

GORMAN RUPP CO  
Form PRE 14A  
February 27, 2015

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES**

**EXCHANGE ACT OF 1934**

**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
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**The Gorman-Rupp Company**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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# THE GORMAN-RUPP COMPANY

Mansfield, Ohio

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of the Shareholders of The Gorman-Rupp Company will be held at the Company's Corporate Headquarters, 600 South Airport Road, Mansfield, Ohio 44903, on Thursday, April 23, 2015 at 10:00 a.m., Eastern Daylight Time, for the purpose of considering and acting upon proposals to:

1. Fix the number of Directors of the Company at eight and to elect eight Directors to hold office until the next Annual Meeting of Shareholders and until their successors are elected and qualified;
2. Approve and adopt an amendment of the Company's Code of Regulations to authorize the Board of Directors to amend the Code of Regulations to the extent permitted by Ohio law;
3. Approve and adopt an amendment of the Company's Code of Regulations to authorize the formation of committees of the Board of Directors consisting of one or more directors and subcommittees;
4. Approve and adopt The Gorman-Rupp Company 2015 Omnibus Incentive Plan;
5. Approve, on an advisory basis, the compensation of the Company's named Executive Officers;
6. Ratify the appointment of Ernst & Young LLP as independent registered public accountants for the Company during the year ending December 31, 2015; and
7. Conduct such other business as may properly come before the Meeting or any adjournment or postponement thereof.

Holders of Common Shares of record at the close of business on March 6, 2015 are the only Shareholders entitled to notice of and to vote at the Meeting.

**Important Notice Regarding the Internet Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on April 23, 2015** This Notice of Annual Meeting of Shareholders, Proxy Statement and related Proxy Card and the Company's 2014 Annual Report to Shareholders are available at <http://www.proxyvote.com>. **To access the proxy materials you will need to enter the 12-digit control number located on the proxy card.**

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**You may vote by internet by following the instructions on the enclosed proxy card, or by signing and submitting your enclosed proxy card and returning it in the enclosed envelope (which requires no postage if mailed in the United States), regardless of whether you plan to attend the Meeting.**

By Order of the Board of Directors

*BRIGETTE A. BURNELL*  
Corporate Counsel and Secretary

March 19, 2015

## PROXY STATEMENT

March 19, 2015

### SOLICITATION AND REVOCATION OF PROXIES

This Proxy Statement is being furnished to shareholders of The Gorman-Rupp Company (the Company) in connection with the solicitation by the Board of Directors of the Company (the Board of Directors or Board) of proxies for use at the Annual Meeting of the Shareholders (the Meeting) to be held at the Company's Corporate Headquarters, 600 South Airport Road, Mansfield, Ohio, at 10:00 a.m., Eastern Daylight Time, on Thursday, April 23, 2015. Holders of Common Shares of record at the close of business on March 6, 2015 are the only shareholders entitled to notice of and to vote at the Meeting.

A shareholder, without affecting any vote previously taken, may revoke their proxy by the execution and delivery to the Company of a later dated proxy with respect to the same shares, or by giving notice of revocation to the Company in writing or at the Meeting. The presence at the Meeting of the person appointing a proxy does not in and of itself revoke the appointment.

### OUTSTANDING SHARES AND VOTING RIGHTS

As of March 6, 2015, the record date for the determination of persons entitled to vote at the Meeting, there were 26,260,543 Common Shares outstanding. Each Common Share is entitled to one vote on each proposal.

The mailing address of the principal executive offices of the Company is P.O. Box 1217, Mansfield, Ohio 44901-1217. This Proxy Statement and accompanying proxy are being mailed to shareholders on or about March 19, 2015.

A quorum will be present at the Meeting if there are present, in person or by proxy, shareholders of record entitled to exercise at least 50% of the voting power of the Company with respect to at least one of the purposes for which the Meeting was called.

With respect to the election of Directors (Proposal No. 1), the eight nominees receiving the greatest number of votes will be elected. Abstentions and broker non-votes will not be voted for or withheld from the election of directors and thus will have no effect on the election of directors.

If notice in writing is given by any shareholder to the President, a Vice President or the Secretary of the Company, not less than 48 hours before the time fixed for the holding of the Meeting, that such shareholder desires that the voting for the election of Directors be cumulative, and if announcement of the giving of such notice is made upon the convening of the Meeting by the Chairman or Secretary or by or on behalf of the shareholder giving such notice, each shareholder shall have the right to cumulate such voting power as they possess at such election. Under cumulative voting, a shareholder controls voting power equal to the number of votes which they otherwise would have been entitled to cast multiplied by the number of Directors to be elected. All of such votes may be cast for a single nominee or may be distributed among any two or more nominees as they may desire. If cumulative voting is invoked, and unless contrary instructions are given by a shareholder who signs a proxy, all votes represented by such proxy will be divided evenly among the candidates nominated by the Board of Directors, except that if such voting should for any reason not be effective to elect all of the nominees named in this Proxy Statement, then such votes will be cast so as to maximize the number of the Board of Directors' nominees elected to the Board.

