled orders is scheduled to be shipped during 2021, with the remainder principally during the first half of 2022.

Incoming orders decreased 8.7% for the full year and decreased 4.3% for the fourth quarter of 2020 compared to the same periods in 2019. Incoming orders were down across most markets the Company serves driven primarily by the COVID-19 pandemic and a slowdown in the oil and gas industry. However, incoming orders for the fourth quarter of 2020 increased 16.0% compared to the third quarter of 2020.

On January 28, 2021, the Board of Directors authorized the payment of a quarterly dividend of \$0.155 per share, representing the 284th consecutive quarterly dividend to be paid by the Company. During 2020, the Company again paid increased dividends and thereby attained its 48th consecutive year of increased dividends. These consecutive years of increases continue to position Gorman-Rupp in the top 50 of all U.S. public companies with respect to number of years of increased dividend payments. The regular dividend yield at December 31, 2020 was 1.9%.

The Company currently expects to continue its exceptional 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.

## **Outlook**

Despite the unprecedented global challenges of COVID-19, we ended 2020 in strong financial condition and well positioned for the future. While the ongoing impact of the global pandemic on the economy remains uncertain, we are prepared for the eventual recovery. We have continued to focus on our long-term strategic initiatives across our diverse markets, built on our strong inventory position while also maintaining our highly skilled workforce.

We begin 2021 with an increase in backlog from the same time last year, however we expect sales during the first half of the year to continue to be challenging due to the worldwide pandemic. During this time we will continue to manage our SG&A expenses, while at the same time remaining focused on initiatives that will contribute to our long term growth. Our



balance sheet, cash position and ongoing positive cash flow allow us to continue to look for the right opportunities that will supplement our growth for new and existing products and markets. Our outlook for the longer term remains very positive.

## Results of Operations – 2020 Compared to 2019:

### Net Sales

	Year Ended December 31,		\$ Change	% Change
	2020	2019		
Net sales	\$ 348,967	\$ 398,179	\$ (49,212)	(12.4)%

Net sales for 2020 were \$349.0 million compared to \$398.2 million for 2019, a decrease of 12.4% or \$49.2 million. Domestic sales decreased 10.3% or \$28.4 million while international sales decreased 17.0% or \$20.8 million compared to 2019. Sales have decreased across most of our markets primarily as a result of the COVID-19 pandemic, along with a slowdown in the oil and gas industry.

Sales in our water markets decreased 9.4% or \$25.9 million in 2020 compared to 2019. Sales in the agriculture market increased \$1.5 million. This increase was offset by decreases in the construction market of \$11.3 million driven primarily by softness in oil and gas drilling activity. Decreases in the repair market of \$5.6 million, municipal market of \$5.3 million, and fire protection market of \$5.2 million were a result of the COVID-19 pandemic.

Sales in our non-water markets decreased 18.9% or \$23.3 million in 2020 compared to 2019 primarily as a result of the COVID-19 pandemic, along with reduced demand from midstream and downstream oil and gas customers and softness in oil and gas drilling activity. Sales in the OEM market decreased \$8.3 million, sales in the industrial market decreased \$7.8 million and sales in the petroleum market decreased \$7.2 million.

International sales were \$102.1 million in 2020 compared to \$122.9 million in 2019 and represented 29% and 31% of total sales for the Company, respectively. International sales decreased most notably in the fire protection and all non-water markets.

### Cost of Products Sold and Gross Profit

	Year Ended December 31,		\$ Change	% Change
	2020	2019		
Cost of products sold	\$ 259,412	\$ 295,504	\$ (36,092)	(12.2)%
<i>% of Net sales</i>	74.3%	74.2%		
<i>Gross margin</i>	25.7%	25.8%		

Gross profit was \$89.6 million for 2020, resulting in gross margin of 25.7%, compared to gross profit of \$102.7 million and gross margin of 25.8% for 2019. Gross margin decreased 10 basis points largely due to an unfavorable LIFO impact of 60 basis points compared to 2019 and decreased 120 basis points from the loss of leverage on fixed labor and overhead attributable to lower sales volume. Largely offsetting these items were lower material costs of 170 basis points compared to 2019.

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

	Year Ended December 31,			
	2020	2019	\$ Change	% Change
Selling, general and administrative expenses	\$ 53,802	\$ 58,835	\$ (5,033)	(8.6)%
<i>% of Net sales</i>	15.4%	14.8%		

SG&A expenses were \$53.8 million and 15.4% of net sales for 2020 compared to \$58.8 million and 14.8% of net sales for 2019. SG&A expenses decreased 8.6% or \$5.0 million due to reduced payroll related and travel expenses combined with overall expense management. SG&A expenses as a percentage of sales increased 60 basis points primarily as a result of loss of leverage from lower sales volume.

## Operating Income

	Year Ended December 31,			
	2020	2019	\$ Change	% Change
Operating income	\$ 35,753	\$ 43,840	\$ (8,087)	(18.4)%
<i>% of Net sales</i>	10.2%	11.0%		

Operating income was \$35.8 million for 2020, resulting in an operating margin of 10.2%, compared to operating income of \$43.8 million and operating margin of 11.0% for 2019. Operating margin decreased 80 basis points primarily as a result of loss of leverage from lower sales volume.

## Net Income

	Year Ended December 31,			
	2020	2019	\$ Change	% Change
Income before income taxes	\$ 31,246	\$ 45,166	\$ (13,920)	(30.8)%
<i>% of Net sales</i>	8.9%	11.3%		
Income taxes	\$ 6,058	\$ 9,351	\$ (3,293)	(35.2)%
<i>Effective tax rate</i>	19.4%	20.7%		
Net income	\$ 25,188	\$ 35,815	\$ (10,627)	(29.7)%
<i>% of Net sales</i>	7.2%	9.0%		
Earnings per share	\$ 0.97	\$ 1.37	\$ (0.40)	(29.2)%

The Company's effective tax rate was 19.4% for 2020 compared to 20.7% for 2019. The effective tax rate for 2020 was impacted by an increased benefit from credits and permanent items over a lower pretax income as well as a favorable tax rate benefit on foreign operations. We expect our effective tax rate for 2021 to be between 21.0% and 23.0%.

The decrease of \$10.6 million in net income in 2020 compared to 2019 was due primarily to lower sales volume and a non-cash pension settlement charge of \$3.7 million net of income taxes. Net income in 2019 included a favorable LIFO impact of \$0.9 million.

Earnings per share in 2020 included a non-cash pension settlement charge of \$0.14 per share. In 2019, earnings benefited from a favorable LIFO impact of \$0.04 per share.

## Results of Operations – 2019 Compared to 2018:

### Net Sales

	Year Ended December 31,		\$ Change	% Change
	2019	2018		
Net sales	\$ 398,179	\$ 414,334	\$ (16,155)	(3.9)%

Net sales for 2019 were \$398.2 million compared to \$414.3 million for 2018, a decrease of 3.9% or \$16.1 million. Domestic sales increased 1.3% or \$3.5 million while international sales decreased 13.8% or \$19.6 million compared to 2018. Of the total decrease in net sales during 2019, \$2.9 million was due to unfavorable currency translation.

Sales in our water markets decreased 4.1% or \$11.7 million in 2019 compared to 2018. Sales in the municipal market increased \$3.7 million due primarily to large volume custom pumps for flood control, and sales in the repair market increased \$0.4 million. This increase was offset by decreased sales in the fire protection market of \$9.6 million driven primarily by softness in international markets and decreased sales in the construction market of \$4.2 million driven primarily by softness in the upstream oil and gas activity. In addition, sales in the agriculture market decreased \$2.0 million.

Sales in our non-water markets decreased 3.5% or \$4.4 million in 2019 compared to 2018. Sales in the petroleum market increased \$1.7 million driven primarily by midstream and downstream oil and gas customers. This increase was offset by decreased sales in the industrial market and OEM market of \$4.4 million and \$1.7 million, respectively, due primarily to reduced capital spending related to oil and gas.

International sales were \$122.9 million in 2019 compared to \$142.5 million in 2018 and represented 31% and 34% of total sales for the Company, respectively. International sales decreased most notably in the fire protection, construction and municipal markets.

### Cost of Products Sold and Gross Profit

	Year Ended December 31,		\$ Change	% Change
	2019	2018		
Cost of products sold	\$ 295,504	\$ 304,413	\$ (8,909)	(2.9)%
<i>% of Net sales</i>	74.2%	73.5%		
<i>Gross margin</i>	25.8%	26.5%		

Gross profit was \$102.7 million for 2019, resulting in gross margin of 25.8%, compared to gross profit of \$109.9 million and gross margin of 26.5% for 2018. Gross margin decreased 70 basis points largely as a result of loss of leverage on fixed labor and overhead from lower sales volume, and higher healthcare costs of 50 basis points. Partially offsetting these items was a favorable LIFO impact of 130 basis points compared to 2018 due to lower inventory levels as compared to amounts in inventory at December 31, 2018.

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

	Year Ended December 31,		\$ Change	% Change
	2019	2018		
Selling, general and administrative expenses	\$ 58,835	\$ 59,282	\$ (447)	(0.8)%
<i>% of Net sales</i>	14.8%	14.3%		

SG&A expenses were \$58.8 million and 14.8% of net sales for 2019 compared to \$59.3 million and 14.3% of net sales for 2018. In 2018, a special cash bonus paid to all employees impacted SG&A expenses by \$1.3 million or 30 basis points. Excluding this special cash bonus, SG&A expenses increased slightly by 1.4% or \$0.8 million and increased 80 basis points as a percentage of sales primarily as a result of loss of leverage from lower sales volume.



## Operating Income

	Year Ended December 31,			
	2019	2018	\$ Change	% Change
Operating income	\$ 43,840	\$ 50,639	\$ (6,799)	(13.4)%
<i>% of Net sales</i>	<i>11.0%</i>	<i>12.2%</i>		

Operating income was \$43.8 million for 2019, resulting in an operating margin of 11.0%, compared to operating income of \$50.6 million and operating margin of 12.2% for 2018. In 2018, a special cash bonus paid to all employees impacted operating margin by \$1.3 million or 30 basis points. Excluding this special cash bonus, operating margin decreased 150 basis points primarily as a result of loss of leverage from lower sales volume and higher healthcare costs of 70 basis points, partially offset by a favorable LIFO impact of 130 basis points.

## Net Income

	Year Ended December 31,			
	2019	2018	\$ Change	% Change
Income before income taxes	\$ 45,166	\$ 50,316	\$ (5,150)	(10.2)%
<i>% of Net sales</i>	<i>11.3%</i>	<i>12.1%</i>		
Income taxes	\$ 9,351	\$ 10,337	\$ (986)	(9.5)%
<i>Effective tax rate</i>	<i>20.7%</i>	<i>20.5%</i>		
Net income	\$ 35,815	\$ 39,979	\$ (4,164)	(10.4)%
<i>% of Net sales</i>	<i>9.0%</i>	<i>9.6%</i>		
Earnings per share	\$ 1.37	\$ 1.53	\$ (0.16)	(10.5)%

The Company's effective tax rate increased slightly to 20.7% for 2019 from 20.5% for 2018. The effective tax rate for 2019 benefitted by 100 basis points primarily from higher research and development tax credits. The effective tax rate for 2018 benefitted by 120 basis points from pension plan contributions eligible for tax deduction at the 35.0% federal corporate tax rate for 2017 rather than the 21.0% rate for 2018.

