

Edgar Filing: GARDNER DENVER INC - Form 10-Q

GARDNER DENVER INC  
Form 10-Q  
August 14, 2001

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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 June 30, 2001

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 30, 2001: 15,574,474 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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
Revenues	\$104,554	\$94,888	\$205,450	\$184,054
Costs and Expenses:				
Cost of sales (excluding depreciation and amortization)	73,307	66,687	144,761	129,594
Depreciation and amortization	4,197	4,031	8,472	7,922
Selling and administrative expenses	16,625	15,275	33,274	30,728
Interest expense	1,547	1,959	3,389	3,776
Other income, net	(1,350)	(573)	(2,291)	(1,858)
Income before income taxes	10,228	7,509	17,845	13,892
Provision for income taxes	3,784	2,861	6,602	5,293
Net income	\$ 6,444	\$ 4,648	\$ 11,243	\$ 8,599
Basic earnings per share	\$ 0.41	\$ 0.30	\$ 0.73	\$ 0.56
Diluted earnings per share	\$ 0.41	\$ 0.30	\$ 0.72	\$ 0.56

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)  
JUNE 30, DECEMBER 31,  
2001 2000

ASSETS

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Current assets:		
Cash and equivalents	\$ 19,673	\$ 30,239
Receivables, net	77,201	79,448
Inventories, net	61,271	61,942
Deferred income taxes	6,186	4,887
Other	2,959	3,400
	-----	-----
Total current assets	167,290	179,916
	-----	-----
Property, plant and equipment, net	66,200	67,104
Intangibles, net	145,611	149,297
Deferred income taxes	2,427	2,855
Other assets	4,764	4,709
	-----	-----
Total assets	\$386,292	\$403,881
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	\$ 5,631	\$ 5,781
Accounts payable and accrued liabilities	57,370	62,462
	-----	-----
Total current liabilities	63,001	68,243
	-----	-----
Long-term debt, less current maturities	92,308	115,808
Postretirement benefits other than pensions	37,916	39,496
Other long-term liabilities	8,975	9,186
	-----	-----
Total liabilities	202,200	232,733
	-----	-----
Stockholders' equity:		
Common stock, \$.01 par value; 50,000,000 shares authorized; 15,567,433 shares issued and outstanding at June 30, 2001	172	170
Capital in excess of par value	162,954	160,343
Treasury stock at cost, 1,663,536 shares at June 30, 2001	(24,616)	(24,508)
Retained earnings	51,281	40,038
Accumulated other comprehensive loss	(5,699)	(4,895)
	-----	-----
Total stockholders' equity	184,092	171,148
	-----	-----
Total liabilities and stockholders' equity	\$386,292	\$403,881
	=====	=====

The accompanying notes are an integral part of this statement.

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(Unaudited)

	SIX MONTHS ENDED	
	JUNE 30,	
	2001	2000
	-----	-----
Cash flows from operating activities:		
Net income	\$ 11,243	\$ 8,599
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,472	7,922
Net loss/(gain) on asset dispositions	63	(851)
Stock issued for employee benefit plans	1,114	916
Deferred income taxes	(847)	206
Changes in assets and liabilities:		
Receivables	1,137	(6,978)
Inventories	(160)	(733)
Accounts payable and accrued liabilities	(4,237)	974
Other assets and liabilities, net	(928)	(1,353)
	-----	-----
Net cash provided by operating activities	15,857	8,702
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(5,354)	(5,051)
Foreign currency hedging transactions	(32)	3,261
Disposals of plant and equipment	50	909
Business acquisitions, net of cash acquired	--	(9,261)
	-----	-----
Net cash used for investing activities	(5,336)	(10,142)
	-----	-----
Cash flows from financing activities:		
Principal payments on long-term debt	(26,221)	(16,187)
Proceeds from long-term borrowings	6,000	12,000
Proceeds from stock options	1,499	807
Purchase of treasury stock	(108)	(710)
Other	(739)	(492)
	-----	-----
Net cash used by financing activities	(19,569)	(4,582)
	-----	-----
Effect of exchange rate changes on cash and equivalents	(1,518)	(977)
	-----	-----
Decrease in cash and equivalents	(10,566)	(6,999)
	-----	-----
Cash and equivalents, beginning of period	30,239	27,317
	-----	-----
Cash and equivalents, end of period	\$ 19,673	\$ 20,318
	=====	=====

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, 2000.

The results of operations for the three and six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year.