With respect to the votes to approve and adopt amendments of the Company's Code of Regulations (Proposals No. 2 and 3), the affirmative vote of the shareholders entitled to exercise a majority of the total voting power of the Company on the proposals is necessary to approve the proposals. A proxy card marked as Abstain with respect to these proposals will not be voted. Accordingly, if you Abstain from voting, it will have the same effect as an Against vote. Broker non-votes also will have the same effect as a vote Against these proposals.

With respect to the vote to approve and adopt The Gorman-Rupp Company 2015 Omnibus Incentive Plan (Proposal No. 4), the affirmative vote of a majority of the votes cast is necessary to approve the proposal. Abstentions and broker non-votes will not be voted for or against the proposal and will not be counted in the number of votes cast on the proposal.

With respect to the advisory vote to approve executive compensation (Proposal No. 5) and the ratification of independent registered public accountants (Proposal No. 6), the affirmative vote of a majority of the votes cast is necessary to approve each such proposal. Abstentions will not be voted for or against such proposals and will not be counted in the number of votes cast on such proposals.

Brokerage firms have the authority to vote shares on certain routine matters when their customers do not provide voting instructions. However, on other matters, when the brokerage firm has not received voting instructions from its customers, the brokerage firm cannot vote the shares on that matter and a broker non-vote occurs. Proposal No. 6 is a routine matter, but the other proposals in this proxy statement are non-routine matters.

## ELECTION OF DIRECTORS

### (Proposal No. 1)

All Directors will be elected to hold office until the next Annual Meeting of Shareholders and until their successors are elected and qualified. Proxies received will be voted in the manner directed therein. If no such direction is provided, proxies received are intended to be voted in favor of fixing the number of Directors at eight and for the election of the nominees named below. Each of the nominees is presently a Director of the Company. Mr. Jeffrey S. Gorman is the son of Mr. James C. Gorman.

In the event that any of the nominees should become unavailable, which the Board of Directors does not anticipate, proxies are intended to be voted in favor of fixing the number of Directors at a lesser number or for a substitute nominee or nominees designated by the Board of Directors, in the discretion of the persons appointed as proxy holders. If cumulative voting in the election of directors is invoked, the proxies may be voted cumulatively for less than the entire number of nominees if any situation arises which, in the opinion of the proxy holders, makes such action necessary or desirable.

### Director Qualifications

The nominees for Director are as follows:

**James C. Gorman** is Chairman of the Board and son of J.C. Gorman, co-founder of the Company. Mr. Gorman has been Chairman of the Board since 1989 and served as the Company's President from 1964 until 1989, and as Chief Executive Officer from 1964 until 1996. Mr. Gorman also served on the Board of Directors of United Telephone Company of Ohio for 20 years and was Treasurer of a multi-million dollar international not-for-profit entity for 35 years. Mr. Gorman, age 90, has served as a Director of the Company since 1946.

Mr. Gorman was instrumental in the Company's development and growth for more than 30 years as President and Chief Executive Officer and 11 years in sales, and therefore is highly knowledgeable about the pump industry and the Company's products, customers and competitors.

**Jeffrey S. Gorman** is President and Chief Executive Officer of the Company. He was elected to these offices on May 1, 1998, after having served as Senior Vice President since 1996. He also served as General Manager of the Mansfield Division from 1989 through 2005 after service as Assistant General Manager from 1986 to 1988. Additionally, he held the office of Corporate Secretary from 1982 to 1990. Mr. Gorman is a member of the Board of Directors of Mechanics Savings Bank, Mansfield, Ohio and former Chairman of the Ohio Chamber of Commerce. Mr. Gorman, age 62, has served as a Director of the Company since 1989.

Mr. Gorman has been instrumental in continuing the Company's development and growth for more than 30 years, especially with respect to its acquisitions and its international growth. He also is highly knowledgeable about all significant aspects of the pump industry and the Company's products, customers and competitors.

**M. Ann Harlan** is the retired Vice President and General Counsel of the J.M. Smucker Company ( Smucker ), a New York Stock Exchange ( NYSE ) publicly-traded food manufacturer. From January 1998 to January 2011, Ms. Harlan was a member of the Smucker executive management team responsible for setting and implementing corporate strategy and has broad experience with corporate governance issues and requirements of the NYSE, the Securities and Exchange Commission ( SEC ) and the Sarbanes-Oxley Act of 2002. In addition, Ms. Harlan is a Director of Eatem Foods Company, a member of the Advisory Board of Gates Group Capital Partners and serves on the Board of Trustees of University Hospitals Health System, Inc. Ms. Harlan, age 55, has served as a Director of the Company since 2009.