The decrease in net income in 2019 compared to 2018 was due primarily to lower international sales volume and a slowdown in oil and gas related spending. Net income in 2019 included a favorable LIFO impact of \$0.9 million, net of income taxes. Net income in 2018 included an unfavorable LIFO impact of \$3.1 million, net of income taxes, a non-cash pension settlement charge of \$2.2 million, net of income taxes, and a special cash bonus paid to all employees of \$1.0 million, net of income taxes.

Earnings per share for 2019 included a favorable LIFO impact of \$0.04 per share. Earnings per share for 2018 included an unfavorable LIFO impact of \$0.12 per share, non-cash pension settlement charges of \$0.08 per share and a special cash bonus paid to all employees with an impact of \$0.04 per share.

## Liquidity and Sources of Capital

Cash and cash equivalents totaled \$108.2 million and there was no outstanding bank debt at December 31, 2020. In addition, at December 31, 2020, the Company had \$24.5 million of borrowing capacity available in bank lines of credit after deducting \$6.5 million in outstanding letters of credit primarily related to customer orders. The Company was in compliance with its debt covenants, including limits on additional borrowings and maintenance of certain operating and financial ratios, at all times in 2020 and 2019.

Capital expenditures for 2021, which are expected to consist principally of machinery and equipment purchases and building improvements, are estimated to be in the range of \$15 - \$20 million and are expected to be financed through internally generated funds. During 2020, 2019 and 2018, the Company financed its capital improvements and working capital requirements principally through internally generated funds.

We expect to continue to generate cash in excess of our operating needs. We believe we have adequate funds on hand and sufficient borrowing capacity to execute our financial and operating strategy.

The Company expects to contribute up to \$2.0 million to its defined benefit pension plan in 2021.

Free cash flow, a non-GAAP measure for reporting cash flow, is defined by the Company as adjusted earnings before interest, income taxes and depreciation and amortization, less capital expenditures and dividends. The Company believes free cash flow provides investors with an important perspective on cash available for investments, acquisitions and working capital requirements.

The following table reconciles adjusted earnings before interest, income taxes and depreciation and amortization as reconciled above to free cash flow:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Non-GAAP adjusted earnings before interest, taxes, depreciation and amortization	\$ 48,539	\$ 58,916	\$ 67,653
Less capital expenditures	(7,999)	(10,912)	(10,947)
Less cash dividends	(15,394)	(14,370)	(65,551)
Non-GAAP free cash flow	<u>\$ 25,146</u>	<u>\$ 33,634</u>	<u>\$ (8,845)</u>

## Financial Cash Flow

	<b>Year Ended December 31,</b>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Beginning of period cash and cash equivalents	\$ 80,555	\$ 46,458	\$ 79,680
Net cash provided by operating activities	51,162	62,174	41,210
Net cash used for investing activities	(7,704)	(10,847)	(7,468)
Net cash used for financing activities	(16,136)	(17,363)	(65,551)
Effect of exchange rate changes on cash	326	133	(1,413)
Net increase (decrease) in cash and cash equivalents	<u>27,648</u>	<u>34,097</u>	<u>(33,222)</u>
End of period cash and cash equivalents	<u>\$ 108,203</u>	<u>\$ 80,555</u>	<u>\$ 46,458</u>

The change in cash provided by operating activities in 2020 compared to 2019 was primarily due to lower income in 2020 compared to 2019 driven by decreased sales. Cash outflows increased due to a reduction in accounts payable primarily from reduced SG&A spend, increased inventory to prepare for customer demand, and increased pension contributions. These cash outflows were offset by cash inflows from reduced accounts receivable driven by decreased sales and a higher deferred tax provision. The change in cash provided by operating activities in 2019 compared to 2018 was primarily due to lower inventories driven by a planned inventory reduction and a decrease in accounts receivable driven by lower sales volume. In addition, prepaid income taxes decreased and the Company did not make any pension contributions in 2019. These positive effects on cash flow were offset by a decrease in commissions payable driven by lower sales volume.

During 2020, investing activities of \$7.7 million primarily consisted of \$8.0 million of capital expenditures for buildings, machinery and equipment. During 2019, investing activities of \$10.8 million primarily consisted of \$10.9 million of capital expenditures for buildings, machinery and equipment. During 2018, investing activities of \$7.5 million primarily consisted of a \$3.0 million decrease in short-term investments and \$10.9 million of capital expenditures for machinery and equipment offset by \$0.5 million of proceeds from the sale of property, plant and equipment.

During 2020, financing activities of \$16.1 million consisted of dividend payments of \$15.4 million. During 2019, financing activities of \$17.4 million consisted of dividend payments of \$14.4 million and a privately-arranged market value purchase of Company shares in the amount of \$2.5 million from a Rupp family estate. Net cash used for financing activities consisted of dividend payments of \$65.6 million during 2018, including \$52.2 million related to a special dividend.

The Company currently expects to continue its exceptional 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.

### Contractual Obligations

Capital commitments in the table below include contractual commitments to purchase machinery and equipment that have been approved by the Board of Directors. The capital commitments do not represent the entire anticipated purchases in the future, but represent only those substantive items for which the Company is contractually obligated as of December 31, 2020. Also, the Company has operating leases and two financing leases for certain offices, manufacturing facilities, land, office equipment and automobiles. Rental expenses relating to these leases were \$0.9 million in 2020 and \$1.0 million in both 2019 and 2018.

The following table summarizes the Company's contractual obligations at December 31, 2020:

	Payment Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Capital commitments	\$ 27	\$ 27	\$ -	\$ -	\$ -
Leases	1,750	751	895	98	6
Total	<u>\$ 1,777</u>	<u>\$ 778</u>	<u>\$ 895</u>	<u>\$ 98</u>	<u>\$ 6</u>

### Critical Accounting Policies

The accompanying Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States. When more than one accounting principle, or the method of its application, is generally accepted, management selects the principle or method that is appropriate in the Company's specific circumstances. Application of these accounting principles requires management to make estimates about the future resolution of existing uncertainties; as a result, actual results could differ from these estimates.

In preparing these Consolidated Financial Statements, management has made its best estimates and judgments of the amounts and disclosures included in the Consolidated Financial Statements, giving due regard to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported under different conditions or using different assumptions pertaining to the accounting policies described below.

## *Revenue Recognition*

The Company accounts for revenue in accordance with Accounting Standards Codification (“ASC”) 606, “Revenue from Contracts with Customers,” under which the unit of account is a performance obligation. Substantially all of our revenue is derived from fixed-price customer contracts and the majority of our customer contracts have a single performance obligation. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer. For customer contracts with multiple performance obligations, the Company allocates revenue to each performance obligation based on its relative standalone selling price, which is generally determined based on standalone selling prices charged to customers or using expected cost plus margin.

The transaction price for a customer contract is allocated to each distinct performance obligation and recognized as revenue when, or as, the Company’s performance obligation is satisfied. All of the Company’s performance obligations, and associated revenue, are generally satisfied at a point in time, with the exception of certain highly customized pump products, which are satisfied over time as work progresses.

Accounting for long-term contracts involves the use of various techniques to estimate total contract revenue and costs. For long-term contracts, the Company estimates the profit on a contract as the difference between the total estimated revenue and expected costs to complete a contract and recognizes that profit as performance obligations are satisfied. Contract estimates are based on various assumptions to project the outcome of future events that could span longer than one year. These assumptions include labor productivity and availability, the complexity of the work to be performed, the cost and availability of materials and the performance of subcontractors as applicable.

As a significant change in one or more of these estimates could affect the profitability of our contracts, the Company reviews and updates its contract-related estimates regularly. Adjustments in estimated profit on contracts are accounted for under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date on a contract is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate.

## *Allowance for Doubtful Accounts*

The Company evaluates the collectability of its accounts receivable based on a combination of factors including both current and historical information. In circumstances where the Company is aware of a specific customer’s inability to meet its financial obligations to the Company (e.g., bankruptcy filings, substantial downgrading of credit scores), the Company records a specific allowance for bad debts against amounts due to reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes allowances for bad debts primarily based on the length of time the receivables are past due. If circumstances change (e.g., an unexpected material adverse change in a large customer’s ability to meet its financial obligations), the Company’s estimates of the recoverability of amounts due could be reduced by a material amount. Historically, the Company’s collection history has been good.

## *Inventories and Related Allowance*

Inventories are valued at the lower of cost or market value and have been reduced by an allowance for excess and obsolete inventories. The estimated allowance is based on a variety of factors, including historical inventory usage and management evaluations. Historically, the Company has not experienced substantive write-offs due to obsolescence. The Company uses the last-in, first-out (LIFO) method for the majority of its inventories.



### *Product Warranties*

A liability is established for estimated future warranty and service claims based on historical claims experience and specific product failures.

### *Pension Plan and Other Postretirement Benefit Plans*

The Company recognizes the obligations associated with its defined benefit pension plan and defined benefit health care plans in its Consolidated Financial Statements. The measurement of liabilities related to its pension plan and other postretirement benefit plans is based on management's assumptions related to future events including interest rates, return on pension plan assets, rate of compensation increases and health care cost trend rates. Actual pension plan asset performance will either reduce or increase pension losses included in Accumulated other comprehensive loss, which ultimately affects net income. The discount rates used to determine the present value of future benefits are based on estimated yields of investment grade fixed income investments.

The discount rates used to value pension plan obligations were 1.97% and 2.83% at December 31, 2020 and 2019, respectively. The discount rates used to value postretirement obligations were 2.25% and 3.08% at December 31, 2020 and 2019, respectively. The discount rates were determined by constructing a zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date. The expected rate of return on pension assets is designed to be a long-term assumption that will be subject to year-to-year variability. The rate for 2020 was 5.36% and 2019 was 5.37%. Actual pension plan asset performance will either reduce or increase unamortized losses included in Accumulated other comprehensive loss, which will ultimately affect net income. The assumed rate of compensation increase was 3.50% in 2020 and 2019.

Substantially all retirees elect to take lump sum settlements of their pension plan benefits. When interest rates are low as they have been the last five years, this subjects the Company to the risk of exceeding an actuarial threshold computed on an annual basis and triggering a GAAP-required non-cash pension settlement loss, which occurred in 2020 and 2018.

The assumption used for the rate of increase in medical costs over the next five years was 5% in 2020 and unchanged in 2019.

### *Income Taxes*

In January 2018, FASB released guidance on accounting for the global intangible low-taxed income ("GILTI") tax. The guidance indicates that either accounting for deferred taxes related to GILTI tax inclusions or treating the GILTI tax as a period cost are both acceptable methods subject to an accounting policy election. The Company has elected to account for the GILTI tax in the period in which it is incurred.

The basic principles related to accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns.

Realization of the Company's deferred tax assets is principally dependent upon the Company's achievement of projected future taxable income, which management believes will be sufficient to fully utilize the deferred tax assets recorded, with the exception of deferred tax associated with certain state tax credits for which a valuation allowance has been recognized.

