GARDNER DENVER INC
Form 10-Q
August 05, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

o **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 incorporation or organization)	(I.R.S. Employer Identification No.)

1800 Gardner Expressway
Quincy, Illinois 62305
(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 requirements for the past 90 days. Yes þ No o

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 þ No o

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. (Check one):

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 52,304,074 shares of Common Stock, par value $0.01 per share, as of July 30, 2010.

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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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$ 449,519	$ 436,049	$ 871,683	$ 898,529
Cost of sales	297,919	305,513	586,276	627,382
Gross profit	151,600	130,536	285,407	271,147
Selling and administrative expenses	91,745	87,170	179,439	181,753
Other operating expense, net	3,268	20,379	1,917	28,555
Impairment charges		(3,935)		261,065
Operating income (loss)	56,587	26,922	104,051	(200,226)
Interest expense	6,062	6,611	12,178	14,268
Other income, net	(2)	(1,243)	(637)	(1,431)
Income (loss) before income taxes	50,527	21,554	92,510	(213,063)
Provision for income taxes	12,603	(6,493)	22,333	7,362
Net income (loss)	37,924	28,047	70,177	(220,425)
Less: Net income attributable to noncontrolling interests	590	648	885	1,345
Net income (loss) attributable to Gardner Denver	$ 37,334	$ 27,399	$ 69,292	$ (221,770)
Net earnings (loss) per share attributable to Gardner Denver common stockholders				
Basic earnings (loss) per share	$ 0.71	$ 0.53	$ 1.33	$ (4.28)
Diluted earnings (loss) per share	$ 0.71	$ 0.53	$ 1.31	$ (4.28)
Cash dividends declared per common share	$ 0.05	$	$ 0.10	$

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)

	June 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 111,138	$ 109,736
Accounts receivable (net of allowance of $11,334 at June 30, 2010 and $10,690 at December 31, 2009)	342,750	326,234
Inventories, net	220,080	226,453
Deferred income taxes	29,291	30,603
Other current assets	19,813	25,485
Total current assets	723,072	718,511
Property, plant and equipment (net of accumulated depreciation of $317,547 at June 30, 2010 and $320,635 at December 31, 2009)	270,658	306,235
Goodwill	542,937	578,014
Other intangibles, net	273,821	314,410
Other assets	22,130	21,878
Total assets	$ 1,832,618	$ 1,939,048
Liabilities and Stockholders Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 34,797	$ 33,581
Accounts payable	106,550	94,887
Accrued liabilities	168,838	195,062
Total current liabilities	310,185	323,530
Long-term debt, less current maturities	278,986	330,935
Postretirement benefits other than pensions	15,033	15,269
Deferred income taxes	55,768	67,799
Other liabilities	124,487	137,506
Total liabilities	784,459	875,039
Stockholders equity:		
Common stock, $0.01 par value; 100,000,000 shares authorized; 52,248,495 and 52,191,675 shares outstanding at June 30, 2010 and December 31, 2009, respectively	591	586
Capital in excess of par value	575,374	558,733
Retained earnings	607,294	543,272

Accumulated other comprehensive income	4,781	82,514
Treasury stock at cost; 6,829,526 and 6,438,993 shares at June 30, 2010 and December 31, 2009, respectively	(150,800)	(132,935)
Total Gardner Denver stockholders equity	1,037,240	1,052,170
Noncontrolling interests	10,919	11,839
Total stockholders equity	1,048,159	1,064,009
Total liabilities and stockholders equity	$ 1,832,618	$ 1,939,048

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)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Cash Flows From Operating Activities		
Net income (loss)	$ 70,177	$ (220,425)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	30,348	34,925
Impairment charges		261,065
Foreign currency transaction (gain) loss, net	(628)	1,562
Net loss on asset dispositions	629	124
Stock issued for employee benefit plans	1,863	2,198
Stock-based compensation expense	3,022	1,954
Excess tax benefits from stock-based compensation	(1,903)	(88)
Deferred income taxes	(4,754)	(766)
Changes in assets and liabilities:		
Receivables	(36,234)	52,503
Inventories	(10,762)	39,583
Accounts payable and accrued liabilities	6,629	(73,481)
Other assets and liabilities, net	9,230	(6,144)
Net cash provided by operating activities	67,617	93,010
Cash Flows From Investing Activities		
Capital expenditures	(12,338)	(28,104)
Disposals of property, plant and equipment	1,154	589
Other, net	(8)	(19)
Net cash used in investing activities	(11,192)	(27,534)
Cash Flows From Financing Activities		
Principal payments on short-term borrowings	(11,804)	(21,613)
Proceeds from short-term borrowings	12,984	14,220
Principal payments on long-term debt	(43,410)	(95,416)
Proceeds from long-term debt	8,016	31,366
Proceeds from stock option exercises	9,712	583
Excess tax benefits from stock-based compensation	1,903	88
Purchase of treasury stock	(17,864)	(285)
Cash dividends paid	(5,246)	
Other	(996)	(847)
Net cash used in financing activities	(46,705)	(71,904)

Effect of exchange rate changes on cash and cash equivalents	(8,318)	6,177
Net increase (decrease) in cash and cash equivalents	1,402	(251)
Cash and cash equivalents, beginning of year	109,736	120,735
Cash and cash equivalents, end of period	$ 111,138	$ 120,484

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

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GARDNER DENVER, INC.
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). In consolidation, all significant intercompany transactions and accounts have been eliminated.