Ms. Harlan has 13 years of experience as senior legal counsel at Smucker, which has significant family ownership and family senior management generally comparable to the ownership structure of the Company. She has extensive mergers and acquisition experience with Smucker and 15 years prior related experience with a major law firm. She also has broad experience with executive compensation and equity compensation plan development and administration.

**Thomas E. Hoaglin** served as Chief Executive Officer and Director of Huntington Bancshares, a publicly-traded financial institution from February 2001 to his retirement in February 2009. Mr. Hoaglin is currently a Director of American Electric Power Company, Inc., a NYSE publicly traded electric utility holding company, where he is the Lead Independent Director, Chair of the Committee on Directors and Corporate Governance and also serves on the Human Resources (Compensation) Committee, Executive Committee and Policy Committee. Mr. Hoaglin is a Director of The Jeffrey Company and serves as member of the National Association of Corporate Directors Nominating and Governance Committee Chair Advisory Council. Mr. Hoaglin, age 65, has served as a Director of the Company since 1993 and had previously served as a Director from 1986 to 1989.

The Board has determined that Mr. Hoaglin qualifies as an audit committee financial expert under SEC rules, in connection with his service as Chair of the Audit Committee. He has extensive major-corporation executive management experience and extensive board of directors experience in governance and executive compensation matters of publicly-held companies.

**Christopher H. Lake** has been President and Chief Operating Officer of SRI Quality System Registrar, an international third party ISO registrar and certification audit firm, since December 2005, after having served as Vice President from July to December 2005. The firm has operations in the United States, Asia and the European Union. Mr. Lake served as President of Dean & Lake Consulting, Inc., a regional consulting group that focused on operations and product development from 2001 to July 2005. Previously, Mr. Lake was Principal and Industry Executive for a Fortune 500 global consulting company. Mr. Lake, age 50, has served as a Director of the Company since 2000.

Mr. Lake has major corporate service and operations experience with large service, banking and telecommunications clients. He also has extensive experience providing information technology services to large domestic and international companies.

**Kenneth R. Reynolds** has been Chief Financial Officer of Ariel Corporation since 1997. Ariel has been a major designer and manufacturer of a wide variety of compressors for diverse global petroleum markets for nearly 50 years. Its compressors are in service worldwide in refineries, gas fields, pipeline service and gas gathering, making it a world leader in gas compression. Previously, Mr. Reynolds, a Certified Public Accountant, was a partner with a regional public accounting firm which he joined following his college graduation. He also serves on the Board of Directors of a Houston-based joint venture between Caterpillar Inc. and Ariel that designs and manufactures well-stimulation pump products. Mr. Reynolds, age 56, has served as a Director of the Company since 2014.

Mr. Reynolds has over 30 years of financial systems management and reporting experience and qualifies as a financial expert for service on the Audit Committee. Additionally, Mr. Reynolds has extensive international *Fortune 500* customer experience with major petroleum producers and capital goods manufacturers.

**Rick R. Taylor** has been President of Jay Industries, Inc., a Tier 1 automotive parts manufacturer, since 1985. Jay Industries also is a Tier 2 parts manufacturer for several other industrial companies. In addition, Mr. Taylor has been President of Longview Steel Corporation, a steel wholesaler, since 1999. Mr. Taylor has been a Director of Park National Corporation, a NYSE publicly traded regional bank holding company, since 1995, where he serves on the Investment Committee and the Risk Committee. Mr. Taylor, age 67, has served as a Director of the Company since 2003.

Mr. Taylor's major company manufacturing experience spans over 40 years. He has extensive international supply chain experience, and board of directors' experience, including investment management and risk management.

**W. Wayne Walston** is Senior Counsel in the Warsaw, Indiana office of Beers Mellers Backs & Salin, LLP (attorneys) since January 2013, after having served as Partner since November 2008. Prior to that, Mr. Walston was a partner in Miner Lemon & Walston, LLP from January 2007, and owner of the Walston Elder Law Office from July 2003 through December 2006. Mr. Walston previously was an officer of Sprint Corporation for 14 years as Legal and External Affairs officer; he also served as Secretary to the Board of Directors of five separate state operating entities. Mr. Walston, age 72, has served as a Director of the Company since 1999.

Mr. Walston has extensive experience with labor and employment relations, antitrust compliance, SEC compliance, state regulatory compliance for public utilities, legislative and regulatory advocacy, real estate contracts and transactions, corporate communications and corporate litigation. He also has extensive major publicly-held company board of directors' experience, including corporate governance.

