

Edgar Filing: GARDNER DENVER INC - Form 10-Q

GARDNER DENVER INC
Form 10-Q
November 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 September 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
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Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No

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Number of shares outstanding of the issuer's Common Stock, par value \$.01 per share, as of October 28, 2002: 15,907,821 shares.

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PART I
FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE SEP
	2002	2001	2002
Revenues	\$102,791	\$103,426	\$314,254
Costs and Expenses:			
Cost of sales (excluding depreciation and amortization)	70,261	72,544	216,152
Depreciation and amortization	3,718	4,252	10,859
Selling and administrative expenses	19,897	17,007	60,177
Interest expense	1,566	1,548	4,978
Other expense (income), net	32	(739)	(535)
Income before income taxes	7,317	8,814	22,623
Provision for income taxes	2,488	3,262	7,692
Net income	\$ 4,829	\$ 5,552	\$ 14,931
Basic earnings per share	\$ 0.30	\$ 0.36	\$ 0.94
Diluted earnings per share	\$ 0.30	\$ 0.35	\$ 0.93

The accompanying notes are an integral part of this statement.

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

(UNAUDITED)
SEPTEMBER 30,
2002

DECEMBER
2001

ASSETS

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Current assets:		
Cash and equivalents	\$ 16,185	\$ 29,98
Receivables, net	78,362	85,53
Inventories, net	73,607	76,65
Deferred income taxes	6,613	4,95
Other	3,905	4,01
	-----	-----
Total current assets	178,672	201,13
	-----	-----
Property, plant and equipment, net	72,997	74,09
Goodwill	200,755	183,14
Other intangibles, net	8,879	25,69
Deferred income taxes	158	2,09
Other assets	3,371	2,52
	-----	-----
Total assets	\$464,832	\$488,68
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	\$ 7,500	\$ 7,37
Accounts payable and accrued liabilities	65,951	77,20
	-----	-----
Total current liabilities	73,451	84,57
	-----	-----
Long-term debt, less current maturities	123,297	160,23
Postretirement benefits other than pensions	35,172	36,89
Other long-term liabilities	10,345	8,26
	-----	-----
Total liabilities	242,265	289,96
	-----	-----
Stockholders' equity:		
Common stock, \$.01 par value; 50,000 shares authorized; 15,903 shares issued and outstanding at September 30, 2002	176	17
Capital in excess of par value	170,196	166,26
Treasury stock at cost, 1,716 shares at September 30, 2002	(25,803)	(25,60)
Retained earnings	76,993	62,06
Accumulated other comprehensive income (loss)	1,005	(4,16)
	-----	-----
Total stockholders' equity	222,567	198,72
	-----	-----
Total liabilities and stockholders' equity	\$464,832	\$488,68
	=====	=====

The accompanying notes are an integral part of this statement.

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(in thousands)
(Unaudited)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001
Cash flows from operating activities:		
Net income	\$ 14,931	\$ 16,795
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,859	12,724
Net (gain) loss on asset dispositions	(17)	40
Stock issued for employee benefit plans	1,647	1,622
Deferred income taxes	244	70
Changes in assets and liabilities:		
Receivables	9,099	2,366
Inventories	3,932	(495)
Accounts payable and accrued liabilities	(13,269)	(853)
Other assets and liabilities, net	557	(572)
Net cash provided by operating activities	27,983	31,697
Cash flows from investing activities:		
Capital expenditures	(7,476)	(8,090)
Business acquisitions, net of cash acquired	--	(82,236)
Disposals of plant and equipment	135	86
Other	(5)	(31)
Net cash used in investing activities	(7,346)	(90,271)
Cash flows from financing activities:		
Principal payments on long-term debt	(48,808)	(81,075)
Proceeds from long-term debt	62,000	87,000
Principal payments on short-term borrowings	(50,000)	--
Proceeds from short-term borrowings	--	50,000
Proceeds from stock options	2,289	1,549
Purchase of treasury stock	(201)	(108)
Debt issuance costs	(745)	--
Other	(609)	(1,115)
Net cash (used in) provided by financing activities	(36,074)	56,251
Effect of exchange rate changes on cash and equivalents	1,642	(471)
Decrease in cash and equivalents	(13,795)	(2,794)
Cash and equivalents, beginning of period	29,980	30,239
Cash and equivalents, end of period	\$ 16,185	\$ 27,445

The accompanying notes are an integral part of this statement.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(in thousands, except per share amounts)

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 nine months ended September 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, previously 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 their 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. In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), goodwill acquired in each acquisition has not been amortized. The purchase price allocations for Hoffman and Belliss & Morcom were finalized during the quarter ended September 30, 2002, upon receipt of independent third party valuations of the acquired, separately identifiable intangible assets (other than

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goodwill). Pursuant to the valuations, the fair value of the separately identifiable intangible assets was reduced from the Company's previous internal fair value estimate with a corresponding increase in the purchase price allocated to

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goodwill. The impact on amortization expense as a result of the finalization of the purchase price allocations was insignificant.

NOTE 3. EARNINGS PER SHARE.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE SEP
	2002	2001	2002
Basic EPS:			
Net income	\$ 4,829	\$ 5,552	\$14,931
	=====	=====	=====
Shares			
Weighted average number of common shares outstanding	15,887	15,581	15,833
	=====	=====	=====
Basic earnings per common share	\$ 0.30	\$ 0.36	\$ 0.94
	=====	=====	=====
Diluted EPS:			
Net income	\$ 4,829	\$ 5,552	\$14,931
	=====	=====	=====
Shares			
Weighted average number of common shares outstanding	15,887	15,581	15,833
Assuming conversion of dilutive stock options issued and outstanding	151	281	225
	-----	-----	-----
Weighted average number of common shares outstanding, as adjusted	16,038	15,862	16,058
	=====	=====	=====
Diluted earnings per common share	\$ 0.30	\$ 0.35	\$ 0.93
	=====	=====	=====

NOTE 4. INVENTORIES.

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
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Raw materials, including parts and subassemblies	\$33,175	\$33,156
Work-in-process	11,010	15,908
Finished goods	32,651	30,942
Perishable tooling and supplies	2,328	2,328
	-----	-----
	79,164	82,334
Excess of current standard costs over LIFO costs	(5,557)	(5,684)
	-----	-----
Inventories, net	\$73,607	\$76,650
	=====	=====

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NOTE 5. COMPREHENSIVE INCOME.

For the three months ended September 30, 2002 and 2001, comprehensive income was \$5.5 million and \$8.5 million, respectively. For the nine months ended September 30, 2002 and 2001, comprehensive income was \$20.1 million and \$19.0 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 nine months of 2002 and 2001, the Company paid \$5.3 million and \$8.6 million, respectively, to the various taxing authorities for income taxes. Interest paid for the first nine months of 2002 and 2001, was \$5.4 million and \$4.9 million, respectively.

NOTE 7. SEGMENT INFORMATION.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS SEPTEMBER
	2002	2001*	2002
	-----	-----	-----
Revenues:			
Compressed Air Products	\$ 85,496	\$ 74,986	\$263,247
Pump Products	17,295	28,440	51,007
	-----	-----	-----
Total	\$102,791	\$103,426	\$314,254
	=====	=====	=====
Operating Earnings:			
Compressed Air Products	\$ 7,375	\$ 5,424	\$ 23,515
Pump Products	1,540	4,199	3,551
	-----	-----	-----
Total	8,915	9,623	27,066
Interest expense	1,566	1,548	4,978

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Other, net	32	(739)	(535)
	-----	-----	-----
Income before income taxes	\$ 7,317	\$ 8,814	\$ 22,623
	=====	=====	=====