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New Residential Investment Corp.
Form 10-Q
July 30, 2018

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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: 001-35777

New Residential Investment Corp.

(Exact name of registrant as specified in its charter)

Delaware

45-3449660

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

1345 Avenue of the Americas, New York, NY 10105

(Address of principal executive offices)

(Zip Code)

(212) 798-3150

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)

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

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Exchange Act. "

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Common stock, \$0.01 par value per share: 339,862,769 shares outstanding as of July 20, 2018.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, which statements involve substantial risks and uncertainties. Such forward-looking statements relate to, among other things, the operating performance of our investments, the stability of our earnings, our financing needs and the size and attractiveness of market opportunities. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “endeavor,” “seek,” “anticipate,” “estimate,” “overestimate,” “underestimate,” “believe,” “could,” “project,” “predict,” “continue” or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations, cash flows or financial condition or state other forward-looking information. Our ability to predict results or the actual outcome of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- reductions in the value of, or cash flows received from, our investments;
- the quality and size of the investment pipeline and our ability to take advantage of investment opportunities at attractive risk-adjusted prices;
- the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested;
- our ability to deploy capital accretively and the timing of such deployment;
- our counterparty concentration and default risks in Nationstar, Ocwen, OneMain, Ditech, PHH and other third parties;
- events, conditions or actions that might occur at Nationstar, Ocwen, OneMain, Ditech, PHH and other third parties, as well as the continued effect of prior events;
- a lack of liquidity surrounding our investments, which could impede our ability to vary our portfolio in an appropriate manner;
- the impact that risks associated with subprime mortgage loans and consumer loans, as well as deficiencies in servicing and foreclosure practices, may have on the value of our MSR, Excess MSR, Servicer Advance Investments, RMBS, residential mortgage loans and consumer loan portfolios;
- the risks related to the recently consummated acquisition of Shellpoint Partners LLC and ownership of entities that perform origination and servicing operations;
- the risks that default and recovery rates on our MSR, Excess MSR, Servicer Advance Investments, RMBS, residential mortgage loans and consumer loans deteriorate compared to our underwriting estimates;
- changes in prepayment rates on the loans underlying certain of our assets, including, but not limited to, our MSR or Excess MSR;
- the risk that projected recapture rates on the loan pools underlying our MSR or Excess MSR are not achieved;
- servicer advances may not be recoverable or may take longer to recover than we expect, which could cause us to fail to achieve our targeted return on our Servicer Advance Investments or MSR;
- impairments in the value of the collateral underlying our investments and the relation of any such impairments to our judgments as to whether changes in the market value of our securities or loans are temporary or not and whether circumstances bearing on the value of such assets warrant changes in carrying values;
- the relative spreads between the yield on the assets in which we invest and the cost of financing;
- adverse changes in the financing markets we access affecting our ability to finance our investments on attractive terms, or at all;
- changing risk assessments by lenders that potentially lead to increased margin calls, not extending our repurchase agreements or other financings in accordance with their current terms or not entering into new financings with us;
-

changes in interest rates and/or credit spreads, as well as the success of any hedging strategy we may undertake in relation to such changes;
the availability and terms of capital for future investments;

- changes in economic conditions generally and the real estate and bond markets specifically;
- competition within the finance and real estate industries;
- the legislative/regulatory environment, including, but not limited to, the impact of the Dodd-Frank Act, U.S. government programs intended to grow the economy, future changes to tax laws, the federal conservatorship of Fannie Mae and Freddie Mac and legislation that permits modification of the terms of residential mortgage loans;
- the risk that Government Sponsored Enterprises or other regulatory initiatives or actions may adversely affect returns from investments in MSRs and Excess MSRs;
- our ability to maintain our qualification as a real estate investment trust (“REIT”) for U.S. federal income tax purposes and the potentially onerous consequences that any failure to maintain such qualification would have on our business;
- our ability to maintain our exclusion from registration under the Investment Company Act of 1940 (the “1940 Act”) and the fact that maintaining such exclusion imposes limits on our operations;
- the risks related to Home Loan Servicing Solutions (“HLSS”) liabilities that we have assumed;
- the impact of current or future legal proceedings and regulatory investigations and inquiries;
- the impact of any material transactions with FIG LLC (the “Manager”) or one of its affiliates, including the impact of any actual, potential or perceived conflicts of interest; and
- effects of the completed merger of Fortress Investment Group LLC with affiliates of SoftBank Group Corp.