#### **Additional Director Nominee Information**

**Involvement by Mr. Hoaglin in Certain Legal Proceedings** On June 2, 2005, Huntington Bancshares, Inc. (Huntington) announced that the SEC approved the settlement of the SEC's previously announced formal investigation into certain financial accounting matters relating to Huntington's fiscal years 2002 and earlier and certain related disclosure matters. As a part of the settlement, the SEC instituted a cease and desist administrative proceeding and entered a cease and desist order, as well as filed a civil action in federal district court pursuant to which, without admitting or denying the allegations in the complaint, Huntington, its former chief financial officer, its former controller, and Mr. Hoaglin consented to pay civil money penalties. Huntington consented to pay a penalty of \$7.5 million. Without admitting or denying the charges in the administrative proceeding, Huntington and the individuals each agreed to cease and desist from committing and/or causing the violations charged as well as any future violations of the SEC's regulations. Additionally, Mr. Hoaglin agreed to pay disgorgement, pre-judgment interest, and penalties in the amount of \$667,609. The former chief financial officer and the former controller each also agreed to pay amounts consisting of disgorgement, pre-judgment interest, and penalties and also consented to certain other non-monetary penalties.

#### **NON-EMPLOYEE DIRECTOR COMPENSATION**

The Compensation Committee is charged with oversight and periodic review of Non-Employee Director compensation and with recommending any changes to the entire Board of Directors. Directors who are employees of the Company (Messrs. J. C. Gorman and J. S. Gorman) do not receive any compensation for service as Directors.



During 2012, the Compensation Committee reviewed the compensation of the Non-Employee Directors using the same industry peer comparison process it used in reviewing the compensation of the Executive Officers. The Committee made recommendations which were approved for implementation beginning in 2012 with an objective during 2014 to reach the 25<sup>th</sup> percentile of compensation of comparable capital goods manufacturing companies.

Non-Employee Directors are compensated by the Company for their services as Directors through a combination of annual cash retainers of \$53,000 each and stock awards of 1,250 shares each on July 1 of every year. The Company has never offered incentive stock or option awards or non-equity incentive plan compensation as a part of the Company's Non-Employee Director compensation program.

#### ***Non-Employee Director Compensation Table***

The table below summarizes the total compensation paid for service of each of the Non-Employee Directors of the Company for the calendar year 2014.

Name	Fees Earned or Paid in Cash (1)(\$)	Stock Awards (2)(\$)	Total (\$)
M. Ann Harlan	57,000	44,413	101,413
Thomas E. Hoaglin	66,000	44,413	110,413
Christopher H. Lake	55,000	44,413	99,413
Peter B. Lake, Ph.D. (3)	19,000	0	19,000
Ken R. Reynolds	35,333	44,413	79,746
Rick R. Taylor	56,000	44,413	100,413
W. Wayne Walston	57,000	44,413	101,413

- 1) Each Non-Employee Director received a retainer fee of \$53,000. Each non-Audit Committee Chairman received an additional retainer fee of \$4,000, the Audit Committee Chairman received an additional retainer fee of \$8,000, and the lead independent Director received an additional retainer fee of \$5,000.
- 2) Each Non-Employee Director received an award of 1,250 Common Shares (from the Company's treasury shares) under the Company's Amended and Restated Non-Employee Directors' Compensation Plan. The award of 1,250 Common Shares made on July 1, 2014 had a market value of \$44,413, computed in accordance with FASB ASC Topic 718.
- 3) Mr. Lake retired as a Director effective as of the 2014 Annual Meeting (April 24, 2014). His compensation reflects a prorated retainer fee covering the portion of 2014 during which he served as a Director.

#### **CORPORATE GOVERNANCE**

##### **Board of Directors and Board Committees**

The Company requires that a majority of its Directors must be independent as required by the listing standards of the NYSE MKT Exchange and the SEC rules, or by other regulatory or legislative bodies as may be applicable to the Company. The Board, on an annual basis, makes a determination as to the independence of each Director in accordance with these prescribed rules or regulations. In general, independent means that a Director has no material relationship with the Company or any of its subsidiaries. The existence of a material relationship must be determined upon a review of all relevant facts and circumstances, and generally is a relationship that might reasonably be expected to compromise the Director's ability to maintain his or her independence from management.

Based on an annual review by the Governance and Nominating Committee, the Committee affirmatively determined, after considering all relevant facts and circumstances known to it, that no Non-Employee Director has a material relationship with the Company and that all Non-Employee Directors meet the independence standards of the Company's Corporate Governance Guidelines as well as the independence standards of the current NYSE MKT Exchange and SEC corporate governance requirements for listed companies, and have no relationships or transactions required to be reported by Item 404 of Regulation S-K.

During 2014, a total of five regularly scheduled meetings of the Board of Directors (at least one each quarter) and a total of 21 meetings of all standing Directors' Committees were held. All Directors attended at least 75% of the aggregate number of meetings held by the Board of Directors and the respective committees on which they served. In 2014, the independent Directors met at every regularly scheduled meeting of the Board of Directors in executive session without the presence of the non-independent Directors and any members of the Company's management. Members of the Board of Directors are expected to attend the Company's Annual Meeting of Shareholders, and all Directors were in attendance at the Annual Meeting in 2014.

