

Edgar Filing: GARDNER DENVER INC - Form 10-Q

GARDNER DENVER INC  
Form 10-Q  
August 13, 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 June 30, 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 July 26, 2002: 15,880,666 shares.

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PART I  
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

|                                                            | THREE MONTHS ENDED<br>JUNE 30, |           | SIX MONTHS ENDED<br>JUNE 30, |
|------------------------------------------------------------|--------------------------------|-----------|------------------------------|
|                                                            | 2002                           | 2001      | 2002                         |
| Revenues                                                   | \$104,854                      | \$104,554 | \$211,463                    |
| Costs and Expenses:                                        |                                |           |                              |
| Cost of sales (excluding depreciation<br>and amortization) | 71,289                         | 73,307    | 145,891                      |
| Depreciation and amortization                              | 3,593                          | 4,197     | 7,141                        |
| Selling and administrative expenses                        | 20,308                         | 16,625    | 40,280                       |
| Interest expense                                           | 1,730                          | 1,547     | 3,412                        |
| Other income, net                                          | (435)                          | (1,350)   | (567)                        |
| Income before income taxes                                 | 8,369                          | 10,228    | 15,306                       |
| Provision for income taxes                                 | 2,845                          | 3,784     | 5,204                        |
| Net income                                                 | \$ 5,524                       | \$ 6,444  | \$ 10,102                    |
| Basic earnings per share                                   | \$ 0.35                        | \$ 0.41   | \$ 0.64                      |
| Diluted earnings per share                                 | \$ 0.34                        | \$ 0.41   | \$ 0.63                      |

The accompanying notes are an integral part of this statement.

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

| (UNAUDITED) | DECEMBER 31, |
|-------------|--------------|
| JUNE 30,    | 2001         |
| 2002        |              |
| -----       | -----        |

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| ASSETS                                                                                                                       |           |           |
|------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Current assets:                                                                                                              |           |           |
| Cash and equivalents                                                                                                         | \$ 16,766 | \$ 29,980 |
| Receivables, net                                                                                                             | 83,291    | 85,538    |
| Inventories, net                                                                                                             | 75,779    | 76,650    |
| Deferred income taxes                                                                                                        | 6,750     | 4,956     |
| Other                                                                                                                        | 4,112     | 4,011     |
|                                                                                                                              | -----     | -----     |
| Total current assets                                                                                                         | 186,698   | 201,135   |
|                                                                                                                              | -----     | -----     |
| Property, plant and equipment, net                                                                                           | 73,574    | 74,097    |
| Goodwill                                                                                                                     | 184,612   | 183,145   |
| Other intangibles, net                                                                                                       | 24,957    | 25,692    |
| Deferred income taxes                                                                                                        | 515       | 2,093     |
| Other assets                                                                                                                 | 3,769     | 2,526     |
|                                                                                                                              | -----     | -----     |
| Total assets                                                                                                                 | \$474,125 | \$488,688 |
|                                                                                                                              | =====     | =====     |
| LIABILITIES AND STOCKHOLDERS' EQUITY                                                                                         |           |           |
| Current liabilities:                                                                                                         |           |           |
| Short-term borrowings and current maturities<br>of long-term debt                                                            | \$ 7,500  | \$ 7,375  |
| Accounts payable and accrued liabilities                                                                                     | 67,083    | 77,202    |
|                                                                                                                              | -----     | -----     |
| Total current liabilities                                                                                                    | 74,583    | 84,577    |
|                                                                                                                              | -----     | -----     |
| Long-term debt, less current maturities                                                                                      | 136,943   | 160,230   |
| Postretirement benefits other than pensions                                                                                  | 36,211    | 36,890    |
| Other long-term liabilities                                                                                                  | 9,125     | 8,263     |
|                                                                                                                              | -----     | -----     |
| Total liabilities                                                                                                            | 256,862   | 289,960   |
|                                                                                                                              | -----     | -----     |
| Stockholders' equity:                                                                                                        |           |           |
| Common stock, \$.01 par value; 50,000,000 shares<br>authorized; 15,875,985 shares issued and<br>outstanding at June 30, 2002 | 176       | 174       |
| Capital in excess of par value                                                                                               | 169,681   | 166,262   |
| Treasury stock at cost, 1,715,520 shares at<br>June 30, 2002                                                                 | (25,803)  | (25,602)  |
| Retained earnings                                                                                                            | 72,164    | 62,062    |
| Accumulated other comprehensive income (loss)                                                                                | 1,045     | (4,168)   |
|                                                                                                                              | -----     | -----     |
| Total stockholders' equity                                                                                                   | 217,263   | 198,728   |
|                                                                                                                              | -----     | -----     |
| Total liabilities and stockholders' equity                                                                                   | \$474,125 | \$488,688 |
|                                                                                                                              | =====     | =====     |

The accompanying notes are an integral part of this statement.