We also direct readers to other risks and uncertainties referenced in this report, including those set forth under “Risk Factors.” We caution that you should not place undue reliance on any of our forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. Except as required by law, we are under no obligation (and expressly disclaim any obligation) to update or alter any forward-looking statement, whether written or oral, that we may make from time to time, whether as a result of new information, future events or otherwise.

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about New Residential Investment Corp. (the “Company,” “New Residential” or “we,” “our” and “us”) the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements proved to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Quarterly Report on Form 10-Q and the Company’s other public filings, which are available without charge through the SEC’s website at <http://www.sec.gov>.

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

NEW RESIDENTIAL INVESTMENT CORP.
FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Investments in:		
Excess mortgage servicing rights, at fair value	\$495,299	\$1,173,713
Excess mortgage servicing rights, equity method investees, at fair value	159,034	171,765
Mortgage servicing rights, at fair value	2,232,126	1,735,504
Mortgage servicing rights financing receivables, at fair value	1,904,919	598,728
Servicer advance investments, at fair value ^(A)	843,438	4,027,379
Real estate and other securities, available-for-sale	8,084,927	8,071,140
Residential mortgage loans, held-for-investment	690,771	691,155
Residential mortgage loans, held-for-sale	2,021,319	1,725,534
Real estate owned	125,701	128,295
Consumer loans, held-for-investment ^(A)	1,212,917	1,374,263
Consumer loans, equity method investees	57,820	51,412
Cash and cash equivalents ^(A)	193,236	295,798
Restricted cash	161,441	150,252
Servicer advances receivable	3,215,361	675,593
Trades receivable	1,076,626	1,030,850
Other assets	468,796	312,181
	\$22,943,731	\$22,213,562

Elements of Compensation

The Company's executive compensation program is designed to reward leadership, initiative, teamwork and top-quality performances among the Executives. The program consists of

three elements: base salary; profit sharing; and a component of modest miscellaneous benefits. Incentive stock or option awards and non-equity incentive plan compensation have never been a part of the Company's executive compensation program. In addition, the Company has not entered into employment agreements with any of the Executives.

Although not an element of executive compensation, ownership of the Company's Common Shares by the Executives has nevertheless long been considered a worthy goal within the Company. (The Company has paid increased dividends on its Common Shares for 36 consecutive years.) Toward that end, the Company sponsors purchase opportunities, including a partial Company match, aimed at encouraging the Executives, and substantially all other employees, to voluntarily invest in the Common Shares.

Base Salary and Profit Sharing

Base salaries are initially premised upon the responsibilities of the given Executives. They are further adjusted based on industry surveys and related data, and performance judgments as to the past

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and expected future contributions of the individual. The salaries are then, however, generally set below competitive levels paid to comparable executives at other entities engaged in the same or similar businesses as the Company. As a consequence, the Company relies to a large degree on incentive compensation in the form of profit sharing to attract and retain the Executives, and to motivate them to perform to the full extent of their abilities.

In the early part of each year, the Committee reviews with the Chief Executive Officer and approves, with modifications considered appropriate, an annual base salary for each of the Executives (other than the Chief Executive Officer). The Committee independently reviews and sets the base salary for the Chief Executive Officer.

The profit sharing for the Executives is closely tied to each individual's annual performance evaluation, as well as to the Company's success in achieving its targeted financial goals. This approach allows the Company to operate in a manner that encourages a long and continuing focus on building profitability and shareholder value.

