

Edgar Filing: GARDNER DENVER INC - Form 10-Q

GARDNER DENVER INC  
Form 10-Q  
May 15, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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 March 31, 2002

OR

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

Commission File Number 1-13215

GARDNER DENVER, INC.  
(Exact name of Registrant as Specified in its Charter)

DELAWARE

76-0419383

(State or Other Jurisdiction of  
Incorporation or Organization)

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

1800 GARDNER EXPRESSWAY  
QUINCY, ILLINOIS 62301  
(Address of Principal Executive Offices and Zip Code)

(217) 222-5400  
(Registrant's Telephone Number, Including Area Code)

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 requirement for the past 90 days.

Yes    X    No  
-----    -----

Number of shares outstanding of the issuer's Common Stock, par value \$.01 per share, as of April 28, 2002: 15,854,157 shares.

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PART I  
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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GARDNER DENVER, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(dollars in thousands, except per share amounts)  
(Unaudited)

|  | THREE MONTHS ENDED<br>MARCH 31, |          |
|--|---------------------------------|----------|
|  | 2002                            | 2001     |
|  | -----                           | -----    |
| Revenues   | \$106,609                       | \$100,89 |
| Costs and Expenses:  |                                 |          |
| Cost of sales (excluding depreciation<br>and amortization) | 74,602                          | 71,45    |
| Depreciation and amortization                              | 3,548                           | 4,27     |
| Selling and administrative expenses                        | 19,972                          | 16,64    |
| Interest expense   | 1,682                           | 1,84     |
| Other income, net  | (132)                           | (94      |
|  | -----                           | -----    |
| Income before income taxes                                 | 6,937                           | 7,61     |
| Provision for income taxes                                 | 2,359                           | 2,81     |
|  | -----                           | -----    |
| Net income   | \$ 4,578                        | \$ 4,79  |
|  | =====                           | =====    |
| Basic earnings per share                                   | \$ 0.29                         | \$ 0.3   |
|  | =====                           | =====    |
| Diluted earnings per share                                 | \$ 0.29                         | \$ 0.3   |
|  | =====                           | =====    |

The accompanying notes are an integral part of this statement.

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GARDNER DENVER, INC.  
CONSOLIDATED BALANCE SHEETS  
(dollars in thousands, except per share amounts)

|  | (UNAUDITED)<br>MARCH 31,<br>2002 | DECEMBE<br>200 |
|--|----------------------------------|----------------|
|  | -----                            | -----          |

ASSETS

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Current assets:

|                                    |           |        |
|------------------------------------|-----------|--------|
| Cash and equivalents               | \$ 24,771 | \$ 29, |
| Receivables, net                   | 80,733    | 85,    |
| Inventories, net                   | 74,575    | 76,    |
| Deferred income taxes              | 6,437     | 4,     |
| Other                              | 4,768     | 4,     |
|                                    | -----     | -----  |
| Total current assets               | 191,284   | 201,   |
|                                    | -----     | -----  |
| Property, plant and equipment, net | 72,702    | 74,    |
| Goodwill                           | 182,462   | 183,   |
| Other intangibles, net             | 25,396    | 25,    |
| Deferred income taxes              | 781       | 2,     |
| Other assets                       | 3,617     | 2,     |
|                                    | -----     | -----  |
| Total assets                       | \$476,242 | \$488, |
|                                    | =====     | =====  |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

|   |          |       |
|---|----------|-------|
| Short-term borrowings and current maturities<br>of long-term debt | \$ 7,500 | \$ 7, |
| Accounts payable and accrued liabilities                          | 67,440   | 77,   |
|   | -----    | ----- |
| Total current liabilities   | 74,940   | 84,   |
|   | -----    | ----- |
| Long-term debt, less current maturities                           | 152,587  | 160,  |
| Postretirement benefits other than pensions                       | 36,354   | 36,   |
| Other long-term liabilities                                       | 8,710    | 8,    |
|   | -----    | ----- |
| Total liabilities   | 272,591  | 289,  |
|   | -----    | ----- |