#### NOTE 2. RECENT ACQUISITIONS.

During 2000, the Company completed three acquisitions. Effective July 1, 2000, the Company acquired 100% of the issued and outstanding stock of CRS Power Flow, Inc. ("CRS"). On April 5, 2000, the Company acquired 100% of the issued and outstanding stock of Jetting Systems & Accessories, Inc. ("JSA"). CRS and JSA are both located in Houston, Texas. On January 1, 2000, the Company acquired substantially all of the assets and assumed certain agreed upon liabilities of Invincible Airflow Systems, Co., located in Baltic, Ohio.

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 CRS, used in preparation of the June 30, 2001 consolidated balance sheet, is preliminary and subject to adjustment when finalized. Management does not expect the finalization of this allocation to have a significant impact on the Company's financial position or results of operations.

As a result of the stability of the product technology, markets and customers associated with these acquisitions, the cost in excess of net assets acquired for each acquisition is being

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amortized over 40 years, using the straight-line method.

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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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
Basic EPS:				
Net income	\$ 6,444	\$ 4,648	\$ 11,243	\$ 8,599
Shares				
Weighted average number of common shares outstanding	15,545	15,310	15,499	15,261
Basic earnings per common share	\$ 0.41	\$ 0.30	\$ 0.73	\$ 0.56
Diluted EPS:				
Net income	\$ 6,444	\$ 4,648	\$ 11,243	\$ 8,599
Shares				
Weighted average number of common shares outstanding	15,545	15,310	15,499	15,261
Assuming conversion of dilutive stock options issued and outstanding	196	199	196	225
Weighted average number of common shares outstanding, as adjusted	15,741	15,509	15,695	15,486
Diluted earnings per common share	\$ 0.41	\$ 0.30	\$ 0.72	\$ 0.56

NOTE 4. INVENTORIES.

	JUNE 30, 2001	DECEMBER 31, 2000
Raw materials, including parts and subassemblies	\$ 30,239	\$ 31,147
Work-in-process	9,237	9,334
Finished goods	25,595	24,987
Perishable tooling and supplies	2,443	2,443
	67,514	67,911
Excess of FIFO costs		

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over LIFO costs	(6,243)	(5,969)
	-----	-----
Inventories, net	\$ 61,271	\$ 61,942
	=====	=====

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NOTE 6. COMPREHENSIVE INCOME.

For the three months ended June 30, 2001 and 2000, comprehensive income was \$6.2 million and \$4.5 million, respectively. For the six months ended June 30, 2001 and 2000, comprehensive income was \$10.4 million and \$7.7 million, respectively. Items impacting the Company's comprehensive income, but not included in net income, consist of foreign currency translation adjustments.

NOTE 7. CASH FLOW INFORMATION.

In the first six months of 2001 and 2000, the Company paid \$7.9 million and \$2.3 million, respectively, to the various taxing authorities for income taxes. Interest paid for the first six months of 2001 and 2000, totaled \$3.2 million and \$4.2 million respectively.

NOTE 8. SEGMENT INFORMATION.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
Revenues:				
Compressed Air Products	\$ 80,063	\$ 81,775	\$ 159,984	\$ 160,195
Petroleum Products	24,491	13,113	45,466	23,859
	-----	-----	-----	-----
Total	\$ 104,554	\$ 94,888	\$ 205,450	\$ 184,054
	=====	=====	=====	=====
Operating Earnings:				
Compressed Air Products	\$ 5,857	\$ 7,955	\$ 11,314	\$ 14,139
Petroleum Products	4,568	940	7,629	1,671
	-----	-----	-----	-----
Total	10,425	8,895	18,943	15,810
Interest expense	1,547	1,959	3,389	3,776
Other income, net	(1,350)	(573)	(2,291)	(1,858)
	-----	-----	-----	-----
Income before income taxes	\$ 10,228	\$ 7,509	\$ 17,845	\$ 13,892
	=====	=====	=====	=====

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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### RESULTS OF OPERATIONS.

#### PERFORMANCE IN THE QUARTER ENDED JUNE 30, 2001 COMPARED WITH THE QUARTER ENDED JUNE 30, 2000

##### Revenues

Revenues increased \$9.7 million (10%) to \$104.6 million for the three months ended June 30, 2001, compared to the same period of 2000. Excluding incremental revenue from acquisitions, revenues increased \$8.2 million (9%) over the same period of 2000. See Note 2 to the Financial Statements for further information on the Company's recent acquisitions.