The Company is subject to income taxes in the U.S. federal and various state, local and foreign jurisdictions. Income tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2016.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense for all periods presented. The Company accrued approximately \$0.2 million, \$0.3 million and \$0.2 million for the payment of interest and penalties at December 31, 2020, 2019 and 2018, respectively.

#### *Goodwill and Other Intangibles*

The Company accounts for goodwill in a purchase business combination as the excess of the cost over the fair value of net assets acquired. Business combinations can also result in other intangible assets being recognized. Amortization of intangible assets, if applicable, occurs over their estimated useful lives.

Goodwill is tested annually for impairment as of October 1, or whenever events or changes in circumstances indicate there may be a possible permanent loss of value in accordance with ASC 350, "Intangibles - Goodwill and Other."

Goodwill is tested for impairment at the reporting unit level and is based on the net assets for each reporting unit, including goodwill and intangible assets. The Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing a quantitative impairment assessment is unnecessary.

In assessing the qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we identify and assess relevant drivers of fair value and events and circumstances that may impact the fair value and the carrying amount of the reporting unit. The identification of relevant events and circumstances and how these may impact a reporting unit's fair value or carrying amount involve significant judgments and assumptions. The judgments and assumptions include the identification of macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, Company-specific events and share price trends and making the assessment on whether each relevant factor will impact the impairment test positively or negatively and the magnitude of any such impact.

When performing a quantitative assessment of goodwill impairment if necessary, or in years where we elect to do so, a discounted cash flow model is used to estimate the fair value of each reporting unit, which considers forecasted cash flows discounted at an estimated weighted-average cost of capital. The forecasted cash flows are based on the Company's long-term operating plan and the weighted-average cost of capital is an estimate of the overall after-tax rate of return. Other valuation techniques including comparative market multiples are used when appropriate. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective reporting units.

The Company performed a qualitative analyses as of October 1, 2020 and 2019 for all of its reporting units except for one and concluded that it is more likely than not that the fair value of the reporting units continues to exceed the respective carrying amounts.

The Company performed a quantitative impairment analysis as of October 1, 2020 for the National Pump Company ("National") reporting unit and concluded that National's fair value exceeded its carrying value by approximately 31% and therefore was not impaired. A sensitivity analysis was performed for the National reporting unit, assuming a hypothetical 100 basis point decrease in the expected long-term growth rate or a hypothetical 100 basis point increase in the weighted average cost of capital, and both scenarios independently yielded an estimated fair value for the National reporting unit above carrying value. If National fails to experience growth or revises its long-term projections downward, it could be subject to impairment charges in the future. Goodwill relating to the National reporting unit is \$13.6 million, 3.4% of the Company's December 31, 2020 total assets. See Note 10 to the Consolidated Financial Statements, Goodwill and Other Intangible Assets.

Other indefinite-lived intangible assets primarily consist of trademarks and trade names. The fair value of these assets is also tested annually for impairment as of October 1, or whenever events or changes in circumstances indicate there may be a possible permanent loss of value. The fair value of these assets is determined using a royalty relief methodology similar to that employed when the associated assets were acquired, but using updated estimates of future sales, cash flows and profitability. For 2020 and 2019, the fair value of all indefinite lived intangible assets exceeded the respective carrying values.

Finite-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recovered through future net cash flows generated by the assets. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future net undiscounted cash flows estimated to be generated by such assets. The Company was not aware of any events or changes in circumstances that indicate the carrying value of its finite-lived assets may not be recoverable. See Note 10 to the Consolidated Financial Statements, Goodwill and Other Intangible Assets.

#### *Other Matters*

Certain transactions with related parties occur in the ordinary course of business and are not considered to be material to the Company's consolidated financial position, net income or cash flows.

The Company does not have any off-balance sheet arrangements, financings or other relationships with unconsolidated "special purpose entities."

The Company is not a party to any long-term debt agreements, or any material leases or purchase obligations.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is subject to market risk associated principally with fluctuations in foreign currency exchange rates. The Company's foreign currency exchange rate risk is limited primarily to the Euro, Canadian Dollar, South African Rand and British Pound. The Company manages its foreign exchange risk principally through invoicing customers in the same currency as is used in the market of the source of products. The foreign currency transaction gains (losses) for the periods ending December 31, 2020, 2019 and 2018 were \$0.3 million, \$0.1 million and \$(0.8) million, respectively, and are reported within Other (expense) income, net on the Consolidated Statements of Income.

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

#### **Report of Independent Registered Public Accounting Firm**

#### **To the Shareholders and the Board of Directors of The Gorman-Rupp Company**

#### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of The Gorman-Rupp Company (the Company) as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 1, 2021 expressed an unqualified opinion thereon.

#### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosures to which it relates.

#### *National Pump Company Goodwill Impairment Evaluation*

##### *Description of the Matter*

At December 31, 2020, the Company's total goodwill was \$27.5 million, of which, \$13.6 million related to the National Pump Company reporting unit. Goodwill is assigned to the Company's reporting units as of the acquisition date. As discussed in Note 1 and Note 10 of the consolidated financial statements, goodwill is tested for impairment at least annually on October 1 at the reporting unit level, or when events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For 2020, the Company used a quantitative analysis for the annual goodwill impairment testing for its National Pump Company reporting unit. The Company uses an income and market approach in its quantitative impairment tests. National Pump Company goodwill is susceptible to impairment due to the narrow difference between its estimated fair value and carrying value.

Auditing the Company's National Pump Company quantitative goodwill impairment evaluation was complex and highly judgmental due to the significant estimation required in determining the fair value of the reporting unit. In particular, the fair value estimate using the income approach was sensitive to significant assumptions such as the weighted average cost of capital, discrete revenue growth rates, terminal period revenue growth rate, and profitability assumptions. Elements of these significant assumptions are forward-looking and could be affected by future economic conditions and/or changes in consumer preferences.

*How We Addressed the Matter in Our Audit* We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's National Pump Company reporting unit goodwill impairment review process, including controls over the significant assumptions mentioned above.

To test the estimated fair value used in the Company's National Pump Company reporting unit goodwill impairment analysis, we performed audit procedures that included, among others, assessing fair value methodologies and testing the significant assumptions discussed above and the underlying data used by the Company in its analysis. For example, we compared the significant assumptions used by management to current industry and economic trends, changes to the Company's business model, and other relevant factors. We assessed the historical accuracy of management's estimates. We also performed sensitivity analyses of significant assumptions, including the weighted average cost of capital and terminal period revenue growth rate, to evaluate the changes in fair value that would result from changes in the assumptions and the potential impact on the Company's conclusion of whether or not the goodwill was impaired. In addition, we involved our valuation specialist to assist with our evaluation of the methodology used by the Company and significant assumptions, including, among others, the weighted average cost of capital.

/s/ Ernst & Young LLP

We have served as the Company's auditor since at least 1967, but we are unable to determine the specific year.

Cleveland, Ohio  
March 1, 2021

**The Gorman-Rupp Company**

**Consolidated Statements of Income**

<i>(Dollars in thousands, except share and per share amounts)</i>	<b>Year Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Net sales	\$ 348,967	\$ 398,179	\$ 414,334
Cost of products sold	259,412	295,504	304,413
Gross profit	89,555	102,675	109,921
Selling, general and administrative expenses	53,802	58,835	59,282
Operating income	35,753	43,840	50,639
Other (expense) income, net	(4,507)	1,326	(323)
Income before income taxes	31,246	45,166	50,316
Income taxes	6,058	9,351	10,337
Net income	<u>\$ 25,188</u>	<u>\$ 35,815</u>	<u>\$ 39,979</u>
Earnings per share	<u>\$ 0.97</u>	<u>\$ 1.37</u>	<u>\$ 1.53</u>
Average number of shares outstanding	26,092,576	26,127,168	26,112,138

*See notes to consolidated financial statements.*

**Consolidated Statements of Comprehensive Income**

<i>(Dollars in thousands)</i>	<b>Year Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Net income	\$ 25,188	\$ 35,815	\$ 39,979
Cumulative translation adjustments	3,111	88	(2,922)
Pension and postretirement medical liability adjustments, net of tax	(4,951)	(5,202)	(5,922)
Other comprehensive (loss)	(1,840)	(5,114)	(8,844)
Comprehensive income	<u>\$ 23,348</u>	<u>\$ 30,701</u>	<u>\$ 31,135</u>

*See notes to consolidated financial statements.*



# The Gorman-Rupp Company

## Consolidated Balance Sheets

	December 31,	
	2020	2019
<i>(Dollars in thousands)</i>		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 108,203	\$ 80,555
Accounts receivable, net	50,763	65,433
Inventories, net	82,686	75,997
Prepaid and other	5,169	5,680
Total current assets	246,821	227,665
Property, plant and equipment, net	108,666	111,779
Other assets	4,795	8,320
Goodwill and other intangible assets, net	34,175	34,996
Total assets	<u>\$ 394,457</u>	<u>\$ 382,760</u>
<b>Liabilities and equity</b>		
Current liabilities:		
Accounts payable	\$ 9,466	\$ 16,030
Payroll and employee related liabilities	10,825	12,172
Commissions payable	5,624	7,034
Deferred revenue and customer deposits	8,004	4,911
Accrued expenses	4,582	5,348
Total current liabilities	38,501	45,495
Pension benefits	9,232	1,040
Postretirement benefits	28,250	24,453
Other long-term liabilities	2,961	3,894
Total liabilities	78,944	74,882
Equity:		
Common shares, without par value:		
Authorized – 35,000,000 shares;		
Outstanding – 26,101,992 shares at December 31, 2020 and 26,067,502 shares at		
December 31, 2019 (after deducting treasury shares of 946,804 and 981,294,		
respectively), at stated capital amounts	5,099	5,091
Additional paid-in capital	693	1,147
Retained earnings	340,098	330,177
Accumulated other comprehensive (loss)	(30,377)	(28,537)
Total equity	315,513	307,878
Total liabilities and equity	<u>\$ 394,457</u>	<u>\$ 382,760</u>

See notes to consolidated financial statements.