At the beginning of each year, performance objectives for the purpose of computing annual profit sharing are established based upon the Company's targeted operating earnings. At the end of each year, performance against those objectives is determined by an arithmetic calculation. In determining the profit sharing for the Executives, the Committee evaluates management's recommendations with the Chief Executive Officer based on individual performance. The Committee independently evaluates the individual performance of the Chief Executive Officer. The results of those evaluations, together with the profitability calculations, are used by the Committee to award the profit sharing cash payments to the Executives.

Other Compensation

The Executives receive a variety of modest 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 the Employee Stock Purchase Plan.

Stock Ownership

The Company has long encouraged the Executives 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 Company cash contributions, 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 these plans do not constitute elements of executive compensation, all of the current executive officers are shareholders and participate in one or more of the foregoing plans.

Table of Contents**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 three other most highly compensated executive officers.

Name and Principal Position	Year	Salary	Bonus (1)	Award (\$)(2)	Award (\$)(2)	Non- Equity Incentive Plan Stock Option Compensation -Deferred (\$)(2)	Change in Pension Value and Nonqualified Compensation (\$)(3)	All Other Compensation (\$)(4)	Total
Jeffrey S. Gorman President and Chief Executive Officer	2008	\$ 252,000	\$ 175,000	\$ 0	\$ 0	\$ 0	\$ 56,794	\$ 2,815	\$ 486,609
	2007	204,000	190,000	0	0	0	55,443	6,319	455,762
	2006	196,667	160,000	0	0	0	49,443	5,767	411,877
Robert E. Kirkendall Senior Vice President and Chief Financial Officer	2008	169,000	130,000	0	0	0	49,816	7,789	356,605
	2007	145,333	110,000	0	0	0	61,715	6,971	324,019
	2006	139,667	87,500	0	0	0	54,541	6,221	287,929
Judith L. Sovine Treasurer	2008	118,667	78,000	0	0	0	55,923	6,997	259,587
	2007	114,667	67,000	0	0	0	44,346	6,674	232,687
	2006	110,667	56,000	0	0	0	39,350	6,306	212,323
William D. Danuloff Vice President and Chief Information Officer	2008	118,667	68,000	0	0	0	42,112	4,472	233,251
	2007	114,667	58,000	0	0	0	40,838	4,212	217,717
	2006	110,667	50,000	0	0	0	36,822	3,328	200,817
David P. Emmens Corporate Counsel and Secretary	2008	105,000	52,000	0	0	0	19,487	5,873	182,360
	2007	93,333	45,000	0	0	0	15,356	4,608	158,297
	2006	88,667	34,000	0	0	0	11,605	4,525	138,797

(1) The Company only provides profit sharing compensation to substantially all its employees.

(2) The Company has never offered incentive stock or option awards or non-equity incentive plan compensation as a part of the Company's executive compensation program.

(3) The amounts reflect the non-cash change in pension value recognized for financial statement reporting purposes for the fiscal year ended December 31, 2008, in accordance with SEC Release Nos. 33-8732A; 34-54302A. In computing the change in pension value, the Company applies the assumptions used for financial reporting purposes and a measurement date of December 31 for benefit plan determinations. The change in pension value

is the aggregate increase in the actuarial present value of the executive officer's accumulated benefit measured from the plan measurement date in 2007 to the measurement date in 2008. The Company does not currently offer nonqualified deferred compensation of earnings to the executive officers.

- (4) Amounts include taxable life insurance, and Company contributions to the Company's 401(k) Plan, Employee Stock Purchase Plan and Christmas Savings Plan.

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The pension plan in which the Company's executive officers participate is a defined benefit plan covering the executive officers and substantially all employees of the Company for which new entry terminated as of December 31, 2007. Effective January 1, 2008 a new and enhanced 401(k) Plan was adopted for new employees, including officers hired thereafter.