At the April 24, 2014 annual reorganizational meeting of the Board of Directors, Thomas E. Hoaglin was re-elected by the independent directors to serve as lead independent director for a one year term. The lead independent director is responsible for coordinating the activities of the other independent directors and has the authority to preside at all meetings of the Board of Directors at which the Chairman of the Board is not present. The lead independent director serves as principal liaison on Board-wide issues between the independent directors and the Chairman of the Board, approves meeting schedules and agendas and monitors the quality of information sent to the Board. The lead independent director also may recommend the retention of outside advisors and consultants who report directly to the Board of Directors. If requested by shareholders, when appropriate, the lead independent director also will be available for consultation and direct communication.

The Board of Directors has four separately designated standing committees: (1) Audit Committee, whose present members are Thomas E. Hoaglin (Chair and audit committee financial expert), Kenneth R. Reynolds and W. Wayne Walston; (2) Compensation Committee, whose present members are W. Wayne Walston (Chair), M. Ann Harlan and Christopher H. Lake; (3) Pension Committee, whose present members are Rick R. Taylor (Chair), Thomas E. Hoaglin and Christopher H. Lake; and (4) Governance and Nominating Committee, whose present members are M. Ann Harlan (Chair), Kenneth R. Reynolds and Rick R. Taylor. All members of each Committee are independent Directors. Each committee is governed by a written charter adopted by the Board of Directors detailing its authority and responsibilities. These charters are reviewed and updated periodically as legislative and regulatory developments and business circumstances warrant. The Board Committees charters are available in their entirety on the Company's website at <http://www.gormanrupp.com>.

#### ***Audit Committee***

The Audit Committee held six meetings in 2014. Its principal functions include engaging the Company's independent registered public accounting firm and reviewing the scope of the audit of the Company's consolidated financial statements, considering comments made by the independent registered public accountants with respect to internal controls and financial reporting, considering related actions taken by management, reviewing internal accounting systems, procedures and controls with the Company's internal auditor and financial staff, reviewing any non-audit services provided by the independent registered public accountants, and organizational oversight of the Company's enterprise risk management plan.

#### ***Compensation Committee***

The Compensation Committee held seven meetings during 2014. Its principal functions are, subject to approval by the Board of Directors, to evaluate, develop and monitor compensation policies and programs for the Company's officers and Non-Employee Directors, and to recommend the salaries, profit sharing and long-term incentive compensation for the officers. A more comprehensive description of the Compensation Committee's functions regarding the consideration and determination of executive compensation is set forth under the caption Compensation Discussion and Analysis.

***Pension Committee***

The Pension Committee held four meetings in 2014. Its principal functions are to monitor the investment of the assets associated with the Company's defined benefit pension plan and 401(k) defined contribution plans and to assist in evaluating recommended changes in such investments.

***Governance and Nominating Committee***

The Governance and Nominating Committee held four meetings during 2014. Its principal functions involve the identification, evaluation and recommendation of individuals for nomination as members of the Board of Directors, succession planning for the Company's Chief Executive Officer and other Executive Officers, succession planning for other corporate officers and operating executives, and periodic review of the Board Committees' charters and Corporate Governance Guidelines for compliance with evolving regulations and Board-desired corporate goals. The Governance and Nominating Committee also monitors the availability of training and professional education programs suitable for Directors for enhancement of their Board and Committee responsibilities.

The Governance and Nominating Committee charter incorporates the Company's policies and procedures by which to consider recommendations from shareholders for Director nominees. Any shareholder wishing to propose a candidate may do so by delivering a typewritten or legible hand-written communication to the Company's Corporate Secretary. The submission should provide detailed business and personal biographical data about the candidate, and include a brief analysis explaining why the individual is well-qualified to become a Director nominee. All recommendations will be acknowledged by the Corporate Secretary and promptly referred to the Governance and Nominating Committee for evaluation.

The Governance and Nominating Committee does not believe that any particular set of skills, qualities or diversities is most appropriate for a Director candidate. All Director candidates, including any recommended by shareholders, are first evaluated based upon their (i) integrity, strength of character, practical wisdom and mature judgment; (ii) business and financial expertise and experience; (iii) intellect to comprehend the issues confronting the Company; and (iv) availability of adequate time to devote to the affairs of the Company and attend Board and Committee meetings. The Governance and Nominating Committee also focuses on issues of diversity, such as diversity of gender, race and national origin, education, professional experience and differences in viewpoints and skills. New Director candidates are subject to a background check performed by the Governance and Nominating Committee. In addition, the candidate will be personally interviewed by one or more Governance and Nominating Committee members before he or she is nominated for election to the Board of Directors. In considering candidates for the Board, the Governance and Nominating Committee considers the entirety of each candidate's credentials in the context of their skills, qualities or diversities. With respect to the nomination of continuing Directors for re-election, the individual's historical contributions to the Board are also considered.