**The Gorman-Rupp Company**

**Consolidated Statements of Cash Flows**

	Year Ended December 31,		
	2020	2019	2018
<i>(Dollars in thousands)</i>			
Cash flows from operating activities:			
Net income	\$ 25,188	\$ 35,815	\$ 39,979
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,692	13,749	14,484
Pension expense	7,489	2,823	4,909
Contributions to pension plan	(2,000)	-	(4,000)
Deferred income tax charge (benefit)	544	(1,198)	337
Stock based compensation	42	1,025	1,674
Other	11	(53)	(44)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable, net	15,247	2,218	(1,196)
Inventories, net	(5,310)	11,452	(13,601)
Accounts payable	(6,845)	(601)	1,299
Commissions payable	(1,565)	(2,140)	1,737
Deferred revenue and customer deposits	2,953	(321)	741
Accrued expenses and other	5,162	102	1,490
Income taxes	(2,446)	(697)	(6,599)
Net cash provided by operating activities	51,162	62,174	41,210
Cash flows from investing activities:			
Capital additions	(7,999)	(10,912)	(10,947)
(Purchase of) Proceeds from short-term investments, net	(4)	(4)	2,967
Other	299	69	512
Net cash used for investing activities	(7,704)	(10,847)	(7,468)
Cash flows from financing activities:			
Regular cash dividends	(15,394)	(14,370)	(13,317)
Special cash dividend	-	-	(52,234)
Treasury share repurchases	(361)	(2,610)	-
Other	(381)	(383)	-
Net cash used for financing activities	(16,136)	(17,363)	(65,551)
Effect of exchange rate changes on cash	326	133	(1,413)
Net increase (decrease) in cash and cash equivalents	27,648	34,097	(33,222)
Cash and cash equivalents:			
Beginning of year	80,555	46,458	79,680
End of period	<u>\$ 108,203</u>	<u>\$ 80,555</u>	<u>\$ 46,458</u>

*See notes to consolidated financial statements.*

**The Gorman-Rupp Company**  
**Consolidated Statements of Equity**

<i>(Dollars in thousands, except share and per share amounts)</i>	<u>Common Shares</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Total</u>
	<u>Shares</u>	<u>Dollars</u>				
<b>Balances December 31, 2017</b>	26,106,623	\$ 5,100	\$ 526	\$ 332,378	\$ (12,509)	\$325,495
Net income				39,979		39,979
Other comprehensive loss					(8,844)	(8,844)
Reclassification of stranded income tax effects in accumulated other comprehensive income				2,070	(2,070)	-
Stock based compensation and other	10,422	2	2,013	38		2,053
Cash dividends - \$2.51 per share, including a \$2.00 special dividend				(65,551)		(65,551)
<b>Balances December 31, 2018</b>	26,117,045	5,102	2,539	308,914	(23,423)	293,132
Net income				35,815		35,815
Other comprehensive loss					(5,114)	(5,114)
Stock based compensation	19,836	4	948	73		1,025
Treasury share repurchases	(69,379)	(15)	(2,340)	(255)		(2,610)
Cash dividends - \$0.55 per share				(14,370)		(14,370)
<b>Balances December 31, 2019</b>	26,067,502	5,091	1,147	330,177	(28,537)	307,878
Net income				25,188		25,188
Other comprehensive loss					(1,840)	(1,840)
Stock based compensation	45,338	10	(135)	167		42
Treasury share repurchases	(10,848)	(2)	(319)	(40)		(361)
Cash dividends - \$0.59 per share				(15,394)		(15,394)
<b>Balances December 31, 2020</b>	<u>26,101,992</u>	<u>\$ 5,099</u>	<u>\$ 693</u>	<u>\$ 340,098</u>	<u>\$ (30,377)</u>	<u>\$315,513</u>

*See notes to consolidated financial statements.*

## **The Gorman-Rupp Company**

### **Notes to Consolidated Financial Statements**

*(Amounts in tables in thousands of dollars)*

#### **Note 1 – Summary of Significant Accounting Policies**

##### **General Information and Basis of Presentation**

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 Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles and include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated. Earnings per share are calculated based on the weighted-average number of common shares outstanding.

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results.

##### **COVID-19 Impact**

In March 2020, the World Health Organization categorized the coronavirus disease (“COVID-19”) as a pandemic. While the near-term effects of the pandemic have negatively impacted its financial results, uncertainty over the economic and operational impacts of COVID-19 means the ultimate related financial impact cannot be reasonably estimated at this time. The Company’s Consolidated Financial Statements presented herein reflect estimates and assumptions made by management that affect the reported amounts of assets and liabilities and reported amounts of revenue and expenses during the reporting periods presented. Such estimates and assumptions affect, among other things, the Company’s goodwill, long-lived asset and indefinite-lived intangible asset valuation; inventory valuation; the allowance for doubtful accounts; and pension plan assumptions. The Company is not aware of any specific event or circumstance that would require an update to its estimates or judgments or a revision of the carrying value of its assets or liabilities as of December 31, 2020, the date of issuance of this Annual Report on Form 10-K. These estimates may change as new events occur and additional information is obtained.

##### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates.

##### **Cash Equivalents and Short-Term Investments**

The Company considers highly liquid instruments with maturities of 90 days or less to be cash equivalents. The Company periodically makes short-term investments for which cost approximates fair value. Short-term investments at December 31, 2020 and 2019 consisted primarily of a certificate of deposit and is classified as Prepaid and other on the Consolidated Balance Sheets.

##### **Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are stated at the historical carrying amount net of allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts for expected losses from the failure of its customers to make required payments for products delivered. The Company estimates this allowance based on knowledge of the financial condition of customers, review of historical receivables and reserve trends, current economic conditions in the company’s major markets and geographies, and other relevant information.

## Inventories

LIFO inventories are stated at the lower of cost or market and all other inventories are stated at the lower of cost or net realizable value. The costs for approximately 71% and 72% of inventories at December 31, 2020 and 2019, respectively, were determined using the last-in, first-out (LIFO) method, with the remainder determined using the first-in, first-out (FIFO) method. Cost components include materials, inbound freight costs, labor and allocations of fixed and variable overheads on an absorption costing basis.

## Property, plant and equipment

Property, plant and equipment are stated on the basis of cost. Repairs and maintenance costs are expensed as incurred. Depreciation for property, plant and equipment assets is computed using the straight-line method over the estimated useful lives of the assets and is included in Cost of products sold and Selling, general and administrative expenses based on the use of the assets. Depreciation expense was \$11.4 million, \$12.6 million, and \$13.3 million for 2020, 2019, and 2018, respectively.

Depreciation of property, plant and equipment is determined based on the following lives:

	years
Buildings	20 - 50
Machinery and equipment	5 - 15
Software	3 - 5

Property, plant and equipment consist of the following:

	2020	2019
Land	\$ 5,805	\$ 4,998
Buildings	111,876	110,162
Machinery and equipment	184,362	182,922
	302,043	298,082
Less accumulated depreciation	(193,377)	(186,303)
Property, plant and equipment, net	\$ 108,666	\$ 111,779

Property, plant and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying amount may not be recovered through future net cash flows generated by the assets. Impairment losses may be recorded when the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts based on the excess of the carrying amounts over the estimated fair value of the assets. The Company was not aware of any events or changes in circumstances that indicated the carrying value of its property, plant and equipment may not be recoverable.

## Goodwill and Identifiable Intangible Assets

### Goodwill

Goodwill represents the excess of the cost of acquired businesses over the fair value of tangible assets and identifiable intangible assets purchased and liabilities assumed.

Goodwill is reviewed annually for impairment as of October 1 or whenever events or changes in circumstances indicate there may be a possible permanent loss of value using either a quantitative or qualitative analysis. For certain reporting units, the Company performs a quantitative analysis using both a market-based approach and a discounted cash flow model to estimate the fair value of our reporting units. This process requires significant judgements, including estimation of future cash flows, which is dependent on internal forecasts. The Company may otherwise elect to perform a qualitative analysis when deemed appropriate. A qualitative analysis may be performed by assessing certain trends and factors, including projected market outlook and growth rates, forecasted and actual sales and operating profit margins, discount rates, industry data and other relevant qualitative factors. These trends and factors are compared to, and based on, the assumptions used in the most recent quantitative assessment.



No impairment charges were recognized in any of the Company's reporting units in 2020, 2019, or 2018. See Note 10 to the Consolidated Financial Statements, Goodwill and Other Intangible Assets.

#### *Identifiable intangible assets*

The Company's primary identifiable intangible assets include customer relationships, technology and drawings, and trade names and trademarks. Identifiable intangible assets with finite lives are amortized and those identifiable intangible assets with indefinite lives are not amortized. Amortization for finite-lived intangible assets is computed using the straight-line method over the estimated useful lives of the assets and is included in Cost of products sold and Selling, general and administrative expenses based on the use of the assets. Amortization of finite-lived intangible assets is determined based on the following lives:

	<u>years</u>
Technology and drawings	13 - 20
Customer relationships	9 - 15
Other intangibles	2 - 18

Identifiable intangible assets that are subject to amortization are evaluated for impairment whenever events or changes in circumstances indicate the carrying amount may not be recovered through future net cash flows generated by the assets. Impairment losses may be recorded when the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts based on the excess of the carrying amounts over the estimated fair value of the assets. The Company was not aware of any events or changes in circumstances that indicated the carrying value of its finite-lived intangible assets may not be recoverable.

Identifiable intangible assets not subject to amortization are tested for impairment annually or more frequently if events warrant. The fair value of these assets is determined using a royalty relief methodology similar to that employed when the associated assets were acquired, but using updated estimates of future sales, cash flows and profitability. For 2020, 2019 and 2018, the fair value of indefinite lived intangible assets exceeded their carrying values.

For additional information about goodwill and other intangible assets, see Note 10 to the Consolidated Financial Statements, Goodwill and Other Intangible Assets.

#### **Revenue Recognition**

The Company recognizes revenue when it transfers control of promised goods or services to its customers in an amount that reflects the consideration to which it expects to be entitled to in exchange for those goods or services.

#### *Performance Obligations*

A performance obligation is a promise in a contract to transfer a distinct product or service to a customer, and is the unit of account in ASC 606. The transaction price for a customer contract is allocated to each distinct performance obligation and recognized as revenue when, or as, the Company's performance obligation is satisfied. For product sales, other than long-term construction-type contracts, the Company recognizes revenue once control has passed at a point in time, which is generally when products are shipped. Payments received for product sales typically occur following delivery and the satisfaction of the performance obligation based upon the terms outlined in the contracts. Substantially all of our customer contracts are fixed-price contracts and the majority of our customer contracts have a single performance obligation, as the promise to transfer the individual products or services is not separately identifiable from other promises in the contract. For customer contracts with multiple performance obligations, the Company allocates revenue to each performance obligation based on its relative standalone selling price, which is generally determined based on standalone selling prices charged to customers or using expected cost plus margin.

All of the Company's performance obligations, and associated revenue, are generally transferred to customers at a point in time, with the exception of certain highly customized pump products, which are transferred to the customer over time.

The Company offers standard warranties for its products to ensure that its products comply with agreed-upon specifications in its contracts. For standard warranties, these do not give rise to performance obligations and represent assurance-type warranties.

Shipping and handling activities related to products sold to customers, whether performed before or after the customer obtains control of the products, are generally accounted for as activities to fulfill the promise to transfer the products and not as a separate performance obligation.

#### *Contract Estimates*

Accounting for long-term contracts involves the use of various techniques to estimate total contract revenue and costs. For long-term contracts, the Company estimates the profit on a contract as the difference between the total estimated revenue and expected costs to complete a contract and recognizes that profit as performance obligations are satisfied. Contract estimates are based on various assumptions to project the outcome of future events that could span longer than one year. These assumptions include labor productivity and availability, the complexity of the work to be performed, the cost and availability of materials, and the performance of subcontractors as applicable.

As a significant change in one or more of these estimates could affect the profitability of our contracts, the Company reviews and updates its contract-related estimates regularly. Adjustments in estimated profit on contracts are accounted for under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date on a contract is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate.