For the three months ended June 30, 2001, revenues for the Compressed Air Products segment decreased \$1.7 million (2%) to \$80.1 million compared to the same period of 2000 due to declining U.S. industrial production which weakened sales of domestic centrifugal blowers and rotary screw compressors. Unfavorable foreign currency exchange rates also contributed to this decline, offsetting incremental revenues from acquisitions. Petroleum Products segment revenues increased \$11.4 million (87%) to \$24.5 million for the three months ended June 30, 2001, compared to the same period of 2000. This increase resulted from heightened demand for petroleum products due to the continued high level of oil and natural gas prices.

##### Costs and Expenses

Gross margin (defined as sales less cost of sales excluding depreciation and amortization) for the three months ended June 30, 2001 increased \$3.0 million (11%) to \$31.2 million compared to the same period of 2000. Gross margin as a percentage of revenues (gross margin percentage) increased slightly to 29.9% in the three-month period of 2001 from 29.7% in the same period of 2000. This increase in the gross margin percentage was principally attributable to improved operational performance at well stimulation production facilities partially offset by unfavorable sales mix and higher warranty expense in the Compressed Air Products segment.

Depreciation and amortization increased 4% to \$4.2 million in the three-month period of 2001, compared with \$4.0 million for the same period of 2000. The increase in depreciation and amortization expense was due to ongoing capital expenditures and goodwill amortization associated with acquisitions. For the three-month periods, depreciation and amortization expense as a percentage of revenues decreased to 4.0% in 2001 from 4.2% in 2000. This percentage decrease is due to the effect of higher revenues in 2001.

Selling and administrative expenses increased in the three-month period of 2001 by 9% to \$16.6 million from \$15.3 million in the same period of 2000 primarily due to higher payroll related expenses and the impact of acquisitions. Due to the higher revenues, selling and administrative expenses as a percentage of revenues declined to 15.9% in the second quarter of 2001 compared to 16.1% in 2000.

Other income for the three months ended June 30, 2001, included approximately \$0.7 million from litigation settlement proceeds and \$0.5 million of interest income related to finalization of



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an income tax settlement with the Internal Revenue Service. Excluding the impact of these non-recurring gains, other income has declined due to lower foreign currency gains generated from U.S. dollar denominated cash and receivable balances of foreign subsidiaries in 2001 compared to 2000.

The Compressed Air Products segment generated operating margins (defined as revenues, less cost of sales, depreciation and amortization, and selling and administrative expenses) of 7.3% for the three-month period ended June 30, 2001, a decrease from 9.7% for the three-month period of 2000. This decline was primarily attributable to unfavorable sales mix combined with higher payroll related expenses and warranty costs.

The Petroleum Products segment generated operating margins of 18.7% for the three-month period ended June 30, 2001, compared to 7.2% for the same period in 2000. This increase was primarily attributable to the positive impact of increased leverage of the segment's fixed and semi-fixed costs over a higher revenue base.

Interest expense decreased \$0.4 million from the prior year period due to lower average borrowings combined with lower average interest rates. The average interest rate for the three-month period of 2001 was 6.0%, compared to 6.5% for the same period of 2000.

Income before income taxes increased \$2.7 million (36%) to \$10.2 million for the three months ended June 30, 2001, compared to the same period of 2000. This improvement was due to increased leverage of the petroleum segment's fixed and semi-fixed costs on higher revenue volume, improved operational performance at well stimulation production facilities and the non-recurring gains included in other income mentioned above.

The provision for income taxes increased by \$0.9 million to \$3.8 million for the second quarter of 2001 compared to \$2.9 million in 2000, as a result of the higher income before taxes partially offset by a lower overall effective tax rate. The Company's effective tax rate for the three month period decreased to 37.0%, compared to 38.1% in 2000 due to increased savings from the Company's foreign sales corporation and the implementation of other tax strategies.

Net income for the three months ended June 30, 2001 increased \$1.8 million (39%) to \$6.4 million (\$0.41 diluted earnings per share), compared to \$4.6 million (\$0.30 diluted earnings per share) for the same period of 2000. This increase in net income is attributable to the same factors that resulted in increased income before taxes noted above.

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### PERFORMANCE IN THE SIX MONTHS ENDED JUNE 30, 2001 COMPARED WITH THE SIX MONTHS ENDED JUNE 30, 2000

#### Revenues

Revenues increased \$21.4 million (12%) to \$205.5 million for the six months ended June 30, 2001, compared to the same period of 2000. Excluding incremental revenue from acquisitions, revenues increased \$18.2 million (10%) over the same period of 2000. See Note 2 to the Financial Statements for further information on the Company's recent acquisitions.