The plan offers participants the option to choose between monthly benefits or a single sum payment. The monthly pension benefits are equal to the product of 1.1% of final average monthly earnings (based on compensation during the final ten years of service) and the number of years of credited service. A single sum amount is equal to the present value of the final monthly pension benefit multiplied by a single premium immediate annuity rate as defined by the plan. Historically, nearly all participants in the plan elect the single sum amount at retirement. The single sum payment option is used for financial reporting purposes for the fiscal year ended December 31, 2008, computed as the plan measurement date of December 31, 2008. Actuarial assumptions used by the Company in determining the present value of the accumulated benefit amount consist of a 5.0% interest rate, a 6.1% discount rate and The 2009 IRS Funding Mortality Table. Base compensation in excess of \$225,000 is not taken into account under the plan. Vesting occurs after five years of credited service.

The table below summarizes the number of years of credited service and the present value of accumulated pension benefit for each of the named executive officers of the Company at December 31, 2008.

Pension Benefits

Name and Principal Position	Plan Name		Number of Years Credited Service(1)	Present Value of Accumulated Benefit(2)	Payments During Last Fiscal Year
Jeffrey S. Gorman	The Gorman-Rupp Company	2008	30	\$ 505,009	\$ 0
President and Chief Executive Officer	Retirement Plan	2007	29	448,215	0
		2006	28	392,772	0
Robert E. Kirkendall	The Gorman-Rupp Company	2008	30	523,085	0
Senior Vice President and Chief Financial Officer	Retirement Plan	2007	29	473,269	0
		2006	28	411,554	0
Judith L. Sovine	The Gorman-Rupp Company	2008	29	408,340	0
Treasurer	Retirement Plan	2007	28	352,417	0
		2006	27	308,071	0
William D. Danuloff	The Gorman-Rupp Company	2008	37	421,843	0
Vice President and Chief Information Officer	Retirement Plan	2007	36	379,731	0
		2006	35	338,893	0

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David P. Emmens	The Gorman-Rupp Company	2008	11	99,518	0
Corporate Counsel and Secretary	Retirement Plan	2007	10	80,031	0
		2006	9	64,675	0

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- (1) The credited years of service are determined as of a measurement date of December 31, 2008.
- (2) The amount represents the actuarial present value of accumulated benefit based on a single sum payment computed as of the plan measurement date of December 31, 2008. The retirement age is assumed to be the normal retirement age of 65 as defined in the plan.

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 foregoing 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 2009 Annual Meeting of the Company's Shareholders.

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

/s/ Thomas E. Hoaglin

Thomas E. Hoaglin

/s/ W. Wayne Walston

W. Wayne Walston
Chairman

/s/ Christopher H. Lake

Christopher H. Lake

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APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

(Proposal No. 2)

A proposal will be presented at the Meeting to ratify the appointment by the Audit Review Committee of the Board of Directors of Ernst & Young LLP as independent public accountants for the Company during the year ending December 31, 2009. Representatives of Ernst & Young LLP are expected to be present at the Meeting, will have an opportunity to make a statement if they so desire, and are expected to be available to respond to appropriate questions.

The Company paid Ernst & Young LLP the following fees in connection with the Company's fiscal years ending December 31, 2008 and 2007:

Audit Fees \$726,000 (2008); \$741,500 (2007). Audit fees consist of the aggregate fees billed for professional services rendered for the audit of the Company's annual financial statements and the reviews of the Company's interim financial statements included in its quarterly reports on Form 10-Q, or services that are normally provided by the accounting firm in connection with statutory and regulatory filings or engagements for those fiscal years. The fees paid in 2007 and 2008 also cover services performed in connection with the Sarbanes-Oxley Section 404 attestation and other Sarbanes-Oxley requirements.

Audit-Related Fees \$45,000 (2008); \$70,500 (2007). Audit-related fees consist of the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under the caption Audit Fees. The audit-related fees were paid for the following services: benefit plan audits.