**Risk Oversight**

The Board of Directors believes that control and management of risk are primary responsibilities of senior management of the Company. As a general matter, the entire Board of Directors is responsible for oversight of this important senior management function. The Audit Committee is responsible to the Board for the organizational oversight of the Company's comprehensive enterprise risk management plan. Additional oversight of some functional risks is performed by specific Board committees, e.g., financial reporting risks are overseen by the Audit Committee; benefit plan investment risks are overseen by the Pension Committee; personnel selection, evaluation, retention and compensation risks are overseen by the Compensation Committee; and Chief Executive Officer, Executive Officer, other corporate officer, key operating executive and Director succession planning risks are overseen by the Governance and Nominating Committee. The results of each Committee's oversight are reported regularly to the entire Board of Directors.

***Company Leadership Organization***

Upon election of Mr. J.S. Gorman as Chief Executive Officer of the Company on May 1, 1998, the Company separated the offices of Board Chairman and Chief Executive Officer because it believed this division more clearly delineated their respective responsibilities. This separation currently provides for the Chairman to focus on Board of Director responsibilities and for the Chief Executive Officer to focus on the Company's executive, administrative and operating responsibilities. Given their respective service years with the Company, the Company believes this structure is most appropriate currently for conducting its business and its responsibilities to its employees, customers and suppliers, to its shareholders and Directors, and to its community and regulatory agencies.

***Related Party Transactions***

The Company has no relationships or transactions required to be reported by Item 404 of Regulation S-K.

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**AUDIT COMMITTEE REPORT**

The Audit Committee has submitted the following report to the Board of Directors:

- (i) The Audit Committee has reviewed and discussed the Company's audited consolidated financial statements for the fiscal year ended December 31, 2014 and the assessment of the Company's internal control over financial reporting with the Company's management and the Company's independent registered public accountants;
- (ii) The Audit Committee has discussed with the Company's independent registered public accountants the matters required to be discussed by Auditing Standard No. 16, *Communications with Audit Committees*, as adopted by the Public Company Accounting Oversight Board (PCAOB);
- (iii) The Audit Committee has received the written disclosures and the letter from the Company's independent registered public accountants required by PCAOB Rule 3526 (Communication with Audit Committees Concerning Independence), and has discussed the issue of independence, including the provision of non-audit services to the Company, with the independent registered public accountants;
- (iv) With respect to the provision of non-audit services to the Company, the Audit Committee has obtained a written statement from the Company's independent registered public accountants that they have not rendered any non-audit services prohibited by SEC and PCAOB rules relating to auditor independence, and that the delivery of any permitted non-audit services has not and will not impair their independence;
- (v) Based upon the review and discussions referred to above, the Audit Committee has recommended to the Board of Directors that the Company's audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, to be filed with the SEC; and

(vi) In general, the Audit Committee has fulfilled its commitments in accordance with its Charter. Members of the Audit Committee are also independent in accordance with the additional listing standards of the NYSE MKT Exchange, and the Chairman is an audit committee financial expert in accordance with SEC rules.

The foregoing report has been furnished by members of the Audit Committee.

/s/ Thomas E. Hoaglin  
Thomas E. Hoaglin,

/s/ Kenneth R. Reynolds  
Kenneth R. Reynolds

/s/ W. Wayne Walston  
W. Wayne Walston

Chair

***Compensation Committee Interlocks and Insider Participation***

Each of the following Directors served as a member of the Compensation Committee during the fiscal year ended December 31, 2014: M. Ann Harlan, Christopher H. Lake, and W. Wayne Walston. During fiscal year 2014, no Company executive officer or Director was a member of the board of directors of any other company where the relationship would be construed to constitute a committee interlock within the meaning of the rules of the SEC.

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee has submitted the following report to the Board of Directors:

- (i) The Compensation Committee has reviewed and discussed the following Compensation Discussion and Analysis with the Company's management; and
- (ii) Based on the review and discussions referred to in the preceding paragraph, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Proxy Statement in connection with the 2015 Annual Meeting of the Company's Shareholders.

The foregoing report has been furnished by members of the Compensation Committee.

/s/ M. ANN HARLAN  
M. Ann Harlan

/s/ CHRISTOPHER H. LAKE  
Christopher H. Lake

/s/ W. WAYNE WALSTON  
W. Wayne Walston,

Chair

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

This Compensation Discussion and Analysis describes the Company's Officer compensation program and how it applies to the Company's Chief Executive Officer and its other officers (collectively, the Officers), including our four named executive officers (Executive Officers) identified in our Summary Compensation Table.

#### *Overview*

The Gorman-Rupp Company has a long and continuing focus on building profitability and consistently delivering increased value to our shareholders. To accomplish this goal, the Company's Officer compensation program is designed to encourage and reward leadership, initiative, teamwork and top-quality performances among the Officers.

The Compensation Committee (the Committee) of the Board of Directors is authorized (i) to review and evaluate the compensation policies and programs for the Officers; (ii) to review, at least annually, the Chief Executive Officer's progress assessments of the other Officers and to evaluate the Chief Executive Officer's progress assessment; (iii) to review and recommend the annual salaries, profit sharing and long-term incentive compensation determinations for the Executive Officers to the Board of Directors; and (iv) to periodically review the compensation of Non-Employee Directors (Directors) and submit any suggested recommendations for changes to the Directors for review.