For the six months ended June 30, 2001, revenues for the Compressed Air

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Products segment decreased slightly to \$160.0 million from \$160.2 million in the comparable prior year period. This decrease was due to declining U.S. industrial production which weakened sales of domestic rotary screw compressors and centrifugal blowers. Unfavorable foreign currency exchange rates also contributed to this decline, offsetting incremental revenues from acquisitions. Petroleum Products segment revenues increased \$21.6 million (91%) to \$45.5 million for the six months ended June 30, 2001, compared to the same period of 2000. This increase resulted from heightened demand for petroleum products due to the continued high level of oil and natural gas prices.

### Costs and Expenses

Gross margin for the six months ended June 30, 2001 increased \$6.2 million (11%) to \$60.7 million compared to the same period of 2000. Gross margin as a percentage of revenues (gross margin percentage) decreased slightly to 29.5% in the six-month period of 2001 from 29.6% in the same period of 2000. This reduction in the gross margin percentage was principally attributable to an overall unfavorable sales mix and higher warranty expense in the Compressed Air Products segment.

Depreciation and amortization increased 7% to \$8.5 million in the six-month period of 2001, compared with \$7.9 million for the same period of 2000. The increase in depreciation and amortization expense was due to ongoing capital expenditures and goodwill amortization associated with acquisitions. For the six-month periods, depreciation and amortization expense as a percentage of revenues decreased to 4.1% in 2001 from 4.3% in 2000. This percentage decrease is due to the effect of higher revenues in 2001.

Selling and administrative expenses increased in the six-month period of 2001 by 8% to \$33.3 million from \$30.7 million in the same period of 2000 primarily due to higher payroll related expenses and the impact of acquisitions. Due to the higher revenues, selling and administrative expenses as a percentage of revenues declined to 16.2% in 2001 compared to 16.7% in 2000.

Other income for the six months ended June 30, 2001, includes approximately \$1.4 million from litigation settlement proceeds and \$0.5 million from interest income related to finalization of an income tax settlement with the Internal Revenue Service. Other income for the six months ended June 30, 2000 includes a \$0.7 million gain from the sale of the Company's idle facility in Syracuse, New York. Excluding the impact of these non-recurring gains, other income has declined due to lower foreign currency gains generated from U.S. dollar denominated cash and receivable balances of foreign subsidiaries in 2001 compared to 2000.

The Compressed Air Products segment generated operating margins of 7.1% for

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the six-month period ended June 30, 2001, a decrease from 8.8% for the six-month period of 2000. This decline is primarily attributable to unfavorable sales mix combined with higher payroll related expenses and warranty costs.

The Petroleum Products segment generated operating margins of 16.8% for the six-month period ended June 30, 2001, compared to 7.0% for the same period in 2000. This increase is primarily attributable to the positive impact of increased leverage of the segment's fixed and semi-fixed costs over a higher revenue base.

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Interest expense decreased \$0.4 million compared to the prior year period to \$3.4 million, due to lower average borrowings. The average interest rate was 6.2% for both six-month periods.

Income before income taxes increased \$4.0 million (28%) to \$17.8 million for the six months ended June 30, 2001, compared to the same period of 2000. This improvement was due to increased leverage of the petroleum segment's fixed and semi-fixed costs on higher revenue volume, improved operational performance at well stimulation production facilities and the non-recurring gains included in other income mentioned above.

The provision for income taxes increased by \$1.3 million to \$6.6 million for the six months ended June 30, 2001, compared to \$5.3 million in 2000, as a result of the higher income before taxes partially offset by a lower overall effective tax rate. The Company's effective tax rate for the six month period decreased to 37.0%, compared to 38.1% in 2000 due to increased savings from the Company's foreign sales corporation and the implementation of other tax strategies.

Net income for the six months ended June 30, 2001 increased \$2.6 million (31%) to \$11.2 million (\$0.72 diluted earnings per share), compared to \$8.6 million (\$0.56 diluted earnings per share) for the same period of 2000. This increase in net income is attributable to the same factors that resulted in increased income before taxes noted above.