Stockholders' equity:

|   |           |        |
|---|-----------|--------|
| Common stock, \$.01 par value; 50,000,000 shares<br>authorized; 15,815,291 shares issued and<br>outstanding at March 31, 2002 | 175       |        |
| Capital in excess of par value  | 168,332   | 166,   |
| Treasury stock at cost, 1,710,340 shares at<br>March 31, 2002   | (25,602)  | (25,   |
| Retained earnings   | 66,640    | 62,    |
| Accumulated other comprehensive loss  | (5,894)   | (4,    |
|   | -----     | -----  |
| Total stockholders' equity  | 203,651   | 198,   |
|   | -----     | -----  |
| Total liabilities and stockholders' equity  | \$476,242 | \$488, |
|   | =====     | =====  |

The accompanying notes are an integral part of this statement.

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(Unaudited)

|   | THREE MONTHS ENDED |         |
|---|--------------------|---------|
|   | MARCH 31,          |         |
|   | 2002               | 2001    |
| Cash flows from operating activities:   |                    |         |
| Net income  | \$ 4,578           | \$ 4,7  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |         |
| Depreciation and amortization   | 3,548              | 4,2     |
| Net (gain)/loss on sale of assets   | (20)               |         |
| Stock issued for employee benefit plans   | 603                | 5       |
| Deferred income taxes   | (164)              | (9      |
| Changes in assets and liabilities:  |                    |         |
| Receivables   | 4,293              | (4      |
| Inventories   | 1,694              | (2,8    |
| Accounts payable and accrued liabilities  | (9,078)            | (4,2    |
| Other assets and liabilities, net   | (925)              | 5       |
| Net cash provided by operating activities   | 4,529              | 1,7     |
| Cash flows from investing activities:   |                    |         |
| Capital Expenditures  | (1,982)            | (2,6    |
| Disposals of property, plant and equipment  | 41                 |         |
| Foreign currency hedging transactions   | --                 | (       |
| Net cash used for investing activities  | (1,941)            | (2,6    |
| Cash flows from financing activities:   |                    |         |
| Principal payments on long-term debt  | (12,518)           | (12,0   |
| Proceeds from long-term borrowings  | 5,000              | 3,0     |
| Proceeds from stock options   | 1,468              | 1,3     |
| Debt issuance costs   | (639)              |         |
| Purchase of treasury stock  | --                 | (       |
| Other   | (609)              | (7      |
| Net cash used for financing activities  | (7,298)            | (8,5    |
| Effect of exchange rate changes on cash and equivalents                           | (499)              | (1,1    |
| Decrease in cash and equivalents  | (5,209)            | (10,5   |
| Cash and equivalents, beginning of period   | 29,980             | 30,2    |
| Cash and equivalents, end of period   | \$ 24,771          | \$ 19,7 |

The accompanying notes are an integral part of this statement.

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### NOTES TO CONDENSED FINANCIAL STATEMENTS (dollars in thousands, except per share data)

#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

Basis of Presentation. The accompanying condensed financial statements include the accounts of Gardner Denver, Inc. ("Gardner Denver" or the "Company") and its subsidiaries. All significant intercompany transactions and accounts have been eliminated. Investments in entities in which the Company has twenty to fifty percent ownership are accounted for by the equity method.

The financial information presented as of any date other than December 31 has been prepared from the books and records without audit. The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles for complete statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of such financial statements, have been included.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto incorporated by reference in Gardner Denver's Annual Report on Form 10-K for the year ended December 31, 2001.

The results of operations for the three months ended March 31, 2002 are not necessarily indicative of the results to be expected for the full year.

Certain prior year amounts have been reclassified to conform with current year presentation.

#### NOTE 2. RECENT ACQUISITIONS.

During 2001, the Company's Compressed Air Products segment completed two acquisitions. Effective September 10, 2001, the Company acquired certain assets and stock of Hoffman Air and Filtration Systems ("Hoffman"). Hoffman, headquartered in Syracuse, New York, manufactures and distributes multistage centrifugal blowers and vacuum systems, primarily for wastewater treatment and industrial applications. Effective September 1, 2001, the Company also acquired certain assets and stock of the Hamworthy Belliss & Morcom compressor business ("Belliss & Morcom"). Belliss & Morcom is headquartered in Gloucester, England and manufactures and distributes lubricated and oil-free reciprocating air compressors for a variety of applications.