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CONSOLIDATED STATEMENT OF CASH FLOWS  
(dollars in thousands)  
(Unaudited)

|                                                                                      | SIX MONTHS ENDED<br>JUNE 30, |           |
|--------------------------------------------------------------------------------------|------------------------------|-----------|
|                                                                                      | 2002                         | 2001      |
|                                                                                      | -----                        | -----     |
| Cash flows from operating activities:                                                |                              |           |
| Net income                                                                           | \$ 10,102                    | \$ 11,243 |
| Adjustments to reconcile net income to net cash<br>provided by operating activities: |                              |           |
| Depreciation and amortization                                                        | 7,141                        | 8,472     |
| Net loss on asset dispositions                                                       | 26                           | 63        |
| Stock issued for employee benefit plans                                              | 1,132                        | 1,114     |
| Deferred income taxes                                                                | (251)                        | (847)     |
| Changes in assets and liabilities:                                                   |                              |           |
| Receivables                                                                          | 3,983                        | 1,137     |
| Inventories                                                                          | 1,597                        | (160)     |
| Accounts payable and accrued liabilities                                             | (11,312)                     | (4,237)   |
| Other assets and liabilities, net                                                    | (49)                         | (928)     |
|                                                                                      | -----                        | -----     |
| Net cash provided by operating activities                                            | 12,369                       | 15,857    |
|                                                                                      | -----                        | -----     |
| Cash flows from investing activities:                                                |                              |           |
| Capital expenditures                                                                 | (4,842)                      | (5,354)   |
| Disposals of plant and equipment                                                     | 72                           | 50        |
| Other                                                                                | (5)                          | (32)      |
|                                                                                      | -----                        | -----     |
| Net cash used in investing activities                                                | (4,775)                      | (5,336)   |
|                                                                                      | -----                        | -----     |
| Cash flows from financing activities:                                                |                              |           |
| Principal payments on long-term debt                                                 | (31,162)                     | (26,221)  |
| Proceeds from long-term borrowings                                                   | 8,000                        | 6,000     |
| Proceeds from stock options                                                          | 2,289                        | 1,499     |
| Purchase of treasury stock                                                           | (201)                        | (108)     |
| Debt issuance costs                                                                  | (664)                        | --        |
| Other                                                                                | (610)                        | (739)     |
|                                                                                      | -----                        | -----     |
| Net cash used in financing activities                                                | (22,348)                     | (19,569)  |
|                                                                                      | -----                        | -----     |
| Effect of exchange rate changes on cash and<br>equivalents                           | 1,540                        | (1,518)   |
|                                                                                      | -----                        | -----     |
| Decrease in cash and equivalents                                                     | (13,214)                     | (10,566)  |
|                                                                                      | -----                        | -----     |
| Cash and equivalents, beginning of period                                            | 29,980                       | 30,239    |
|                                                                                      | -----                        | -----     |
| Cash and equivalents, end of period                                                  | \$ 16,766                    | \$ 19,673 |
|                                                                                      | =====                        | =====     |

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 consolidated 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.

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 and six months ended June 30, 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 June 30, 2002 consolidated balance sheet, is preliminary and subject to adjustment when the valuation of certain intangible assets is finalized.

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.

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NOTE 3. EARNINGS PER SHARE.