### Outlook

Demand for petroleum products is related to market expectations for oil and natural gas prices. Orders for petroleum products were \$35.6 million in the second quarter of 2001, an increase of \$20.6 million compared to the same period of 2000. For the first six months of 2001, petroleum product orders were \$62.9 million, an increase of \$34.2 million compared to the same period of 2000. Compared to June 30, 2000, backlog for this business segment increased \$17.9 million to \$29.5 million on June 30, 2001. These increases can primarily be attributed to the continued high level of oil and natural gas prices. Future increases in demand for these products will likely be dependent upon oil and natural gas prices remaining near current levels, which the Company cannot predict. However, the Company believes that if oil and natural gas prices, day rates and the rig count remain near current levels, demand for well servicing pumps and drilling pumps will be sustained in 2001.

In general, demand for compressed air products follows the rate of manufacturing capacity utilization and the rate of change of industrial production because compressed air is often used as a fourth utility in the manufacturing process. Over longer time periods, demand also follows the

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economic growth patterns indicated by the rates of change in the Gross Domestic Product. In the second quarter of 2001, orders for compressed air products were \$77.6 million, compared to \$74.8 million in the same period of 2000. For the first six months of 2001, orders for compressed air products were \$160.2 million, compared to \$154.5 million in the same period of 2000. Order backlog for compressed air products was \$49.5 million as of June 30, 2001, compared to \$44.2 million as of June 30, 2000. These increases are primarily the result of growth in European rotary screw and sliding vane

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compressors, acquisitions and increases in domestic water jetting products order levels, partially offset by unfavorable foreign currency rates, a reduction in manufacturing lead times and increased inventory levels on certain products.

### LIQUIDITY AND CAPITAL RESOURCES

#### Operating Working Capital

During the six months ended June 30, 2001, operating working capital (defined as receivables plus inventories, less accounts payable and accrued liabilities) increased \$2.2 million due to lower accounts payable and accrued liabilities partially offset by lower receivables and inventory.

#### Cash Flows

During the first half of 2001, the Company generated cash from operations totaling \$15.9 million, compared to \$8.7 million in the prior year period. This change is due to the higher net income coupled with a more favorable change in operating working capital compared to the prior year period. Net payments on long-term debt totaled \$20.2 million during the six months ended June 30, 2001. Cash used for other financing activities of \$0.7 million for the six months ended June 30, 2001 represents dividends paid to a minority interest of one of the Company's foreign subsidiaries. The cash flows provided by operating activities and used in investing and financing activities resulted in a net cash decrease of \$10.6 million for the six months ended June 30, 2001.

#### Capital Expenditures and Commitments

Capital projects to increase operating efficiency and flexibility, expand production capacity and product quality resulted in expenditures of \$5.4 million in the first six months of 2001. This was \$0.3 million higher than the level of capital expenditures in the comparable period in 2000 due to the timing of capital projects. Commitments for capital expenditures at June 30, 2001 totaled \$3.9 million. Management expects additional capital authorizations to be committed during the remainder of the year and that capital expenditures for 2001 will approximate \$15 million, primarily due to expenditures for cost reductions and additional machining capacity at certain operations. Capital expenditures related to environmental projects have not been significant in the past and are not expected to be significant in the foreseeable future.

In October 1998, Gardner Denver's Board of Directors authorized the repurchase of up to 1,600,000 shares of the Company's common stock to be used for general corporate purposes. Approximately 200,000 shares remain available for repurchase under this program. The Company has also established a Stock Repurchase Program for its executive officers to provide a means for them to sell Gardner Denver common stock and obtain sufficient funds to meet alternative minimum tax obligations which arise from the exercise of incentive stock options. As of June 30,

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2001, a total of 1,572,542 shares have been repurchased at a cost of \$22.8 million under both repurchase programs. During the first half of 2001, the Company accepted shares of its common stock, valued at \$0.1 million, which were tendered for the exercise of stock options.

#### Liquidity

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The Company has a revolving line of credit agreement with an aggregate \$125 million borrowing capacity (the "Credit Line"). On June 30, 2001, the Credit Line had an outstanding balance of approximately \$58 million, leaving \$67 million available for future use. The Credit Line requires no principal payments during the term of the agreement, which expires in January 2003.

The Company's borrowing arrangements are generally unsecured and permit certain investments and dividend payments. There are no material restrictions on the Company as a result of these arrangements, other than customary covenants regarding certain earnings, liquidity, and capital ratios.

Management currently expects that the Company's future cash flows will be sufficient to fund the scheduled debt service under existing credit facilities and provide required resources for working capital and capital investments.