Tax Fees \$16,200 (2008); \$17,300 (2007). Tax fees consist of the aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning. The tax fees were paid for the following services: federal and international tax planning and advice; federal, state, local and international tax compliance; state and local tax consulting; form 5500 compliance issues; Canadian compliance issues; and other tax advice and assistance regarding statutory and regulatory matters.

All Other Fees \$0 (2008); \$0 (2007). The all other fees category consists of the aggregate fees billed for products and services provided, other than the services reported in the foregoing three paragraphs.

Under its Charter, the Audit Review Committee is directly responsible for the oversight of the work of Ernst & Young LLP and has the sole authority to (i) appoint, retain and terminate Ernst & Young LLP, (ii) pre-approve all audit engagement fees, terms and services, and (iii) pre-approve scope and fees for any non-audit engagements with Ernst & Young LLP. The Committee exercises this authority in a manner consistent with applicable law and the rules of the Securities and Exchange Commission and the NYSE Alternext Exchange (formerly American Stock Exchange), and Ernst &

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Young LLP reports directly to the Committee. In addition, the Committee has determined to delegate its authority to grant any pre-approvals to its Chairman, subject to the report of any such pre-approvals to the Committee at its next scheduled meeting. With respect to certain of the services categorized above, the following percentage of services were rendered by Ernst & Young LLP in accordance with the annual *de minimus* exception to the pre-approval requirement: Audit-Related Fees 0%; Tax Fees 0%; All Other Fees 0%.

Ratification by the shareholders of the appointment of Ernst & Young LLP is not required by law. However, the Board of Directors believes that shareholders should be given this opportunity to express their views on the subject. While not binding on the Audit Review Committee, the failure of the shareholders to ratify the appointment of Ernst & Young LLP as the Company's independent public accountants would be considered by the Audit Review Committee in determining whether to continue the engagement of Ernst & Young LLP. Even if the appointment is ratified, the Audit Review Committee may, in its discretion, select a different firm of independent public accountants for the Company at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

The Directors recommend a vote FOR Proposal No. 2 to ratify the appointment of Ernst & Young LLP as the Company's independent public accountants.

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GENERAL INFORMATION

The Company's 2008 Annual Report to Shareholders, including financial statements, is being mailed concurrently with this Proxy Statement to all shareholders of the Company.

The cost of soliciting proxies will be paid by the Company. In addition to the use of the mails, proxies may be solicited personally or by telephone, telecopy or other means of communication by employees of the Company. No separate compensation will be paid for the solicitation of proxies, although the Company may reimburse brokers and other persons holding Common Shares in their names or in the names of nominees for their expenses in sending proxy material to the beneficial owners of such Common Shares.

Any proposal by a shareholder intended to be presented at the 2010 Annual Meeting of Shareholders must be received by the Company for inclusion in the proxy statement and form of proxy ballot of the Company relating to such Meeting on or before November 26, 2009. If a shareholder proposal is received after February 23, 2010, it will be considered untimely and the proxy holders may use their discretionary voting authority if and when the proposal is raised at such Annual Meeting, without any discussion of the matter in the proxy statement. The Board of Directors proxy for the 2010 Annual Meeting of Shareholders will grant discretionary voting authority to the proxy holders with respect to any such proposal received after February 23, 2010.

Any shareholder wishing to communicate with the Board of Directors may send a written statement or inquiry to the Company's Corporate Secretary. All writings will be acknowledged by the Corporate Secretary and presented for consideration and response at the next scheduled Board meeting.

OTHER BUSINESS

Financial and other reports will be submitted to the Meeting, but it is not intended that any action will be taken in respect thereof. The Company did not receive notice by February 24, 2009 of, and the Board of Directors is not aware of, any matters other than those referred to in this Proxy Statement which might be brought before the Meeting for action. Therefore, if any such other matters should arise, it is intended that the persons appointed as proxy holders will vote or act thereon in accordance with their own judgment.