Three independent Directors comprise the Committee. Their responsibilities are carried out pursuant to authority delegated by the Board of Directors and in accordance with the federal securities laws and other applicable laws and regulations and the Committee's charter.

#### *Philosophy and Objectives*

Under the Committee's oversight, the Company has formulated a compensation philosophy that is intended to assure the provision of fair, competitive and performance-based compensation to the Officers. This philosophy reflects the belief that compensation of the Officers should be consistent with the Company's historical compensation practices, its culture, its profitability and its long-term shareholder value.

The implementation of the Company's Officer compensation philosophy seeks (i) to attract and retain a group of talented individuals with the education, experience, skill sets and professional presence deemed best suited for the respective Officer positions; and (ii) to continually motivate those individuals to help the Company achieve its strategic goals and enhance profitability by offering them incentive compensation in the form of profit sharing and, beginning in 2015 if approved by the Company's shareholders as further described below, equity-based compensation awards driven by the Company's results of operations and financial condition.

#### *Elements of Compensation*

The Company's Officer compensation program through 2014 consists of three elements: base salary, profit sharing and a component of modest miscellaneous benefits. Prior to 2015, incentive stock or option awards have never been a part of the Company's Officer compensation program. In addition, the Company has not entered into employment contracts with any of the Officers.

Although not an element of Officer compensation, ownership of the Company's Common Shares by the Officers has continually been considered a worthy goal within the Company to further align Officers' interests with those of Shareholders. The Company has paid increased dividends on its Common Shares for 42

consecutive years and paid such quarterly dividends regularly for more than 64 years. Toward that end, the Company sponsors Share purchase opportunities, including a partial Company match, aimed at encouraging the Officers, and substantially all other employees, to voluntarily invest in the Common Shares.

In this 2015 proxy statement is a proposal (Proposal No. 4) for the approval and adoption of an equity-based incentive compensation plan. The Company's Board of Directors believes it is desirable to begin to add an equity compensation element to enhance the Company's compensation program in combination with its succession planning for key personnel and to further align the interests of award recipients with shareholders.

As noted below under Incentive Plan, in July 2014 the Board of Directors authorized the Committee to evaluate an equity-based incentive compensation plan and to engage an appropriate compensation advisory firm to assist the Committee and management in these efforts.

**Base Salary and Profit Sharing** Base salaries are premised upon the relative responsibilities of the given Officers and industry surveys and related data. Initial salaries generally are set below competitive levels paid to comparable officers at other entities engaged in the same or similar businesses as the Company based upon Equilar peer data and Company philosophy. Subsequently, actual salaries are adjusted periodically based on judgments of each person's performance, qualifications, accomplishments and expected future contributions in his or her Officer role.

The Company intentionally relies to a significant degree on incentive compensation in the form of profit sharing to attract and retain the Officers. This profit sharing opportunity provides motivation for them to perform to the full extent of their individual abilities and as a team to build total Company profitability and shareholder value on a continuing, long-term basis.

**Incentive Plan** At the Annual Meeting of Shareholders, as described in this 2015 proxy statement, the Company is seeking an affirmative shareholder vote to approve and adopt The Gorman-Rupp Company 2015 Omnibus Incentive Plan (the Incentive Plan).

Upon direction by the Board of Directors and a subsequent review of several compensation advisory firms experienced in public-company incentive compensation consulting, the Committee authorized the selection and engagement of Frederic W. Cook & Co., Inc. (FW Cook) by the Company. FW Cook has extensive incentive compensation consulting experience assisting boards, compensation committees and management of public and private companies in advising, evaluating and designing compensation plans.

At the direction of the Committee, the Company's Executive Officers worked extensively with FW Cook to develop an equity incentive compensation plan consistent with comparably-sized publicly-held manufacturing companies in the Company's compensation peer group as described below under Annual Reviews.

Although the Incentive Plan allows the Board of Directors flexibility to select among multiple award alternatives, the Committee presently anticipates that performance-based restricted stock will be awarded, at least over the initial portion of the Incentive Plan's 10-year duration. Performance-based restricted stock has been selected in part to encourage the accumulation of additional Company shares of stock by those most accountable for the Company's operating results and shareholder value, but conditioned upon achievement of appropriate performance metrics.

If the Incentive Plan is approved by shareholders, the Committee presently anticipates that the annual Incentive Plan awards will be made over respective three-year cycles based on target compound growth levels of operating income and shareholders' equity over each three-year period. Therefore any awards made during 2015 would not be earned or paid until the conclusion of the independent audit of the Company's 2017 consolidated financial statements, expected to occur in February 2018.



