GARDNER DENVER INC
Form 10-Q
May 04, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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: 1-13215

GARDNER DENVER, INC.

(Exact name of registrant as specified in its charter)

Delaware	**76-0419383**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

1500 Liberty Ridge Drive, Suite 3000

Wayne, Pennsylvania 19087

(Address of principal executive offices and Zip Code)

(610) 249-2000

(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 requirements for the past 90 days. Yes x 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 Regulation 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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 latest practicable date: 50,077,703 shares of Common Stock, par value $0.01 per share, as of April 30, 2012.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GARDNER DENVER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenues	$ 604,356	$ 531,853
Cost of sales	401,789	347,397
Gross profit	202,567	184,456
Selling and administrative expenses	105,913	96,021
Other operating expense, net	16,862	1,612
Operating income	79,792	86,823
Interest expense	3,834	5,347
Other income, net	(1,223)	(962)
Income before income taxes	77,181	82,438
Provision for income taxes	22,066	22,539
Net income	55,115	59,899
Less: Net income attributable to noncontrolling interests	283	421
Net income attributable to Gardner Denver	$ 54,832	$ 59,478
Net earnings per share attributable to Gardner Denver common stockholders		
Basic earnings per share	$ 1.08	$ 1.14
Diluted earnings per share	$ 1.08	$ 1.13
Cash dividends declared per common share	$ 0.05	$ 0.05

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GARDNER DENVER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three Months Ended March 31, 2012	2011
Comprehensive Income Attributable to Gardner Denver		
Net income attributable to Gardner Denver	$ 54,832	$ 59,478
Other comprehensive income, net of tax:		
Foreign currency adjustments, net	29,260	31,242
Unrecognized gain on cash flow hedges, net	46	250
Pension and other postretirement prior service cost and gain or loss, net	(350)	(740)
Total other comprehensive income, net of tax	28,956	30,752
Comprehensive income attributable to Gardner Denver	$ 83,788	$ 90,230
Comprehensive Income Attributable to Noncontrolling Interests		
Net income attributable to noncontrolling interests	$ 283	$ 421
Other comprehensive income, net of tax:		
Foreign currency translation adjustments, net	59	192
Total other comprehensive income, net of tax	59	192
Comprehensive income attributable to noncontrolling interests	342	613
Total Comprehensive Income	$ 84,130	$ 90,843

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GARDNER DENVER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

(Unaudited)

	March 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 186,862	$ 155,259
Accounts receivable (net of allowance of $11,523 at March 31, 2012 and $11,485 at December 31, 2011)	484,014	477,505
Inventories, net	356,660	311,679
Deferred income taxes	42,756	35,948
Other current assets	34,056	35,343
Total current assets	1,104,348	1,015,734
Property, plant and equipment (net of accumulated depreciation of $361,487 at March 31, 2012 and $354,178 at December 31, 2011)	298,659	290,912
Goodwill	687,706	676,582
Other intangibles, net	353,241	348,884
Other assets	34,636	33,456
Total assets	$ 2,478,590	$ 2,365,568
Liabilities and Stockholders Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 89,808	$ 77,692
Accounts payable	228,033	214,514
Accrued liabilities	233,075	213,548
Total current liabilities	550,916	505,754
Long-term debt, less current maturities	314,641	326,133
Postretirement benefits other than pensions	14,576	14,712
Deferred income taxes	76,646	76,761
Other liabilities	165,855	162,577
Total liabilities	1,122,634	1,085,937
Gardner Denver stockholders equity:		
Common stock, $0.01 par value; 100,000,000 shares authorized; 50,608,581 and 50,650,971 shares outstanding at March 31, 2012 and December 31, 2011, respectively	599	598
Capital in excess of par value	607,532	601,854
Retained earnings	1,025,159	972,867
Accumulated other comprehensive income	46,242	17,286
Treasury stock at cost; 9,259,557 and 9,122,204 shares at March 31, 2012 and December 31, 2011, respectively	(325,169)	(315,314)
Total Gardner Denver stockholders equity	1,354,363	1,277,291

Noncontrolling interests	1,593	2,340
Total stockholders equity	1,355,956	1,279,631
Total liabilities and stockholders equity	$ 2,478,590	$ 2,365,568