#### *Contract Balances*

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the Consolidated Balance Sheets. For certain highly customized pump products, revenue is recognized over time before the customer is invoiced, resulting in contract assets. Sometimes the Company receives advances or deposits from its customers before revenue is recognized, resulting in contract liabilities. These contract assets and liabilities are reported on the Consolidated Balance Sheets as a component of Other assets and Deferred revenue and customer deposits, respectively, on a contract-by-contract basis at the end of each reporting period.

#### **Income Taxes**

Income tax expense includes United States federal, state, local and international income taxes. Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the financial reporting and the tax basis of existing assets and liabilities and for loss carryforwards. The tax rate used to determine the deferred tax assets and liabilities is the enacted tax rate for the year and manner in which the differences are expected to reverse. Valuation allowances are recorded to reduce deferred tax assets to the amount that will more likely than not be realized.

The Company accounts for the global intangible low-taxed income (“GILTI”) tax in the period in which it is incurred.

### **Pension and Other Postretirement Benefits**

The Company sponsors a defined benefit pension plan covering certain domestic employees. Additionally, the Company sponsors defined contribution pension plans made available to all domestic and Canadian employees.

The Company also sponsors a non-contributory defined benefit 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 determination of the Company’s obligation and expense for pension and other postretirement benefits is dependent on its selection of certain assumptions used by actuaries in calculating such amounts, which are described in Note 9, Pensions and Other Postretirement Benefits. The Company recognizes the funded status of its defined benefit pension plan as an asset or liability in the Consolidated Balance Sheets and recognizes the change in the funded status in the year in which the change occurs through accumulated other comprehensive loss in the Consolidated Balance Sheets.

### **Concentration of Credit Risk**

The Company generally does not require collateral from its customers and has a very good collection history. There were no sales to a single customer that exceeded 10% of total net sales for the years ended December 31, 2020, 2019 or 2018.

### **Shipping and Handling Costs**

The Company classifies all amounts billed to customers for shipping and handling as revenue and reflects related shipping and handling costs in Cost of products sold.

### **Advertising**

The Company expenses all advertising costs as incurred, which for the years ended December 31, 2020, 2019 and 2018 totaled \$2.1 million, \$3.0 million, and \$3.0 million, respectively.

### **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:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Balance at beginning of year	\$ 1,438	\$ 1,380	\$ 1,098
Provision	1,350	1,747	1,689
Claims	(1,427)	(1,689)	(1,407)
Balance at end of year	<u>\$ 1,361</u>	<u>\$ 1,438</u>	<u>\$ 1,380</u>

### **Stock-based compensation**

The Company awards shares pursuant to The Gorman-Rupp Company 2015 Omnibus Incentive Plan. Equity awards are typically conditioned upon achievement of appropriate performance metrics, however the Company may from time to time grant other types of awards including service-based awards or unrestricted shares to certain employees. Any performance-based shares that have been granted will vest and be awarded at the end of a three year performance period, based on the levels of achievement of compound annual growth targets for operating income and shareholders’ equity. The Company recognizes compensation expense for performance-based share grants based on the stock price at the date of the grant using the straight-line amortization method, over the vesting period specified in the grants, based on the probability of achieving the performance targets. The Company recognized a stock-based compensation benefit of \$0.3 million for the year ended December 31, 2020 and stock based compensation expense of \$0.7 million and \$1.3 million for the years ended December 31, 2019 and 2018, respectively related to performance-based share grants. The Company accounts for forfeitures as they occur, rather than estimate expected forfeitures.

## **Foreign Currency Translation**

Assets and liabilities of the Company's operations outside the United States which are accounted for in a functional currency other than U.S. dollars are translated into U.S. dollars using year-end exchange rates. Revenues and expenses are translated at weighted-average exchange rates effective during the year. Foreign currency translation gains and losses are included as a component of Accumulated other comprehensive loss within Equity.

Gains and losses resulting from foreign currency transactions, the amounts of which are not material, are included in Other (expense) income, net.

## **Fair Value**

The carrying value of Cash and cash equivalents, Accounts receivable and Accounts payable approximates fair value based on the short-term nature of these instruments. The Company does not recognize any non-financial assets at fair value.

## **New Accounting Pronouncements**

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 December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes", which, as part of its Simplification Initiative to reduce the cost and complexity in accounting for income taxes, removes certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. ASU 2019-12 also amends other aspects of the guidance to help simplify and promote consistent application of GAAP. The guidance is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. The Company currently does not expect the adoption of ASU 2019-12 will have a material impact on the Company's Consolidated Financial Statements.

## **Recently Adopted Accounting Standards**

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which replaced the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 requires use of a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Adoption of the standard requires using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date to align existing credit loss methodology with the new standard. In November 2019, the FASB issued ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses. This ASU contains the same effective dates and transition requirements as ASU 2016-13. The Company adopted Topic 326 effective January 1, 2020. The impact of adoption of these standards was not material on the Company's Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-14, “Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20),” which required minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement plans. The Company adopted the new disclosure requirements for the year ended December 31, 2020. See Note 9 to the Consolidated Financial Statements, Pensions and Other Postretirement Benefits.

## Note 2 – Allowance for Doubtful Accounts

The allowance for doubtful accounts was \$0.4 million at December 31, 2020 and \$0.5 million at December 31, 2019.

## Note 3 – Revenue

### Disaggregation of Revenue

The following tables disaggregate total net sales by major product category and geographic location:

#### Product Category

	2020	2019	2018
Pumps and pump systems	\$ 300,906	\$ 341,304	\$ 357,882
Repair parts for pumps and pump systems and other	48,061	56,875	56,452
Total net sales	<u>\$ 348,967</u>	<u>\$ 398,179</u>	<u>\$ 414,334</u>

#### Geographic Location

	2020	2019	2018
United States	\$ 246,913	\$ 275,290	\$ 271,820
Foreign countries	102,054	122,889	142,514
Total net sales	<u>\$ 348,967</u>	<u>\$ 398,179</u>	<u>\$ 414,334</u>

International sales represented approximately 29% of total net sales for 2020, 31% for 2019 and 34% for 2018, and were made to customers in many different countries around the world.

On December 31, 2020, the Company had \$113.1 million of remaining performance obligations, also referred to as backlog. The Company expects to recognize as revenue substantially all of its remaining performance obligations within one year.

The Company’s contract assets and liabilities as of December 31, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
Contract assets	\$ -	\$ 393
Contract liabilities	8,004	4,911

Revenue recognized for the year ended December 31, 2020 that was included in the contract liability balance at December 31, 2019 was \$4.5 million. Revenue recognized for the year ended December 31, 2019 that was included in the contract liability balance at December 31, 2018 was \$4.4 million.

## Note 4 – Inventories

LIFO inventories are stated at the lower of cost or market and all other inventories are stated at the lower of cost or net realizable value. Replacement cost approximates current cost and the excess over LIFO cost is approximately \$63.5 million and \$62.5 million at December 31, 2020 and 2019, respectively. Some inventory quantities were reduced during 2019, resulting in liquidation of some LIFO quantities carried at lower costs from earlier years versus current year costs. The related effect increased net income by approximately \$2.0 million during 2019. Allowances for excess and obsolete inventory totaled \$5.9 million at December 31, 2020 and 2019.



Inventories are comprised of the following:

	December 31, 2020	December 31, 2019
Inventories, net		
Raw materials and in-process	\$ 18,152	\$ 16,474
Finished parts	51,701	47,317
Finished products	12,833	12,206
Total net inventories	<u>\$ 82,686</u>	<u>\$ 75,997</u>

#### Note 5 – Credit Facilities

The Company may borrow up to \$20.0 million with interest at LIBOR plus 0.75% or at alternative rates as selected by the Company under an unsecured bank line of credit which matures in February 2023. The Company pays a non-usage fee of 0.1% per annum on the average unused portion of the line of credit. At December 31, 2020 and 2019, \$19.9 million was available for borrowing after deducting \$0.1 million in outstanding letters of credit.

The Company also has an \$8.0 million unsecured bank line of credit with interest at LIBOR plus 0.75% payable monthly which matures in May 2021. At December 31, 2020 and 2019, \$3.6 million was available for borrowing after deducting \$4.4 million in outstanding letters of credit.

The Company also has a \$3.0 million bank guarantee with interest at 1.75% in an agreement dated June 2016. At December 31, 2020 and 2019, \$1.5 million and \$1.0 million, respectively, was available for borrowing after deducting \$1.5 million and \$2.0 million in outstanding letters of credit, respectively.

The credit facilities described above contain standard restrictive covenants, including limits on additional borrowings and maintenance of certain operating and financial ratios. At December 31, 2020 and 2019, the Company was in compliance with all requirements.

Interest expense, which approximates interest paid, was \$18,000, \$1,000 and \$1,000 in 2020, 2019 and 2018, respectively.

#### Note 6 – Leases

The Company is currently a lessee under a number of operating leases and two finance leases for certain offices, manufacturing facilities, land, office equipment and automobiles, none of which are material to its operations. The Company's leases generally have remaining lease terms of 1 year to 5 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the leases within 1 year. These leases do not have significant rent escalation holidays, concessions, leasehold improvement incentives, or other build-out clauses. Further, the leases do not contain contingent rent provisions.

Supplemental information related to leases and the Company's Consolidated Financial Statements is as follows:

	2020	2019
Components of lease costs:		
Operating lease costs	\$ 431	\$ 370
Short-term lease costs	336	527
Finance lease costs	144	98
Total lease costs	<u>\$ 911</u>	<u>\$ 995</u>

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Weighted average remaining lease term (years):		
Operating leases	2.1	2.9
Finance leases	3.3	4.3
Weighted average discount rate:		
Operating leases	3.25%	3.25%
Finance leases	3.25%	3.25%

	<b>December 31, 2020</b>		
	<b>Operating Leases</b>	<b>Financing Leases</b>	<b>Total Leases</b>
Other assets - right-of-use assets	<u>\$ 1,250</u>	<u>\$ 420</u>	<u>\$ 1,670</u>
Lease liabilities included in:			
Accrued expenses - current portion of lease liabilities	\$ 580	\$ 130	\$ 710
Other long-term liabilities - non-current portion of lease liabilities	<u>650</u>	<u>310</u>	<u>960</u>
Total lease liabilities	<u>\$ 1,230</u>	<u>\$ 440</u>	<u>\$ 1,670</u>

	<b>December 31, 2019</b>		
	<b>Operating Leases</b>	<b>Financing Leases</b>	<b>Total Leases</b>
Other assets - right-of-use assets	<u>\$ 1,260</u>	<u>\$ 550</u>	<u>\$ 1,810</u>
Lease liabilities included in:			
Accrued expenses - current portion of lease liabilities	\$ 520	\$ 120	\$ 640
Other long-term liabilities - non-current portion of lease liabilities	<u>730</u>	<u>440</u>	<u>1,170</u>
Total lease liabilities	<u>\$ 1,250</u>	<u>\$ 560</u>	<u>\$ 1,810</u>

Maturities of lease liabilities are as follows:

	<b>December 31, 2020</b>
2021	\$ 752
2022	547
2023	348
2024	86
2025	11
Thereafter	<u>6</u>
Total lease payments	\$ 1,750
Less: Interest	<u>(80)</u>
Present value of lease liabilities	<u>\$ 1,670</u>