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

|                                                                         | THREE MONTHS ENDED<br>JUNE 30, |          | SIX MONTHS ENDED<br>JUNE 30, |           |
|-------------------------------------------------------------------------|--------------------------------|----------|------------------------------|-----------|
|                                                                         | 2002                           | 2001     | 2002                         | 2001      |
| Basic EPS:                                                              |                                |          |                              |           |
| Net income                                                              | \$ 5,524                       | \$ 6,444 | \$ 10,102                    | \$ 11,888 |
| Shares                                                                  |                                |          |                              |           |
| Weighted average number of common<br>shares outstanding                 | 15,856                         | 15,545   | 15,806                       | 15,545    |
| Basic earnings per common share                                         | \$ 0.35                        | \$ 0.41  | \$ 0.64                      | \$ 0.76   |
| Diluted EPS:                                                            |                                |          |                              |           |
| Net income                                                              | \$ 5,524                       | \$ 6,444 | \$ 10,102                    | \$ 11,888 |
| Shares                                                                  |                                |          |                              |           |
| Weighted average number of common<br>shares outstanding                 | 15,856                         | 15,545   | 15,806                       | 15,545    |
| Assuming conversion of dilutive stock<br>options issued and outstanding | 283                            | 196      | 263                          | 196       |
| Weighted average number of common<br>shares outstanding, as adjusted    | 16,139                         | 15,741   | 16,069                       | 15,741    |
| Diluted earnings per common share                                       | \$ 0.34                        | \$ 0.41  | \$ 0.63                      | \$ 0.76   |

NOTE 4. INVENTORIES.

|                                                     | JUNE 30,<br>2002 | DECEMBER 31,<br>2001 |
|-----------------------------------------------------|------------------|----------------------|
| Raw materials, including parts and<br>subassemblies | \$ 34,368        | \$ 33,156            |
| Work-in-process                                     | 11,357           | 15,908               |
| Finished goods                                      | 33,287           | 30,942               |

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|                                                     |           |           |
|-----------------------------------------------------|-----------|-----------|
| Perishable tooling and supplies                     | 2,328     | 2,328     |
|                                                     | -----     | -----     |
|                                                     | 81,340    | 82,334    |
| Excess of current standard costs<br>over LIFO costs | (5,561)   | (5,684)   |
|                                                     | -----     | -----     |
| Inventories, net                                    | \$ 75,779 | \$ 76,650 |
|                                                     | =====     | =====     |

NOTE 5. COMPREHENSIVE INCOME.

For the three months ended June 30, 2002 and 2001, comprehensive income was \$12.5 million and \$6.2 million, respectively. For the six months ended June 30, 2002 and 2001,

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comprehensive income was \$15.3 million and \$10.4 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 six months of 2002 and 2001, the Company paid \$3.3 million and \$7.9 million, respectively, to the various taxing authorities for income taxes. Interest paid for the first six months of 2002 and 2001, was \$3.3 million and \$3.2 million, respectively.

NOTE 7. SEGMENT INFORMATION.

|                            | THREE MONTHS ENDED<br>JUNE 30, |            | SIX MONTHS ENDED<br>JUNE 30, |            |
|----------------------------|--------------------------------|------------|------------------------------|------------|
|                            | 2002                           | 2001*      | 2002                         | 2001*      |
|                            | -----                          | -----      | -----                        | -----      |
| Revenues:                  |                                |            |                              |            |
| Compressed Air Products    | \$ 89,240                      | \$ 73,972  | \$ 177,751                   | \$ 148,251 |
| Pump Products              | 15,614                         | 30,582     | 33,712                       | 57,199     |
|                            | -----                          | -----      | -----                        | -----      |
| Total                      | \$ 104,854                     | \$ 104,554 | \$ 211,463                   | \$ 205,450 |
|                            | =====                          | =====      | =====                        | =====      |
| Operating Earnings:        |                                |            |                              |            |
| Compressed Air Products    | \$ 8,800                       | \$ 5,481   | \$ 16,140                    | \$ 10,888  |
| Pump Products              | 864                            | 4,944      | 2,011                        | 8,055      |
|                            | -----                          | -----      | -----                        | -----      |
| Total                      | 9,664                          | 10,425     | 18,151                       | 18,943     |
| Interest expense           | 1,730                          | 1,547      | 3,412                        | 3,389      |
| Other income, net          | (435)                          | (1,350)    | (567)                        | (2,291)    |
|                            | -----                          | -----      | -----                        | -----      |
| Income before income taxes | \$ 8,369                       | \$ 10,228  | \$ 15,306                    | \$ 17,845  |
|                            | =====                          | =====      | =====                        | =====      |