### NEW ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations", and No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets". SFAS No. 141 requires that all business combinations be accounted for using the purchase method of accounting and requires separate recognition of intangible assets that meet certain criteria. This statement applies to all business combinations completed after June 30, 2001. The adoption of SFAS 141 will not have a significant impact on the Company's financial statements.

SFAS 142 requires that an intangible asset that is acquired shall be initially recognized and measured based on its fair value. This statement also provides that goodwill should not be amortized, but shall be tested for impairment annually, or more frequently if circumstances indicate potential impairment, through a comparison of fair value to its carrying amount. SFAS No. 142 is effective for fiscal periods beginning after December 15, 2001. As a result of this new standard, the Company will continue to amortize existing goodwill through the remainder of 2001, at which time amortization will cease and a transitional impairment test will be performed. The Company is currently reviewing the new standard and evaluating the impact on its future financial condition, results of operations, and accounting policies and practices. Amortization of goodwill for the six months ended June 30, 2001, totaled \$2.2 million.

### CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

All of the statements in this Management's Discussion and Analysis, other than historical facts, are forward-looking statements made in reliance upon the safe harbor of the Private Securities Litigation Reform Act of 1995, including, without limitation, certain statements made under the

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caption "Outlook". As a general matter, forward-looking statements are those focused upon anticipated events or trends and expectations and beliefs relating to matters that are not historical in nature. Such forward-looking statements are subject to uncertainties and factors relating to Gardner Denver's operations and business environment, all of which are difficult to predict and many of which are beyond the control of the Company. These uncertainties and factors could cause actual results to differ materially from those matters expressed in or implied by such forward-looking

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statements. The following uncertainties and factors, among others, could affect future performance and cause actual results to differ materially from those expressed in or implied by forward-looking statements: the ability to identify, negotiate and complete future acquisitions; the speed with which the Company is able to integrate its recent acquisitions and realize the related financial benefit; the domestic and/or worldwide level of oil and natural gas prices and oil and gas drilling and production, which affect demand for the Company's petroleum products; changes in domestic and/or worldwide industrial production and industrial capacity utilization rates, which affect demand for the Company's compressed air products; pricing of Gardner Denver products; the degree to which the Company is able to penetrate niche markets; the ability to maintain and to enter into key purchasing and supply relationships; and the continued successful implementation of cost reduction efforts.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Company's exposure to market risk between December 31, 2000 and June 30, 2001.

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## PART II - OTHER INFORMATION

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Stockholders (the "Annual Meeting") was held pursuant to notice on May 1, 2001. At the Annual Meeting, Frank J. Hansen, Thomas M. McKenna and Diane K. Schumacher were elected to serve as directors for a three-year term expiring in 2004. There were 14,220,065 affirmative votes cast and 89,135 votes withheld concerning Mr. Hansen's election as a director; 14,213,523 affirmative votes cast and 95,677 votes withheld concerning Mr. McKenna's election as a director; and 14,214,486 affirmative votes cast and 94,714 votes withheld concerning Mrs. Schumacher's election as a director. Stockholders also elected to amend the Long-Term Incentive Plan and the Employee Stock Purchase Plan. There were 9,434,290 affirmative votes cast, 2,630,318 votes against and 2,244,592 abstaining votes or non-votes concerning the Long-Term Incentive Plan and 11,933,870 affirmative votes cast, 136,729 votes against and 2,238,601 abstaining votes or non-votes concerning the Employee Stock Purchase Plan. Finally, stockholders also approved the new Management Annual Incentive Plan, with 13,464,699 affirmative votes cast, 434,052 votes against and 410,449 abstaining votes or non-votes.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) List of Exhibits:

3.2 ByLaws of Gardner Denver, Inc., as amended on July 31, 2001.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the quarter ended June 30, 2001.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GARDNER DENVER, INC.

Date: August 13, 2001

By: /s/ Ross J. Centanni

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Ross J. Centanni  
Chairman, President & CEO

Date: August 13, 2001

By: /s/ Philip R. Roth

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Philip R. Roth  
Vice President, Finance & CFO

Date: August 13, 2001

By: /s/ Daniel C. Rizzo, Jr.

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Daniel C. Rizzo, Jr.  
Vice President and Corporate  
Controller (Chief Accounting Officer)

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GARDNER DENVER, INC.

EXHIBIT INDEX

EXHIBIT  
NO.

DESCRIPTION

3.2 ByLaws of Gardner Denver, Inc., as amended on July 31, 2001.

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