You are urged to date, sign and return your proxy promptly. For your convenience, enclosed is a self-addressed return envelope requiring no postage if mailed in the United States.

By Order of the Board of Directors

David P. Emmens
Corporate Counsel and Secretary

March 26, 2009

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THE GORMAN-RUPP COMPANY
AUDIT REVIEW COMMITTEE CHARTER

Purposes

The purposes of the Committee are to (a) assist the Board of Directors in fulfilling the Board of Directors' oversight responsibilities with respect to (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditors' qualifications and independence, and (iv) the performance of the independent auditors and the Company's internal audit function; and (b) prepare the Committee's report to be included in the Company's annual proxy statement (the "Audit Review Committee Report").

Authority of the Committee

The Committee has the sole authority to (a) appoint, retain and terminate the Company's independent auditors, (b) pre-approve all audit engagement fees, terms and services, and (c) pre-approve any non-audit engagements with the Company's independent auditors. The independent auditors shall report directly to the Committee. The Committee shall exercise this authority in a manner consistent with applicable law and the rules of the Securities and Exchange Commission ("SEC") and any stock exchange upon which the shares of the Company are listed. The Committee may delegate the authority to grant any pre-approvals required by applicable law or rules to one or more members of the Committee as it designates, subject to the delegated member or members reporting any such pre-approvals to the Committee at its next scheduled meeting.

The Committee shall have the resources and authority necessary to discharge its responsibilities as required by law, including the authority to engage independent counsel and other advisors as the Committee deems necessary to carry out its duties, and the Company will provide appropriate funding as determined by the Committee.

The Committee is further empowered to:

Resolve any disagreements between management and independent auditors regarding financial reporting.

Conduct or authorize investigations into matters within its scope of responsibility.

Solicit information from or meet with Company officers, employees or agents, as necessary.

Set hiring policies for employees or former employees of the independent auditors.

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Composition of the Committee

The Committee shall consist of at least three members. The Board of Directors will appoint the members and the Chairman of the Committee. Committee members shall serve at the pleasure of the Board of Directors and for such term or terms as the Board of Directors may determine.

Each Committee member shall (a) meet the independence criteria of the rules of the SEC and any stock exchange upon which the shares of the Company are listed, and (b) be financially literate or become financially literate within a reasonable period of time after his or her appointment to the Committee. Additionally, at least one member of the Committee shall have accounting or related financial management expertise sufficient to meet the criteria of a financial expert within the meaning of the SEC rules.

Each Committee member shall serve on no more than three audit committees of public companies (including the Company).

Meetings of the Committee

The Committee shall meet in person or telephonically at least quarterly, or more frequently as it may determine necessary. The Chairman of the Committee shall, in consultation with the other members of the Committee, the Company's independent auditors and the appropriate officers of the Company, be responsible for calling meetings of the Committee, establishing agenda therefor and supervising the conduct thereof. The Committee may also take any action permitted hereunder by unanimous written consent.

The Committee may invite any officer or employee of the Company or the Company's outside legal counsel or independent auditors or others to attend a meeting of the Committee. The Committee shall meet quarterly with the Company's management, and as needed with the internal audit staff and/or the independent auditors to discuss any matter that the Committee, management, the independent auditors or such other persons believe should be discussed.

Duties and Responsibilities of the Committee

The Committee is responsible for overseeing the Company's financial reporting process on behalf of the Board of Directors.

The Committee shall carry out the following responsibilities:

Financial Statements

Review and discuss with appropriate officers of the Company and the independent auditors the annual audited and quarterly financial statements of the Company, including (a) the Company's

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disclosure of significant accounting policies under Management's Discussion and Analysis of Financial Condition and Results of Operations, and (b) the disclosures regarding internal controls and other matters required by applicable law and SEC rules.

Review and discuss earnings and other financial press releases (including any use of pro forma or adjusted non-GAAP information), as well as financial information and earnings guidance provided to analysts and rating agencies (which review may occur after issuance and may be done generally as a review of the types of information to be disclosed and the form of presentation to be made).