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GARDNER DENVER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Cash Flows From Operating Activities		
Net income	$ 55,115	$ 59,899
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,089	14,921
Foreign currency transaction loss, net	1,530	1,245
Net loss on asset dispositions	516	716
Stock issued for employee benefit plans	271	476
Stock-based compensation expense	2,321	2,334
Excess tax benefits from stock-based compensation	(1,303)	(1,513)
Deferred income taxes	(9,294)	149
Changes in assets and liabilities:		
Receivables	(127)	(19,907)
Inventories	(40,042)	(47,055)
Accounts payable and accrued liabilities	25,092	47,671
Other assets and liabilities, net	(4,601)	(11,091)
Net cash provided by operating activities	48,567	47,845
Cash Flows From Investing Activities		
Capital expenditures	(13,104)	(8,030)
Disposals of property, plant and equipment	6,138	492
Other, net	(1)	(21)
Net cash used in investing activities	(6,967)	(7,559)
Cash Flows From Financing Activities		
Principal payments on short-term borrowings	(1,883)	(6,595)
Proceeds from short-term borrowings	2,926	3,646
Principal payments on long-term debt	(56,501)	(6,578)
Proceeds from long-term debt	54,010	10
Proceeds from stock option exercises	1,775	3,037
Excess tax benefits from stock-based compensation	1,303	1,513
Purchase of treasury stock	(9,841)	(6,169)
Cash dividends paid	(2,551)	(2,622)
Other	(1,085)	(1,024)
Net cash used in financing activities	(11,847)	(14,782)
Effect of exchange rate changes on cash and cash equivalents	1,850	2,772

Net increase in cash and cash equivalents	31,603	28,276
Cash and cash equivalents, beginning of year	155,259	157,029
Cash and cash equivalents, end of period	$ 186,862	$ 185,305

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share amounts and amounts described in millions)

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Gardner Denver, Inc. and its majority-owned subsidiaries (collectively referred to herein as Gardner Denver or the Company). All intercompany transactions and accounts have been eliminated in consolidation.

The financial information presented as of any date other than December 31, 2011 has been prepared from the books and records of the Company without audit. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of such financial statements.

The unaudited interim condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements and notes thereto included in Gardner Denver s Annual Report on Form 10-K for the year ended December 31, 2011.

The results of operations for the three-month period ended March 31, 2012 are not necessarily indicative of the results to be expected for the full year. The balance sheet at December 31, 2011 has been derived from the audited financial statements as of that date but does not include all of the information and notes required by GAAP for complete financial statements.

Other than as specifically indicated in these Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, the Company has not materially changed its significant accounting policies from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2011.

New Accounting Standards

Recently Adopted Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income* (ASU 2011-05). This update requires that the components of net income, the components of other comprehensive

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income and the total of comprehensive income be presented as a single continuous financial statement or in two separate but consecutive statements. The option of presenting other comprehensive income in the statement of stockholders equity is eliminated. This update also requires the presentation on the face of the financial statements of reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. In November 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which defers the effective date of presentation requirements included in ASU 2011-05 related to reclassification adjustments. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. A separate statement of comprehensive income has been included in the condensed consolidated financial statements as a result of the adoption of this update.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment* (ASU 2011-08). ASU 2011-08 amends existing guidance by giving an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the performance of the two-step goodwill impairment test, as currently prescribed by ASC Topic 350, is required. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this update did not have a significant effect on the Company s condensed consolidated financial statements and related disclosures.

Recently Issued Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11). This update requires the following new disclosures related to recognized financial instruments (and derivatives) subject to master netting arrangements or similar agreements: (i) the gross amounts of recognized financial assets and liabilities, (ii) the amounts offset under current GAAP, (iii) the net amounts presented in the balance sheet, (iv) the amounts subject to an enforceable master netting arrangement or similar agreement that were not included in (ii), and (v) the net amount representing the difference between (iii) and (iv). The update also requires qualitative disclosures related to counterparties, setoff rights, and terms of enforceable master netting arrangements and related agreements depending on their effect or potential effect on the entity s financial position. The new disclosures will enable financial statement users to compare balance sheets prepared under GAAP and International Financial Reporting Standards (IFRS), which are subject to different offsetting models. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The Company does not currently expect that the adoption of this update in the first quarter of 2013 will have a significant effect on its consolidated financial statements and related disclosures.