The Condensed Consolidated Statements of Operations and Cash Flows and all segment information for the three and six-month periods ended June 30, 2009 reflect the adoption in 2009 of new reporting guidance for noncontrolling interests codified in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation*.

The financial information presented as of any date other than December 31, 2009 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, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of such financial statements, have been included.

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, 2009.

The results of operations for the six-month period ended June 30, 2010 are not necessarily indicative of the results to be expected for the full year. The balance sheet at December 31, 2009 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 Form 10-K for the year ended December 31, 2009.

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New Accounting Standards

Recently Adopted Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements* (ASU 2010-06). This update requires the following new disclosures: (i) the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and a description of the reasons for the transfers; and (ii) a reconciliation for fair value measurements using significant unobservable inputs (Level 3), including separate information about purchases, sales, issuance, and settlements. The update also clarifies existing requirements about fair value measurement disclosures and disclosures about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the reconciliation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. See Note 11 Hedging Activities and Fair Value Measurements for the disclosures required by ASU 2010-06. Adoption of this guidance had no effect on the Company s results of operations, financial position and cash flows.

In February 2010, the FASB issued ASU 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements* (ASU 2010-09). ASU 2010-09, among other provisions, eliminates the requirement to disclose the date through which subsequent events have been evaluated, and was adopted by the Company in the first quarter of 2010.

Recently Issued Accounting Pronouncements

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605) - Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13). It updates the existing multiple-element revenue arrangements guidance currently included under FASB ASC 605-25, *Revenue Recognition, Multiple-Element Arrangements*. The revised guidance primarily provides two significant changes: (i) eliminates the need for objective and reliable evidence of fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and (ii) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance expands the disclosure requirements for revenue recognition. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010. The Company is currently assessing the impact of this new guidance on its consolidated financial statements and related disclosures.

Note 2. Restructuring

In 2008 and 2009, the Company finalized and announced certain restructuring plans designed to address (i) rationalization of the Company s manufacturing footprint, (ii) slowing global economic growth and the resulting deterioration in the Company s end markets and (iii) integration of CompAir Holdings Ltd. (CompAir) into its existing operations. These plans included the closure and consolidation of manufacturing facilities in Europe and the United States (U.S.), and various voluntary and involuntary employee termination and relocation programs. In accordance with FASB ASC 420, *Exit or Disposal Cost Obligations*, and FASB ASC 712, *Compensation Nonretirement Postemployment Benefits*, charges totaling $57.2 million (included in Other operating expense,

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net) were recorded in 2008 and 2009, of which $34.3 million was associated with the Industrial Products Group and $22.9 million was associated with the Engineered Products Group. Additional net charges totaling $2.7 million were recorded in the six-month period ended June 30, 2010, of which $4.0 million was associated with the Industrial Products Group. A net credit of $1.3 million, reflecting the finalization of certain employee termination plans, was recorded in the Engineered Products Group. Implementation of these plans was substantively completed during the first and second quarters of 2010. Payment of employee benefits is expected to be substantively completed in 2010.

In 2009 and 2010, the Company recorded charges totaling approximately $8.0 million in connection with the consolidation of certain U.S. operations, which it expects to be funded by a state grant. The anticipated amount of the grant was recorded as a reduction in the associated charge and the establishment of a current receivable. To date, the Company has received funding of approximately $7.8 million. If the Company does not maintain certain employment and payroll levels specified in the grant over a ten-year period, it will be obligated to return a portion of the grant funds to the state on a pro-rata basis. Any such amounts that may be returned to the state will be charged to operating income when identified. The Company currently expects to meet the required employment and payroll levels.

In connection with the acquisition of CompAir, the Company has been implementing plans identified at or prior to the acquisition date to close and consolidate certain former CompAir functions and facilities, primarily in North America and Europe. These plans included various voluntary and involuntary employee termination and relocation programs affecting both salaried and hourly employees and exit costs associated with the sale, lease termination or sublease of certain manufacturing and administrative facilities. The terminations, relocations and facility exits were substantively completed during 2009. A liability of $8.9 million was included in the allocation of the CompAir purchase price for the estimated cost of these actions at October 20, 2008. This liability was increased by $2.1 million in 2009 to reflect the finalization of certain of these plans.