	<b>December 31, 2019</b>
2020	\$ 712
2021	524
2022	360
2023	241
2024	46
Thereafter	9
Total lease payments	\$ 1,892
Less: Interest	(82)
Present value of lease liabilities	<u>\$ 1,810</u>

#### **Note 7 – Accumulated Other Comprehensive Loss**

The reclassifications out of Accumulated other comprehensive loss as reported in the Consolidated Statements of Income are:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Pension and other postretirement benefits:			
Recognized actuarial loss (a)	\$ 2,466	\$ 1,753	\$ 1,164
Settlement loss (b)	4,583	-	2,852
Total before income tax	7,049	1,753	4,016
Income tax	(1,368)	(363)	(823)
Net of income tax	<u>\$ 5,681</u>	<u>\$ 1,390</u>	<u>\$ 3,193</u>

- (a) The recognized actuarial loss is included in the computation of net periodic benefit cost. See Note 9 to the Consolidated Financial Statements, Pensions and Other Postretirement Benefits
- (b) The settlement loss is included in Other (expense) income, net in the Consolidated Statements of Income

The components of accumulated other comprehensive loss as reported in the Consolidated Balance Sheets are:

	<b>Currency Translation Adjustments</b>	<b>Pension and OPEB Adjustments</b>	<b>Accumulated Other Comprehensive (Loss) Income</b>
<b>Balance at December 31, 2017</b>	\$ (5,321)	\$ (7,188)	\$ (12,509)
Reclassification of stranded income tax effects in accumulated other comprehensive income	-	(2,070)	(2,070)
Reclassification adjustments	-	4,016	4,016
Current period charge	(2,922)	(9,644)	(12,566)
Income tax charge	-	(294)	(294)
<b>Balance at December 31, 2018</b>	(8,243)	(15,180)	(23,423)
Reclassification adjustments	-	1,753	1,753
Current period benefit (charge)	88	(8,521)	(8,433)
Income tax benefit	-	1,566	1,566
<b>Balance at December 31, 2019</b>	(8,155)	(20,382)	(28,537)
Reclassification adjustments	-	7,049	7,049
Current period benefit (charge)	3,111	(13,510)	(10,399)
Income tax benefit	-	1,510	1,510
<b>Balance at December 31, 2020</b>	<u>\$ (5,044)</u>	<u>\$ (25,333)</u>	<u>\$ (30,377)</u>

## Note 8 – Income Taxes

The components of Income before income taxes are:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
United States	\$ 28,493	\$ 41,234	\$ 45,271
Foreign countries	2,753	3,932	5,045
Total	<u>\$ 31,246</u>	<u>\$ 45,166</u>	<u>\$ 50,316</u>

The components of income tax expense are:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Current expense:			
Federal	\$ 4,058	\$ 8,204	\$ 7,779
Foreign	353	1,140	1,179
State and local	1,103	1,205	1,042
	<u>\$ 5,514</u>	<u>\$ 10,549</u>	<u>\$ 10,000</u>
Deferred expense (benefit):			
Federal	\$ 728	\$ (720)	\$ 405
Foreign	(349)	(379)	(125)
State and local	165	(99)	57
	<u>544</u>	<u>(1,198)</u>	<u>337</u>
Income tax expense	<u>\$ 6,058</u>	<u>\$ 9,351</u>	<u>\$ 10,337</u>

The reconciliation between income tax expense and the amount computed by applying the statutory federal income tax rate to income before income taxes is:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Income taxes at statutory rate	\$ 6,562	\$ 9,485	\$ 10,566
State and local income taxes, net of federal tax benefit	711	803	832
Tax credits	(808)	(898)	(506)
Uncertain tax positions	42	164	172
Valuation allowance	-	71	37
Federal tax reform – deferred rate change	-	-	(581)
Deemed mandatory repatriation	-	-	(48)
Other	(449)	(274)	(135)
Income tax expense	<u>\$ 6,058</u>	<u>\$ 9,351</u>	<u>\$ 10,337</u>

The Company made income tax payments of \$6.2 million, \$9.1 million, and \$14.7 million in 2020, 2019, and 2018, respectively.

Deferred income tax assets and liabilities consist of:

	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
Inventories	\$ 646	\$ 1,391
Accrued liabilities	1,484	2,095
Postretirement health benefits obligation	6,815	5,884
Pension	1,688	240
Lease liabilities	390	361
Other	1,434	1,360
Total deferred tax assets	12,457	11,331
Valuation allowance	(567)	(567)
Net deferred tax assets	11,890	10,764
Deferred tax liabilities:		
Depreciation and amortization	(9,536)	(9,446)
Leases – right of use assets	(388)	(361)
Foreign withholding tax	(100)	(100)
Total deferred tax liabilities	(10,024)	(9,907)
Net deferred tax assets	<u>\$ 1,866</u>	<u>\$ 857</u>

The Company had state tax credit carryforwards of \$0.7 million as of December 31, 2020 and 2019 which will expire incrementally between 2021 and 2035.

The Company had valuation allowances of \$0.6 million as of December 31, 2020 and 2019 against certain of its deferred tax assets. ASC 740, “Income Taxes,” requires that a valuation allowance be recorded against deferred tax assets when it is more likely than not that some or all of a Company’s deferred tax assets will not be realized based on available positive and negative evidence.

Total unrecognized tax benefits were \$0.9 million and \$1.1 million at December 31, 2020 and 2019, respectively. The total amount of unrecognized tax benefits that, if ultimately recognized, would reduce the Company’s annual effective tax rate were \$0.7 million and \$0.9 million at December 31, 2020 and 2019, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$ 1,130	\$ 951	\$ 797
Additions based on tax positions related to the current year	177	372	268
Reductions due to lapse of applicable statute of limitations	(139)	(193)	(114)
Settlements	(290)	-	-
Balance at end of year	<u>\$ 878</u>	<u>\$ 1,130</u>	<u>\$ 951</u>

The Company is subject to income taxes in the U.S. federal and various state, local and foreign jurisdictions. Income tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2016.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense for all periods presented. The Company accrued approximately \$0.2 million, \$0.3 million and \$0.2 million for the payment of interest and penalties at December 31, 2020, 2019 and 2018, respectively.

## **Note 9 – Pensions and Other Postretirement Benefits**

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



Additionally, the Company sponsors defined contribution pension plans made available to all domestic and Canadian employees. Total contributions to the plans were \$2.3 million for 2020 and 2019 and \$2.2 million for 2018.

The Company also sponsors a non-contributory defined benefit postretirement health care plan that provides health benefits to certain domestic and Canadian retirees and eligible spouses and dependent children. The Company funds the cost of these benefits as incurred. For measurement purposes, and based on maximum benefits as defined by the plan, a 5% annual rate of increase in the per capita cost of covered health care benefits for all retirees was assumed in estimating the projected postretirement benefit obligation at December 31, 2020, which is expected to remain constant going forward. A 5% percent annual rate of increase was assumed in estimating the projected benefit obligation at December 31, 2019 and in calculating 2020 periodic benefit cost.

The Company recognizes the obligations associated with its defined benefit pension plan and defined benefit postretirement health care plan in its Consolidated Financial Statements. The following table presents the plans' funded status as of the measurement date, December 31, reconciled with amounts recognized in the Company's Consolidated Balance Sheets:

	<b>Pension Plan</b>		<b>Postretirement Plan</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Accumulated benefit obligation at end of year</b>	<u>\$ 69,554</u>	<u>\$ 66,900</u>	<u>\$ 29,848</u>	<u>\$ 26,055</u>
<b>Change in projected benefit obligation:</b>				
Benefit obligation at beginning of year	\$ 81,325	\$ 67,578	\$ 26,055	\$ 23,679
Service cost	2,709	2,204	1,372	1,083
Interest cost	1,937	2,454	778	941
Settlement	1,854	-	-	-
Benefits paid	(12,872)	(3,735)	(1,305)	(2,311)
Effect of foreign exchange	-	-	9	16
Actual expenses	(150)	-	-	-
Actuarial loss	11,496	12,824	2,939	2,647
Benefit obligation at end of year	<u>\$ 86,299</u>	<u>\$ 81,325</u>	<u>\$ 29,848</u>	<u>\$ 26,055</u>
<b>Change in plan assets:</b>				
Plan assets at beginning of year	\$ 80,285	\$ 72,395	\$ -	\$ -
Actual return on plan assets	7,804	11,625	-	-
Employer contributions	2,000	-	1,305	2,311
Benefits paid	(12,872)	(3,735)	(1,305)	(2,311)
Actual expenses	(150)	-	-	-
Plan assets at end of year	<u>\$ 77,067</u>	<u>\$ 80,285</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Funded status at end of year</b>	<u>\$ (9,232)</u>	<u>\$ (1,040)</u>	<u>\$ (29,848)</u>	<u>\$ (26,055)</u>
	<b>Pension Plan</b>		<b>Postretirement Plan</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Amounts recognized in the Consolidated Balance Sheets consist of:</b>				
Current liabilities	\$ -	\$ -	\$ (1,598)	\$ (1,602)
Noncurrent liabilities	(9,232)	(1,040)	(28,250)	(24,453)
Total assets (liabilities)	<u>\$ (9,232)</u>	<u>\$ (1,040)</u>	<u>\$ (29,848)</u>	<u>\$ (26,055)</u>
<b>Amounts recognized in Accumulated other comprehensive loss consist of:</b>				
Net actuarial loss	\$ 28,896	\$ 26,192	\$ 7,834	\$ 5,205
Prior Service Cost	-	-	(3,255)	(4,383)
Deferred tax (benefit) expense	(7,130)	(6,499)	(1,012)	(132)
After tax actuarial loss (gain)	<u>\$ 21,766</u>	<u>\$ 19,693</u>	<u>\$ 3,567</u>	<u>\$ 690</u>

**Components of net periodic benefit cost:**

	2020	2019	2018
<b>Pension Plan</b>			
Service cost	\$ 2,709	\$ 2,204	\$ 2,408
Interest cost	1,937	2,454	2,552
Expected return on plan assets	(3,900)	(3,561)	(4,481)
Recognized actuarial loss	2,160	1,726	1,577
Settlement loss	4,583	-	2,852
Net periodic benefit cost	<u>\$ 7,489</u>	<u>\$ 2,823</u>	<u>\$ 4,908</u>

**Other changes in pension plan assets and benefit obligations recognized in other comprehensive loss:**

Net loss (gain)	<u>2,704</u>	<u>\$ 3,034</u>	<u>\$ (1,413)</u>
Total expense recognized in net periodic benefit cost and other comprehensive income	<u>\$ 10,193</u>	<u>\$ 5,857</u>	<u>\$ 3,495</u>

**Postretirement Plan**

Service cost	\$ 1,372	\$ 1,083	\$ 775
Interest cost	778	941	561
Prior service cost recognition	(1,129)	(1,129)	(1,128)
Recognized actuarial loss (gain)	306	27	(413)
Net periodic benefit (credit) cost	<u>\$ 1,327</u>	<u>\$ 922</u>	<u>\$ (205)</u>

**Other changes in postretirement plan assets and benefit obligations recognized in other comprehensive loss:**

Net loss (gain)	<u>\$ 3,762</u>	<u>\$ 3,749</u>	<u>\$ 9,096</u>
Total expense (benefit) recognized in net periodic benefit cost and other comprehensive income	<u>\$ 5,089</u>	<u>\$ 4,671</u>	<u>\$ 8,891</u>

The change in the benefit obligations for the pension and postretirement plans for 2019 and 2020 include an actuarial loss primarily related to a decline in discount rates. The pension benefit obligation actuarial loss was offset in part by plan asset returns.