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Note 2. Business Combinations

On December 15, 2011, the Company acquired Robuschi S.p.A. (Robuschi), a leading European-based producer of blowers, pumps and compressor packages for use in high value added end markets and wastewater treatment. The Company acquired all outstanding shares and share equivalents of Robuschi for total consideration of $200.8 million, which consisted of payments to shareholders of $151.5 million and the retirement of Robuschi external debt at closing of $49.3 million. The Company also assumed approximately $5.2 million of long-term debt in connection with the purchase. There are no material contingent payments or commitments remaining related to this acquisition.

Note 3. Restructuring

The Company initiated restructuring plans in 2010 and prior years due to the decline in demand for our products associated with the global economic crisis. Execution of these plans was substantially completed during 2010. In 2011, the Company recorded approximately $8.6 million in charges associated with further streamlining of manufacturing operations and overhead cost reduction, primarily related to facility consolidations in Europe and related headcount reductions. In addition, the 2011 charges included costs associated with the establishment of a centralized European shared service center in the Czech Republic. The Company expects to substantially complete all of the restructuring actions commenced in 2011 during 2012.

During the three-month period ended March 31, 2012, the Company developed and approved restructuring plans designed to improve profitability by reducing our global headcount by approximately 5 percent. These restructuring actions are primarily focused on the European operations included in our Industrial Products Group reportable segment. In the first quarter of 2012, the Company recorded approximately $14.4 million in charges associated with these plans. The Company expects to complete the specific steps contemplated by these plans by the end of 2012.

Charges recorded in connection with these plans are included in Other operating expense, net in the Condensed Consolidated Statements of Operations, and are summarized for the fiscal years ended December 31, 2010 and 2011 and the three-month period ended March 31, 2012 by reportable segment as follows:

	Industrial Products Group	Engineered Products Group	Total
Fiscal year 2010	$ 3,687	$ (1,491)	$ 2,196
Fiscal year 2011	6,621	1,963	8,584
Three-month period ended March 31, 2012	12,103	2,312	14,415
Total	$ 22,411	$ 2,784	$ 25,195

The following table summarizes the activity in the restructuring accrual accounts for the three-month period ended March 31, 2012:

	Termination Benefits	Other	Total
Balance as of December 31, 2011	$ 3,188	$ 1,294	$ 4,482
Charged to expense	13,806	609	14,415
Payments	(1,232)	(770)	(2,002)
Other, net	58	20	78
Balance as of March 31, 2012	$ 15,820	$ 1,153	$ 16,973

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Note 4. Inventories

Inventories as of March 31, 2012 and December 31, 2011 consisted of the following:

	March 31, 2012	December 31, 2011
Raw materials, including parts and subassemblies	$ 250,433	$ 202,542
Work-in-process	53,719	57,264
Finished goods	71,270	67,748
	375,422	327,554
Excess of FIFO costs over LIFO costs	(18,762)	(15,875)
Inventories, net	$ 356,660	$ 311,679

Note 5. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill attributable to each reportable segment for the three-month period ended March 31, 2012, and the year ended December 31, 2011, are presented in the table below:

	Industrial Products Group	Engineered Products Group	Total
Balance as of December 31, 2010	$ 250,084	$ 321,712	$ 571,796
Acquisitions	112,221		112,221
Foreign currency translation	(4,070)	(3,365)	(7,435)
Balance as of December 31, 2011	358,235	318,347	676,582
Adjustments	(634)		(634)
Disposals	(195)		(195)
Foreign currency translation	7,664	4,289	11,953
Balance as of March 31, 2012	$ 365,070	$ 322,636	$ 687,706

The $112.2 million increase in goodwill related to acquisitions in 2011 was associated with the valuation of Robuschi.