**Other Compensation** The Officers receive a variety of miscellaneous benefits, the value of which is represented for the named Executive Officers under the caption All Other Compensation in the Summary Compensation Table. These benefits include taxable life insurance, and Company contributions to the Christmas Savings Plan, the 401(k) Plan, and certain partial matching contribution opportunities under the Employee Stock Purchase Plan. The Company also sponsors a defined benefit pension plan in which two of the Company's Executive Officers participate as explained under the caption Pension Benefits.

**Stock Ownership and Guidelines** The Company has long encouraged the Officers to voluntarily invest in the Company's Common Shares. As a consequence, the Company makes the purchase of its Common Shares convenient, in some cases with partial cash matching contributions from the Company, and in all cases without brokers' fees or commissions, under an Employee Stock Purchase Plan, a 401(k) Plan and a Dividend Reinvestment Plan. Although the purchase opportunities available through these plans do not constitute elements of Officer compensation, all of the current Officers are shareholders and participate in one or more of the foregoing plans.

#### *Annual Reviews*

In devising and maintaining the Company's Executive Officer compensation program, the Committee requests management to periodically provide data relevant to the compensation paid to officers holding equivalent positions or having similar responsibilities in a group of industrial peers. Such information is obtained from Equilar, a leading independent third-party provider of financial, executive and director compensation data, for their review. Equilar was used by the Company to obtain competitive compensation information from public proxy data for management and the Committee as a general reference to low, mean, median and high compensation ranges and for correlation to similar measures of operating profitability and total shareholder return. The Committee's current objective is for the Company's Executive Officers to be compensated at a total level of compensation commensurate with at least the 25th percentile of compensation of comparable capital goods manufacturing companies.

The Committee additionally evaluates the Executive Officers' progress assessments and the Company's financial performance in performing its compensation review responsibilities. The Committee also takes into account the outcome of prior shareholders' advisory votes on executive compensation. The Committee regularly consults with executive management and has the authority if needed to consult with outside accounting, legal and compensation advisors as appropriate in arriving at compensation recommendations, subject to approval by the Board of Directors.

Prior to the Company's July Board meeting, the Committee reviews with the Chief Executive Officer the recommended annual base salary for each of the Executive Officers (other than the Chief Executive Officer). The Committee independently reviews the base salary for the Chief Executive Officer and develops a recommendation therefor. These salary reviews include consideration of the fact that a significant component of total compensation is variable, performance-based profit sharing. The Committee then reports the results of its Executive Officer compensation reviews and recommendations to the Board of Directors.

During July 2014, the Committee reviewed updated Equilar-provided peer information compensation details from 18 other capital goods manufacturing companies reflecting similar size (median revenue of approximately \$360 million ranging from approximately \$200 million to \$1 billion in revenue) and reporting year-ends (fifteen calendar years of 2013, three fiscal years during 2013 and one fiscal year during 2014). The Committee also took into account the highly favorable outcome of the shareholders' advisory vote on executive compensation at the Company's 2014 Annual Meeting of Shareholders. The Board, based on the Committee's recommendations, approved base salary increases for all Executive Officers reflecting the Board's assessment of all the factors described above.

Following the end of each year and the final preparation of the Company's audited financial statements, management calculates the total amount of profit sharing available for awarding to the Executive Officers based on the Company's achieved operating income and the award percentage determined at the beginning of the year.

The Chief Executive Officer then determines a recommended allocation of the available profit sharing award pool among the Executive Officers based on the respective Executive Officer's prior profit sharing award history and their current year progress assessment.

The Committee reviews with the Chief Executive Officer the recommended profit sharing award for each of the Executive Officers (other than the Chief Executive Officer). The Committee independently reviews the profit sharing award for the Chief Executive Officer and develops a recommendation therefor. These profit sharing reviews include consideration of the Chief Executive Officer's progress assessments of the other Officers, and the Committee's independent progress assessment of the Chief Executive Officer and their prior profit sharing award history. The Committee then reports the results of its profit sharing reviews and recommendations for the Executive Officers to the Board of Directors for its consideration and approval.

**Summary Compensation Table**

The table below contains information pertaining to the annual compensation of the Company's principal executive officer, its principal financial officer, and its two other Executive Officers for calendar years 2014, 2013 and 2012.

Name and Principal Position	Year	Salary	Bonus (1)	Stock Awards (2)	Option Awards (2)	Non- Equity Incentive Plan Compensation (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (3)	All Other Compensation (4)	Total
Jeffrey S. Gorman(5) President and Chief Executive Officer	2014	\$ 388,333	\$ 221,000	\$ 0	\$ 0	\$ 0	\$ 131,558	\$ 9,928	\$ 750,819
	2013	368,333	210,000	0	0	0	70,696	8,484	657,513
	2012	360,000	205,000	0	0	0	148,839	9,711	723,550
Wayne L. Knabel(6) Chief Financial Officer and Treasurer	2014	246,667	165,000	0	0	0	0	26,857	438,524
	2013	231,250	155,000	0	0	0	0	26,050	412,300
	2012	225,000	150,000	0	0	0	0		