The following table summarizes the activity in the restructuring accrual accounts:

	Termination Benefits	Other	Total
Balance as of December 31, 2009	$ 17,325	$ 3,655	$ 20,980
Charged to expense	1,003	1,693	2,696
Paid	(8,147)	(2,691)	(10,838)
Other, net	(1,927)	296	(1,631)
Balance as of June 30, 2010	$ 8,254	$ 2,953	$ 11,207

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Note 3. Inventories

Inventories as of June 30, 2010 and December 31, 2009 consisted of the following:

	June 30, 2010	December 31, 2009
Raw materials, including parts and subassemblies	$ 150,598	$ 150,085
Work-in-process	29,608	39,691
Finished goods	55,939	51,638
	236,145	241,414
Excess of FIFO costs over LIFO costs	(16,065)	(14,961)
Inventories, net	$ 220,080	$ 226,453

Note 4. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill attributable to each business segment for the six-month period ended June 30, 2010, and the year ended December 31, 2009, are presented in the table below. The adjustments to goodwill in 2009 are primarily related to the finalization of the valuation of certain CompAir intangible assets.

	Industrial Products	Engineered Products	Total
Balance as of December 31, 2008	$ 491,052	$ 313,596	$ 804,648
Adjustments to goodwill	16,275	(2)	16,273
Impairment of goodwill	(252,533)		(252,533)
Foreign currency translation	2,030	7,596	9,626
Balance as of December 31, 2009	256,824	321,190	578,014
Foreign currency translation	(17,887)	(17,190)	(35,077)
Balance as of June 30, 2010	$ 238,937	$ 304,000	$ 542,937

The net goodwill impairment charge in 2009 of $252.5 million was the result of the continuing significant decline in order rates for certain products in the Industrial Products Group during the first quarter of 2009, the uncertain outlook regarding when such order rates might return to levels and growth rates experienced in recent years and the sustained decline in the price of the Company s common stock through March 31, 2009. The net goodwill balances as of June 30, 2010 and December 31, 2009 reflect cumulative impairment charges of $252.5 million and zero for the Industrial Products and Engineered Products Groups, respectively.

As a result of its annual evaluation of indefinite-lived intangible assets, the Company recorded a $9.9 million non-cash impairment charge during 2009, primarily associated with a trade name in the Industrial Products Group segment.

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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:

	June 30, 2010		December 31, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists and relationships	$ 107,490	$ (24,790)	$ 121,990	$ (24,580)
Acquired technology	87,172	(46,114)	98,163	(47,162)
Trade names	50,028	(7,330)	56,245	(6,604)
Other	7,549	(3,713)	7,555	(3,781)
Unamortized intangible assets:				
Trade names	103,529		112,584	
Total other intangible assets	$ 355,768	$ (81,947)	$ 396,537	$ (82,127)

Amortization of intangible assets for the three and six-month periods ended June 30, 2010 was $4.3 million and $8.8 million, respectively. Amortization of intangible assets for the three and six-month periods ended June 30, 2009 was $4.8 million and $9.9 million, respectively. Amortization of intangible assets is anticipated to be approximately $17.1 million in 2011 through 2014 based upon exchange rates as of June 30, 2010 and intangible assets with finite useful lives included in the balance sheet as of June 30, 2010.

Note 5. Accrued Product Warranty

A reconciliation of the changes in the accrued product warranty liability for the three and six-month periods ended June 30, 2010 and 2009 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Balance at beginning of period	$ 18,134	$ 18,634	$ 19,312	$ 19,141
Product warranty accruals	5,360	6,383	10,950	11,157
Settlements	(5,784)	(6,755)	(11,985)	(11,642)
Effect of foreign currency translation	(704)	774	(1,271)	380
Balance at end of period	$ 17,006	$ 19,036	$ 17,006	$ 19,036

Note 6. 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 and six-month periods ended June 30, 2010 and 2009:

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	Three Months Ended June 30,					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Service cost	$	$	$ 252	$ 269	$ 4	$ 6
Interest cost	965	1,093	2,808	2,709	249	266
Expected return on plan assets	(885)	(913)	(2,509)	(2,223)		
Recognition of:						
Unrecognized prior-service cost		3	6	8	(25)	(50)
Unrecognized net actuarial loss (gain)	359	455	238	(18)	(325)	(325)
Net periodic benefit cost (income)	439	638	795	745	(97)	(103)
FASB ASC 715-30 curtailment gain				(118)		
Total net periodic benefit cost (income)	$ 439	$ 638	$ 795	$ 627	$ (97)	$ (103)