The components of net periodic benefit cost other than the service cost component are included in Other income (expense), net in the Consolidated Statements of Income.

During 2020 and 2018 the Company recorded a settlement loss relating to retirees that received lump-sum distributions from the Company's defined benefit pension plan totaling \$4.6 million and \$2.9 million respectively. No settlement loss was incurred in 2019. These charges were the result of lump-sum payments to retirees which exceeded the Plan's actuarial service and interest cost thresholds.

The prior service cost is amortized on a straight-line basis over the average estimated remaining service period of active participants. The unrecognized actuarial gain or loss in excess of the greater of 10% of the benefit obligation or the market value of plan assets is also amortized on a straight-line basis over the average estimated remaining service period of active participants.

	<b>Pension Plan</b>		<b>Postretirement Plan</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Weighted-average assumptions used to determine benefit obligations at December 31:</b>				
Discount rate	1.97%	2.83%	2.25%	3.08%
Rate of compensation increase	3.50%	3.50%	-	-
<b>Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:</b>				
Discount rate	2.40%	3.94%	3.08%	4.13%
Expected long-term rate of return on plan assets	5.36%	5.37%	-	-
Rate of compensation increase	3.50%	3.50%	-	-

To enhance the Company's efforts to mitigate the impact of the defined benefit pension plan on its financial statements, in 2014 the Company moved towards a liability driven investing model to more closely align assets with liabilities based on when the liabilities are expected to come due. Currently, based on 2020 funding levels, equities may comprise between 22% and 42% of the Plan's market value. Fixed income investments may comprise between 50% and 70% of the Plan's market value. Alternative investments may comprise between 3% and 13% of the Plan's market value. Cash and cash equivalents (including all senior debt securities with less than one year to maturity) may comprise between 0% and 10% of the Plan's market value.

Financial instruments included in pension plan assets are categorized into a fair value hierarchy of three levels, based on the degree of subjectivity inherent in the valuation methodology. Level 1 assets are based on unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets. Level 2 assets are valued at inputs other than quoted prices in active markets for identical assets that are observable either directly or indirectly for substantially the full term of the assets. Level 3 assets are valued based on unobservable inputs for the asset (i.e., supported by little or no market activity). These inputs include management's own assessments about the assumptions that market participants would use in pricing assets (including assumptions about risk). The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables set forth by asset class the Plan's fair value of assets for the years ended December 31, 2020 and 2019:

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Plan Assets at December 31, 2020</b>
Equity	\$ 12,619	\$ -	\$ 20	\$ 12,639
Fixed income	9,582	45,463	-	55,045
Mutual funds	2,108	-	-	2,108
Money funds and cash	2,089	5,186	-	7,275
Total fair value of Plan assets	<u>\$ 26,398</u>	<u>\$ 50,649</u>	<u>\$ 20</u>	<u>\$ 77,067</u>

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Plan Assets at December 31, 2019</b>
Equity	\$ 12,986	\$ -	\$ -	\$ 12,986
Fixed income	11,671	46,145	-	57,816
Mutual funds	1,992	-	-	1,992
Money funds and cash	3,103	4,388	-	7,491
Total fair value of Plan assets	<u>\$ 29,752</u>	<u>\$ 50,533</u>	<u>\$ -</u>	<u>\$ 80,285</u>

## Contributions

The Company expects to contribute up to \$2.0 million to its defined benefit pension plan in 2021.

## Expected future benefit payments

The following benefit payments are expected to be paid as follows based on actuarial calculations:

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Thereafter</u>
Pension	\$ 12,540	\$ 5,233	\$ 3,829	\$ 4,942	\$ 5,059	\$ 27,198
Postretirement	1,616	1,548	1,495	1,525	1,510	8,898

For measurement purposes, and based on maximum benefits as defined by the plan, a 5% annual rate of increase in the per capita cost of covered health care benefits for all retirees was assumed as of December 31, 2020 and 2019 and is expected to remain constant going forward.

A one percentage point change in the assumed rate of return on the defined benefit pension plan assets is estimated to have an approximate \$0.7 million effect on net periodic benefit cost. Additionally, a one percentage point increase in the discount rate is estimated to have a \$1.6 million decrease in net periodic benefit cost, while a one percentage point decrease in the discount rate is estimated to have a \$1.8 million increase in net periodic benefit cost.

## Note 10 – Goodwill and Other Intangible Assets

The major components of Goodwill and other intangible assets are:

	<u>2020</u>		<u>2019</u>	
	<u>Historical Cost</u>	<u>Accumulated Amortization</u>	<u>Historical Cost</u>	<u>Accumulated Amortization</u>
Finite-lived intangible assets:				
Customer relationships	\$ 7,876	\$ 6,991	\$ 7,832	\$ 6,301
Technology and drawings	6,761	4,015	6,749	3,712
Other intangibles	<u>2,307</u>	<u>1,521</u>	<u>2,292</u>	<u>1,151</u>
Total finite-lived intangible assets	16,944	12,527	16,873	11,164
Goodwill	27,537	-	27,215	-
Trade names and trademarks	<u>2,221</u>	<u>-</u>	<u>2,072</u>	<u>-</u>
Total	<u>\$ 46,702</u>	<u>\$ 12,527</u>	<u>\$ 46,160</u>	<u>\$ 11,164</u>

Amortization of intangible assets was \$1.3 million, \$1.2 million and \$1.2 million in 2020, 2019 and 2018, respectively. Amortization of these intangible assets for 2021 through 2025 is expected to approximate \$0.5 million per year.

Changes in the carrying value of goodwill during the years ended December 31, 2020 and 2019 are as follows:

	<u>Goodwill</u>
<b>Balance at December 31, 2018</b>	\$ 27,234
Acquisitions	-
Impairment	-
Foreign currency	(19)
<b>Balance at December 31, 2019</b>	\$ 27,215
Acquisitions	-
Impairment	-
Foreign currency	322
<b>Balances at December 31, 2020</b>	<u>\$ 27,537</u>

For 2020, the Company used a quantitative analysis for the annual goodwill impairment testing as of October 1 for its National Pump Company (“National”) reporting unit. The fair value for this reporting unit was estimated using a discounted cash flow model, which considered forecasted cash flows discounted at an estimated weighted-average cost of capital. The forecasted cash flows were based on the Company’s long-term operating plan and a terminal value was used to estimate the cash flows beyond the period covered by the operating plan. The weighted-average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt market holders of a business enterprise. These analyses require the exercise of significant judgments, including judgments about appropriate discount rates, perpetual growth rates and the timing of expected future cash flows. Sensitivity analyses were performed around these assumptions in order to assess the reasonableness of the assumptions and the resulting estimated fair values.

The result of this goodwill impairment test indicated that no impairment existed at National. The Company’s annual impairment analysis performed as of October 1, 2020 concluded that National’s fair value exceeded its carrying value by approximately 31%. A sensitivity analysis was performed for the National reporting unit, assuming a hypothetical 100 basis point decrease in the expected long-term growth rate or a hypothetical 100 basis point increase in the weighted average cost of capital, and both scenarios independently yielded an estimated fair value for the National reporting unit above carrying value. If National fails to experience growth or revises its long-term projections downward, it could be subject to impairment charges in the future. Goodwill relating to the National reporting unit is \$13.6 million, 3.4% of the Company’s December 31, 2020 total assets.

For 2020, for all other reporting units, the Company used a qualitative analysis for goodwill impairment testing as of October 1. This qualitative assessment included consideration of current industry and market conditions and circumstances as well as any mitigating factors that would most affect the fair value of the Company and these reporting units. Based on the assessment and consideration of the totality of the facts and circumstances, including the business environment in the fourth quarter of 2020, the Company determined that it was not more likely than not that the fair value of the Company or these reporting units is less than their respective carrying amounts. As such, no goodwill impairments for these reporting units were recorded for the year ended December 31, 2020.

Other indefinite-lived intangible assets primarily consist of trademarks and trade names. The fair value of these assets is also tested annually for impairment as of October 1, or whenever events or changes in circumstances indicate there may be a possible permanent loss of value. The fair value of these assets is determined using a royalty relief methodology similar to that employed when the associated assets were acquired, but using updated estimates of future sales, cash flows and profitability. For 2020 and 2019 the fair value of all indefinite lived intangible assets exceeded the respective carrying values.

Finite-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recovered through future net cash flows generated by the assets. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future net undiscounted cash flows estimated to be generated by such assets. Based upon our fiscal 2020 and 2019 quantitative and qualitative impairment analyses the Company was not aware of any events or changes in circumstances that indicate the carrying value of its finite-lived intangible assets may not be recoverable.

## Note 11 – Business Segment Information

The Company operates in one business segment comprising the design, manufacture and sale of pumps and pump systems. The Company's products are used in water, wastewater, construction, industrial, petroleum, original equipment, agriculture, fire protection, heating, ventilation and air conditioning (HVAC), military and other liquid-handling applications.

The pumps and pump systems are marketed in the United States and worldwide through a broad network of distributors, through manufacturers' representatives (for sales to many original equipment manufacturers), through third-party distributor catalogs, and by direct sales. International sales are made primarily through foreign distributors and representatives.

The Company sells to approximately 130 countries around the world. The following tables disaggregate total net sales by major product category and geographic location:

	Product Category		
	2020	2019	2018
Pumps and pump systems	\$ 300,906	\$ 341,304	\$ 357,882
Repair parts for pumps and pump systems and other	48,061	56,875	56,452
Total net sales	<u>\$ 348,967</u>	<u>\$ 398,179</u>	<u>\$ 414,334</u>

	Geographic Location		
	2020	2019	2018
United States	\$ 246,913	\$ 275,290	\$ 271,820
Foreign countries	102,054	122,889	142,514
Total net sales	<u>\$ 348,967</u>	<u>\$ 398,179</u>	<u>\$ 414,334</u>

As of December 31, 2020 and 2019, 86% and 87% respectively, of the Company's long-lived assets were located in the United States.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. 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 Securities 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-K. Based on the evaluation, the principal executive officer and the principal financial officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2020.

### **Report of Management on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and affected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and Directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO Criteria). Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2020.

The independent registered public accounting firm of Ernst & Young LLP that has audited the consolidated financial statements included in this annual report on Form 10-K, has also issued an attestation report on the Company's internal control over financial reporting as of December 31, 2020. This report is included on the following page.

/s/ Jeffrey S. Gorman  
Jeffrey S. Gorman  
Chairman and Chief Executive Officer

/s/ James C. Kerr  
James C. Kerr  
Executive Vice President and Chief Financial Officer

March 1, 2021

## **Report of Independent Registered Public Accounting Firm**

### **To the Shareholders and the Board of Directors of The Gorman-Rupp Company**

#### **Opinion on Internal Control Over Financial Reporting**

We have audited The Gorman-Rupp Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, The Gorman-Rupp Company (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2020 consolidated financial statements of the Company and our report dated March 1, 2021 expressed an unqualified opinion thereon.

#### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

#### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP  
Cleveland, Ohio  
March 1, 2021

## **Changes in Internal Control over Financial Reporting**

There were no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **ITEM 9B. OTHER INFORMATION**

None.

## **PART III**

## **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Attention is directed to the sections captioned "Election of Directors," "Board of Directors and Board Committees," "Audit Committee Report," "Beneficial Ownership of Shares" and "Delinquent Section 16(a) Reports" in the Company's definitive Notice of 2021 Annual Meeting of Shareholders and related Proxy Statement (filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K), which are incorporated herein by this reference.

With respect to Executive Officers, attention is directed to Part I of this Form 10-K.

The Company has adopted a Code of Ethics that applies to its Directors, officers and all employees. The Code of Ethics is set forth as an exhibit to this Form 10-K. In addition, the Code of Ethics is posted on the Company's website accessible through its Internet address of [www.gormanrupp.com](http://www.gormanrupp.com) (under the heading "Investor Relations" and the sub-heading "Corporate Governance"), including any amendments.

## **ITEM 11. EXECUTIVE COMPENSATION**

Attention is directed to the sections "Board of Directors and Board Committees," "Executive Compensation," "Compensation Discussion and Analysis," "Pension Benefits," "Summary Compensation Table," "Grants of Plan Based Awards," "Outstanding Equity Awards at December 31, 2020," "Non-Employee Director Compensation," "Risk Oversight," "Compensation Committee Interlocks and Insider Participation," "Compensation Committee Report," and "CEO Pay Ratio" in the Company's definitive Notice of 2021 Annual Meeting of Shareholders and related Proxy Statement (filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K), which are incorporated herein by this reference.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Attention is directed to the section "Beneficial Ownership of Shares" and "Election of Directors" in the Company's definitive Notice of 2021 Annual Meeting of Shareholders and related Proxy Statement (filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K), which are incorporated herein by this reference.

## Equity Compensation Plan Information

The following table provides information as of December 31, 2020 about the Company's common shares that may be issued upon exercise of options, warrants and rights granted, and shares remaining available for issuance, under all of the Company's existing equity compensation plans, including the 2015 Omnibus Incentive Plan and the 2016 Non-Employee Directors' Compensation Plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options warrants and rights	Weighted average exercise price of outstanding options warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by shareholders	-	\$ -0-	845,190 <sup>(1)</sup>
Equity compensation plans not approved by shareholders	-	n/a	-
Total	-	\$ -0-	845,190

- (1) This amount reflects that an aggregate of 788,690 shares were reserved for issuance under the 2015 Omnibus Incentive Plan pursuant to performance share awards outstanding at December 31, 2020, which amount, for purposes of this table, assumes the maximum amount of shares will be earned under such awards, even though the actual payout under such awards may be less than maximum.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Attention is directed to the section "Board of Directors and Board Committees" and "Related Party Transactions" in the Company's definitive Notice of 2021 Annual Meeting of Shareholders and related Proxy Statement (filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K), which is incorporated herein by this reference. The Company has no relationships or transactions required to be reported by Item 404 of Regulation S-K.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Attention is directed to the section "Ratification of Appointment of Independent Registered Public Accounting Firm" in the Company's definitive Notice of 2021 Annual Meeting of Shareholders and related Proxy Statement (filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K), which is incorporated herein by this reference.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) (1) The Index to Consolidated Financial Statements of the Registrant under Item 8 of this Report is incorporated herein by reference as the list of Financial Statements required as part of this Report.
- (2) All financial statement schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.
- (3) Exhibits — The exhibit list in the Exhibit Index is incorporated by reference as the list of exhibits required as part of this Report.

ANNUAL REPORT ON FORM 10-K

THE GORMAN-RUPP COMPANY

For the Year Ended December 31, 2020

EXHIBIT INDEX

Exhibit Number	Description
(3)(4)(a)	Amended Articles of Incorporation, as amended*
(3)(4)(b)	Amended Regulations**
(4)(c)	Description of Securities Registered Under the Exchange Act
(10)(a)	Form of Indemnification Agreement between the Company and its Directors***
(10)(b)	Form of Indemnification Agreement between the Company and its Officers***
(10)(c)	2015 Omnibus Incentive Plan****#
(10)(d)	Form of Performance Share Grant Agreement*****#
(10)(e)	2016 Non-Employee Directors' Compensation Plan*****#
(14)	Code of Ethics
(21)	Subsidiaries of the Company
(23)	Consent of Independent Registered Public Accounting Firm
(24)	Powers of Attorney
(31) (a)	Certification of Chief Executive Officer (Section 302 of the Sarbanes-Oxley Act of 2002)
(31) (b)	Certification of Chief Financial Officer (Section 302 of the Sarbanes-Oxley Act of 2002)
(32)	Certification Pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(101.INS)	Inline XBRL Instance Document
(101.SCH)	Inline XBRL Taxonomy Extension Schema Document
(101.CAL)	Inline XBRL Taxonomy Extension Calculation Linkbase Document
(101.DEF)	Inline XBRL Taxonomy Extension Definition Linkbase Document
(101.LAB)	Inline XBRL Taxonomy Extension Label Linkbase Document
(101.PRE)	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

- \* Incorporated herein by this reference from Exhibit (3)(4)(a) of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.
- \*\* Incorporated herein by this reference from Exhibit (3)(ii)(4) of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015.
- \*\*\* Incorporated herein by this reference from Exhibits (10)(a)(b) of the Company's Annual Report on Form 10-K for the year ended December 31, 2014.
- \*\*\*\* Incorporated herein by this reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on April 28, 2015.
- \*\*\*\*\* Incorporated herein by this reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on February 26, 2021.
- \*\*\*\*\* Incorporated herein by this reference from Exhibit (4)(c) of the Company's Registration Statement on Form S-8 filed on May 24, 2016.
- # Management contract or compensatory plan or arrangement.

**ITEM 16. FORM 10-K SUMMARY**

None.

## **SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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

\*By: /s/ BRIGETTE A. BURNELL  
Brigette A. Burnell  
Attorney-In-Fact

Date: March 1, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

<u>*JEFFREY S. GORMAN</u> Jeffrey S. Gorman	Chairman and Chief Executive Officer and Director (Principal Executive Officer)
<u>*JAMES C. KERR</u> James C. Kerr	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
<u>*DONALD H. BULLOCK, JR.</u> Donald H. Bullock Jr.	Director
<u>*M. ANN HARLAN</u> M. Ann Harlan	Director
<u>*CHRISTOPHER H. LAKE</u> Christopher H. Lake	Director
<u>*SONJA K. MCCLELLAND</u> Sonja K. McClelland	Director
<u>*VINCENT K. PETRELLA</u> Vincent K. Petrella	Director
<u>*KENNETH R. REYNOLDS</u> Kenneth R. Reynolds	Director
<u>*RICK R. TAYLOR</u> Rick R. Taylor	Director

\* The undersigned, by signing her name hereto, does sign and execute this Annual Report on Form 10-K on behalf of The Gorman-Rupp Company and on behalf of each of the above-named Officers and Directors of The Gorman-Rupp Company pursuant to Powers of Attorney executed by The Gorman-Rupp Company and by each such Officer and Director and filed with the Securities and Exchange Commission.

March 1, 2021

By: /s/ BRIGETTE A. BURNELL  
Brigette A. Burnell  
Attorney-In-Fact



# INVESTOR & SHAREHOLDER INFORMATION

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## Investor Information Contact

James C. Kerr  
*Executive Vice President & Chief  
Financial Officer*

Phone: (419) 755-1011  
Fax: (419) 755-1263  
Email: [Jim.Kerr@gormanrupp.com](mailto:Jim.Kerr@gormanrupp.com)

The SEC Annual Report Form 10-K  
is available free of charge by written  
request to Mr. Kerr at:

The Gorman-Rupp Company  
P. O. Box 1217  
Mansfield, Ohio 44901-1217

## Internet Information

Information about the Company,  
its U.S. Securities and Exchange  
Commission filings and its products  
are available through its  
website at: [www.gormanrupp.com](http://www.gormanrupp.com)

## To Buy or Sell Stock

Stock cannot be purchased or sold  
directly through The Gorman-Rupp  
Company. Purchases and sales of  
the Company's stock generally are  
made through a Securities dealer or  
through the Dividend Reinvestment  
Plan offered through Broadridge  
Corporate Issuer Solutions, Inc.

In addition, employees of the  
Company may purchase shares  
through an Employee Stock  
Purchase Plan offered through  
monthly deductions from their  
paychecks.

## Open Enrollment Dividend Reinvestment and Stock Purchase Plan

Broadridge Corporate Issuer  
Solutions, Inc. offers a convenient  
plan for investment in shares of  
common stock of The Gorman-Rupp  
Company. Investors may buy or sell  
common shares of The Gorman-  
Rupp Company through Broadridge  
Corporate Issuer Solutions, Inc.'s  
Direct Share Purchase and Sale  
Plan. Initial investments of \$200  
are required up to a maximum of  
\$5,000 per month. Any subsequent  
investments may be made for a  
minimum of \$50 (to a maximum  
of \$5,000) per month.

For additional information, please  
contact The Gorman-Rupp Company,  
Attention: Corporate Secretary, for  
a copy of the Plan brochure, or call  
a customer service representative  
at Broadridge Corporate Issuer  
Solutions, Inc.

Phone: (844) 318-0130 or  
(720) 358-3598

## Direct Dividend Deposit

Gorman-Rupp provides the  
opportunity to have your dividend  
directly deposited into your checking  
or savings account. Your dividend is  
available to you on the payment date.

For additional information, call a  
customer service representative  
at Broadridge Corporate Issuer  
Solutions, Inc.

Phone: (844) 318-0130 or  
(720) 358-3598

## Annual Meeting

Annual Meeting of Shareholders  
of The Gorman-Rupp Company  
will be held in a virtual meeting  
format only via webcast on  
Thursday, April 22, 2021 at  
10:00 a.m., Eastern Daylight Time.

## Transfer Agent and Registrar

Broadridge Corporate Issuer  
Solutions, Inc.  
P.O. Box 1342  
Brentwood, New York 11717  
Phone: (844) 318-0130 or  
(720) 358-3598

Fax: (215) 553-5402  
E-mail: [Shareholder@broadridge.com](mailto:Shareholder@broadridge.com)

## Mailing Address

The Gorman-Rupp Company  
P.O. Box 1217  
Mansfield, OH 44901-1217  
Phone: (419) 755-1011  
Fax: (419) 755-1263

## Principal Office

The Gorman-Rupp Company  
600 South Airport Road  
Mansfield, OH 44903

## Exchange Listing

NYSE Symbol GRC

## Independent Registered Public Accounting Firm

Ernst & Young, LLP  
950 Main Avenue  
Suite 1800  
Cleveland, OH 44113-7214



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**LISTED**  
**NYSE**

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*The Pump People®*

THE GORMAN-RUPP COMPANY