Review disclosures made by the Company's CEO and CFO in connection with the Forms 10-K and 10-Q certification process concerning significant deficiencies in the design or operation of internal controls or any fraud that involves management or other employees who have a significant role in the Company's internal controls.

Review significant accounting, legal and reporting issues, and understand their impact on the financial statement presentations.

Internal Audit

The Audit Committee should approve the appointment and replacement of the internal auditor or outsourced internal audit service provider. At least annually, the Audit Committee should evaluate the effectiveness of the internal audit function and consider the need to make changes to ensure that internal audit objectives are being met.

Review and discuss with the internal audit staff the Internal Audit Charter and plans for and the scope of ongoing audit activities.

Review and discuss with the internal audit staff risk assessment issues, the annual report of audit activities, and examinations and results thereof performed by the internal audit staff.

Understand the scope of internal and independent auditors' review of internal controls, and obtain reports on significant findings and recommendations, together with management's responses.

Review the effectiveness of the Company's internal control system, including information technology security.

Meet separately with management to discuss any matters that the Committee or internal audit staff believes should be discussed privately.

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Independent Audit

Review the performance of the independent auditors. In performing this review, the Committee shall:

At least annually, obtain and review a report by the independent auditors describing (a) the audit firm's internal quality-control procedures, and (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, with respect to one or more independent audits carried out by the firm, and any steps taken to deal with any such issues raised.

In connection with the retention of the Company's independent auditors, at least annually, review and discuss the information provided by management and the auditors relating to the independence of the audit firm, including, among other things, information related to the non-audit services provided and expected to be provided by the auditors.

Review and discuss with the independent auditors the plans for, and the scope of, the annual audit and other examinations, including the adequacy of staffing and compensation.

Review and discuss with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, as well as any audit problems or difficulties and management's response.

Review and discuss with the independent auditors (a) the report of their annual audit, or proposed report of their annual audit, (b) the accompanying management letter, if any, (c) their reviews of the Company's interim financial statements conducted in accordance with Statement on Auditing Standards No. 100, and (d) the reports of the results of such other examinations outside of the course of the independent auditors' normal audit procedures that the independent auditors may from time to time undertake.

Confirm the rotation of the independent audit partner every five years and other audit partners every seven years.

Review and discuss with the internal audit staff recommendations made by the independent auditors.

Compliance

Periodically obtain reports from management that the Company and its subsidiary/foreign affiliated entities are in conformity with applicable legal requirements and the Company's Code of Ethics.

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Establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls or auditing matters; and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters as required by applicable law and the SEC and any stock exchange upon which the shares of the Company are listed and (c) the confidential receipt, retention and consideration of any report of evidence of a material violation (within the meaning of Rule 205 of the Rules of Practice of the SEC).

Discuss with the Company's Corporate Counsel legal matters that may have a material impact on the financial statements or the Company's compliance policies.

Reporting Responsibility

Report its activities regularly to the Board of Directors in such manner and at such times as the Committee and the Board of Directors deem appropriate, but in no event less than once a year.

Other Responsibilities

Obtain assurance from the independent auditors that in the course of conducting the audit, there have been no acts detected or that have otherwise come to the attention of the audit firm that require disclosure to the Committee under Section 10A(b) of the Securities Exchange Act of 1934.

Discuss guidelines and policies with respect to risk assessment and risk management to assess and manage the Company's exposure to risk. The Committee shall discuss the Company's major financial risk exposures and the steps management has taken to monitor and control these exposures.

Review and discuss any filing with the Securities and Exchange Commission in which the independent auditor has been involved with respect to preparation or review.

Review and discuss such other matters that relate to the accounting, auditing and financial reporting practices and procedures of the Company as the Committee may, in its own discretion, deem desirable in connection with the review functions described above.