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The following table presents the gross carrying amount and accumulated amortization of identifiable intangible assets, other than goodwill, at the dates presented:

	March 31, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists and relationships	$ 178,643	$ (39,545)	$ 172,724	$ (36,028)
Acquired technology	101,321	(58,385)	99,383	(56,879)
Trademarks	55,279	(11,427)	53,510	(10,591)
Other	11,811	(10,547)	9,171	(6,141)
Unamortized intangible assets:				
Trademarks	126,091		123,735	
Total other intangible assets	$ 473,145	$ (119,904)	$ 458,523	$ (109,639)

Amortization of intangible assets for the three-month periods ended March 31, 2012 and 2011 was $7.5 million and $4.3 million, respectively. The increase in amortization expense in 2012 is primarily due to the amortization of intangible assets related to the Robuschi acquisition, including $3.4 million of amortization expense associated with customer backlog. Amortization of intangible assets recorded as of March 31, 2012 is anticipated to be approximately $19.6 million in 2012 and $16.1 million annually in 2013 through 2016 based upon exchange rates as of March 31, 2012. The increase in the carrying amount of identifiable assets other than goodwill between December 31, 2011 and March 31, 2012 was primarily due to the effect of changes in foreign currency exchange rates.

Note 6. Accrued Liabilities

Accrued liabilities as of March 31, 2012 and December 31, 2011 consisted of the following:

	March 31, 2012	December 31, 2011
Salaries, wages and related fringe benefits	$ 65,775	$ 59,080
Taxes	46,750	34,891
Advance payments on sales contracts	45,283	40,689
Product warranties	24,672	22,939
Other	50,595	55,949
Total accrued liabilities	$ 233,075	$ 213,548

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Note 7. Pension and Other Postretirement Benefits

The following table summarizes the components of net periodic benefit cost for the Company s defined benefit pension plans and other postretirement benefit plans recognized for the three-month periods ended March 31, 2012 and 2011:

	Three Months Ended March 31,					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	2012	2011	2012	2011	2012	2011
Service cost	$	$	$ 288	$ 262	$ 7	$ 7
Interest cost	826	897	2,674	2,970	182	193
Expected return on plan assets	(1,074)	(1,054)	(2,570)	(2,757)		
Recognition of:						
Unrecognized prior service cost			9	9	(15)	(15)
Unrecognized net actuarial loss (gain)	475	308	309	219	(202)	(318)
Total net periodic benefit cost (income)	$ 227	$ 151	$ 710	$ 703	$ (28)	$ (133)

Note 8. Debt

The Company s debt at March 31, 2012 and December 31, 2011 is summarized as follows:

	March 31, 2012	December 31, 2011
Short-term debt	$ 3,491	$ 2,392
Long-term debt:		
Credit Line, due 2013 [(1)]	$ 86,000	$ 72,000
Term Loan, denominated in U.S. dollars (USD), due 2013 [(2)]	250,385	260,000
Term Loan, denominated in euros (EUR), due 2013 [(3)]	48,081	50,596
Secured Mortgages [(4)]	6,696	6,504
Capitalized leases and other long-term debt	9,796	12,333
Total long-term debt, including current maturities	400,958	401,433
Current maturities of long-term debt	86,317	75,300
Total long-term debt, less current maturities	$ 314,641	$ 326,133

(1) The loans under this facility may be denominated in USD or several foreign currencies. The interest rates under the facility are based on prime, federal funds and/or the London Interbank offer rate (LIBOR) for the applicable currency. At March 31, 2012, the applicable rate was 1.7% and averaged 1.5% for the three-month period ended March 31, 2012.

(2) The interest rate for this loan varies with prime, federal funds and/or LIBOR. At March 31, 2012, the applicable rate was 1.8% and averaged 1.8% for the three-month period ended March 31, 2012.

(3) The interest rate for this loan varies with LIBOR. At March 31, 2012, this rate was 1.9% and averaged 2.3% for the three-month period ended March 31, 2012.

(4)

This amount consists of two fixed-rate commercial loans with an outstanding balance of 5,019 at March 31, 2012. The loans are secured by the Company s facility in Bad Neustadt, Germany.

Note 9. Stock-Based Compensation

Total stock-based compensation costs were $2.3 million with related tax benefits of $0.7 million during the three-month periods ended March 31, 2012 and March 31, 2011. Stock-based compensation costs are presented in Selling and administrative expenses in the Condensed Consolidated Statements of Operations.

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Stock Option Awards

A summary of the Company s stock option activity for the three-month period ended March 31, 2012 is presented in the following table (underlying shares in thousands):

	Shares	Outstanding Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life
Outstanding at December 31, 2011	746	$ 43.47		
Granted	205	$ 71.28		
Exercised	(55)	$ 32.43		
Forfeited	(2)	$ 64.00		
Expired or canceled				