All acquisitions have been accounted for by the purchase method, and accordingly, their results are included in the Company's consolidated financial statements from the respective dates of acquisition. Under the purchase method, the purchase price is allocated based on the fair value of assets received and liabilities assumed as of the acquisition date. The purchase price allocation for Hoffman and Bellis & Morcom, used in preparation of the March 31, 2002 consolidated balance sheet, is preliminary and subject to adjustment when the valuation of certain intangible assets are finalized.

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In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), the cost in excess of net assets acquired ("goodwill") for each acquisition has not been amortized.

### NOTE 3. EARNINGS PER SHARE.

The following table details the calculation of basic and diluted earnings per share:

|   |    | THREE MONTHS<br>MARCH  |
|---|----|------------------------|
|   |    | -----<br>2002<br>----- |
| Basic EPS:  |    |                        |
| Net income  | \$ | 4,578<br>=====         |
| Shares  |    |                        |
| Weighted average number of common<br>shares outstanding                 |    | 15,757<br>=====        |
| Basic earnings per common share   | \$ | 0.29<br>=====          |
| Diluted EPS:  |    |                        |
| Net income  | \$ | 4,578<br>=====         |
| Shares  |    |                        |
| Weighted average number of common<br>shares outstanding                 |    | 15,757                 |
| Assuming conversion of dilutive stock options<br>issued and outstanding |    | 240<br>-----           |
| Weighted average number of common<br>shares outstanding, as adjusted    |    | 15,997<br>=====        |
| Diluted earnings per common share                                       | \$ | 0.29<br>=====          |

### NOTE 4. INVENTORIES.

|   | MARCH 31,<br>2002<br>----- | DECEMBER 31,<br>2001<br>----- |
|---|----------------------------|-------------------------------|
| Raw materials, including parts and<br>subassemblies | \$ 35,725                  | \$ 33,156                     |
| Work-in-process                                     | 11,496                     | 15,908                        |
| Finished goods                                      | 30,617                     | 30,942                        |

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|   |           |           |
|---|-----------|-----------|
| Perishable tooling and supplies                     | 2,328     | 2,328     |
|   | -----     | -----     |
|   | 80,166    | 82,334    |
| Excess of current standard costs<br>over LIFO costs | (5,591)   | (5,684)   |
|   | -----     | -----     |
| Inventories, net                                    | \$ 74,575 | \$ 76,650 |
|   | =====     | =====     |

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NOTE 5. COMPREHENSIVE INCOME.

For the three months ended March 31, 2002 and 2001, comprehensive income was \$2.9 million and \$4.3 million, respectively. Items impacting the Company's comprehensive income, but not included in net income, consist of foreign currency translation adjustments.

NOTE 6. CASH FLOW INFORMATION.

In the first three months of 2002 and 2001, the Company paid \$0.5 million and \$0.7 million, respectively, to the various taxing authorities for income taxes. Interest paid for the first three months of 2002 and 2001, was \$1.4 million and \$2.4 million, respectively.

NOTE 7. SEGMENT INFORMATION.

|                            | THREE MONTHS END |            |
|----------------------------|------------------|------------|
|                            | MARCH 31,        |            |
|                            | 2002             | 2001       |
|                            | -----            | -----      |
| Revenues:                  |                  |            |
| Compressed Air Products    | \$ 88,511        | \$ 88,511  |
| Pump Products              | 18,098           | 18,098     |
|                            | -----            | -----      |
| Total                      | \$ 106,609       | \$ 106,609 |
|                            | =====            | =====      |
| Operating Earnings:        |                  |            |
| Compressed Air Products    | \$ 7,340         | \$ 7,340   |
| Pump Products              | 1,147            | 1,147      |
|                            | -----            | -----      |
| Total                      | 8,487            | 8,487      |
| Interest expense           | 1,682            | 1,682      |
| Other income, net          | (132)            | (132)      |
|                            | -----            | -----      |
| Income before income taxes | \$ 6,937         | \$ 6,937   |
|                            | =====            | =====      |