The Committee shall have the authority to establish other rules and operating procedures in order to fulfill its obligation under this Charter and applicable rules or regulations.

Audit Review Committee Report

The Committee will prepare, with the assistance of management, the independent auditors and outside legal counsel, the Audit Review Committee Report.

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Annual Review of Charter

The Committee will conduct and review with the Board of Directors annually an evaluation of this Charter and recommend any changes to the Board of Directors. The Committee may conduct this charter evaluation in such manner as the Committee, in its business judgment, deems appropriate. In addition, the Committee will assure that the Charter will be attached as an appendix to the Company's proxy statement at least once every three years.

Annual Performance Evaluation

The Committee will conduct and review with the Board of Directors annually an evaluation of the Committee's performance with respect to the requirements of this Charter. This evaluation will also set forth the goals and objectives of the Committee for the upcoming year. The Committee may conduct this performance evaluation in such manner as the Committee, in its business judgment, deems appropriate.

Adopted by the Audit Review Committee October 23, 2003

Reviewed and approved by the Audit Review Committee without change July 22, 2004

Reviewed by Audit Review Committee October 27, 2005. Internal Audit Section amended. Amendment approved by Board of Directors January 26, 2006.

Reviewed and approved by the Audit Review Committee without change July 27, 2006.

Reviewed and approved by the Audit Review Committee without change July 26, 2007.

Reviewed by the Audit Review Committee October 23, 2008; various sections amended to reflect that shares of the Company will no longer be listed on the American Stock Exchange due to merger with New York Stock Exchange. Amendments approved by the Board of Directors October 23, 2008.

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The Gorman-Rupp Company

c/o National City Bank
 Shareholder Services
 Operations
 Locator 5352
 P.O. Box 94509
 Cleveland, OH 44101-4509

**PLEASE MARK, DATE AND SIGN THIS PROXY CARD AND
 RETURN IT IN THE ENCLOSED POSTAGE-PAID ENVELOPE TO:**

**Corporate Election Services
 PO Box 3230
 Pittsburgh, PA 15230**

ê Please fold and detach card at perforation before mailing. ê

P R O X Y

**COMMON
 SHARES**

Nominees for Directors:

- James C. Gorman
- Jeffrey S. Gorman
- M. Ann Harlan
- Thomas E. Hoaglin
- Christopher H. Lake
- Dr. Peter B. Lake
- Rick R. Taylor
- W. Wayne Walston

**The Gorman-Rupp Company
 305 Bowman Street Mansfield, Ohio 44903**

**This proxy is solicited on behalf of
 the Board of Directors**

The undersigned hereby appoints James C. Gorman, Jeffrey S. Gorman and David P. Emmens as Proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote all of The Gorman-Rupp Company Common Shares held of record on March 11, 2009 by the undersigned at the Annual Meeting of the shareholders to be held on April 23, 2009, or at any adjournment thereof, as follows:

The Board of Directors recommend a vote FOR Proposal No. 1.

1. ELECTION OF DIRECTORS

Fixing the number of Directors at 8 and electing all nominees listed (except as marked to the contrary below).

(INSTRUCTION: To withhold authority to vote for any individual nominee, write his or her name below.)

FOR
 o

**WITHHOLD
 AUTHORITY**
 to vote for all
 nominees listed
 o

The Board of Directors recommend a vote FOR Proposal No. 2.

**2. RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP
 as independent public accountants.**

FOR AGAINST ABSTAIN
 o o o

3. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the Meeting.

When properly executed, this proxy will be voted in the manner directed by the undersigned shareholder; if no direction is made, this proxy will be voted FOR proposals 1 and 2.

Please sign exactly as your name appears below. If signing as attorney, executor, administrator, trustee or guardian, please give full title as such; and if signing for a corporation, please give your title. When shares are in the names of more than one person, each should sign.

Dated: _____, 2009

Signature of Shareholder(s)

Please check this box if you plan to attend the Meeting.