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GARDNER DENVER INC  
Form 424B2  
April 15, 2005

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Filed Pursuant to Rule 424(b)(2)  
Registration Nos. 333-122422  
333-109086

SUBJECT TO COMPLETION, DATED APRIL 15, 2005

PROSPECTUS SUPPLEMENT  
(TO PROSPECTUS DATED FEBRUARY 9, 2005)

5,000,000 SHARES

GARDNER LOGO

COMMON STOCK

We are offering 5,000,000 shares of common stock.

Our common stock is listed on the New York Stock Exchange under the symbol "GDI." On April 13, 2005, the last reported sale price of our common stock was \$40.12 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE S-13 OF THIS PROSPECTUS SUPPLEMENT BEFORE PURCHASING OUR COMMON STOCK.

	PER SHARE	TOTAL
Public Offering Price	\$	\$
Underwriting Discount	\$	\$
Proceeds, Before Expenses, to Us	\$	\$

The underwriters may also purchase up to an additional 750,000 shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover any over-allotments.

Delivery of the shares will be made on or about May , 2005.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

BEAR, STEARNS & CO. INC.

JPMORGAN

KEYBANC CAPITAL MARKETS

The date of this prospectus supplement is , 2005.

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[INSIDE COVER ART]

## ABOUT THIS PROSPECTUS SUPPLEMENT

THIS DOCUMENT IS IN TWO PARTS. THE FIRST PART IS THIS PROSPECTUS SUPPLEMENT, WHICH DESCRIBES THE TERMS OF THIS OFFERING AND ALSO ADDS TO AND UPDATES INFORMATION CONTAINED IN THE ACCOMPANYING PROSPECTUS AND THE DOCUMENTS INCORPORATED BY REFERENCE. THE SECOND PART IS THE ACCOMPANYING PROSPECTUS, WHICH PROVIDES FURTHER INFORMATION, SOME OF WHICH MAY NOT APPLY SPECIFICALLY TO THIS OFFERING. GENERALLY, WHEN WE REFER TO THIS "PROSPECTUS," WE ARE REFERRING TO BOTH DOCUMENTS. REFERENCES TO THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS ALSO INCLUDE THE INFORMATION CONTAINED IN DOCUMENTS INCORPORATED BY REFERENCE. TO THE EXTENT THAT INFORMATION APPEARING IN A LATER DOCUMENT IS INCONSISTENT WITH PRIOR INFORMATION, THE LATER STATEMENT WILL CONTROL. IF THIS PROSPECTUS SUPPLEMENT IS INCONSISTENT WITH THE PROSPECTUS, YOU SHOULD RELY ON THIS PROSPECTUS SUPPLEMENT.

YOU SHOULD RELY ONLY ON THE INFORMATION PROVIDED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE ELSE TO PROVIDE YOU WITH DIFFERENT INFORMATION. THE INFORMATION CONTAINED IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS IS ACCURATE ONLY AS OF THEIR RESPECTIVE DATES, REGARDLESS OF TIME OF DELIVERY OF THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS OR OF ANY SALE OF OUR COMMON STOCK. WE ARE NOT MAKING AN OFFER OF THESE SECURITIES IN ANY STATE WHERE THE OFFER IS NOT PERMITTED.

Unless this prospectus supplement indicates otherwise or the context otherwise requires, references to "we," "our," "us," the "Company," or "Gardner Denver" are to Gardner Denver, Inc., its subsidiaries and their predecessors. References to "Thomas Industries" are to Thomas Industries Inc., its subsidiaries and their predecessors.

## FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus and documents we incorporate by reference into this prospectus supplement and accompanying prospectus contain statements that do not directly or exclusively relate to historical facts. Such statements are forward-looking statements made in reliance upon the safe harbor of the Private Securities Litigation Reform Act of 1995. 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 our operations and business environment, all of which are difficult to predict and many of which are beyond our control. These uncertainties and factors could cause actual results to differ materially from those matters expressed in or implied by such forward-looking statements.

The following uncertainties and factors, among others (including those set forth under "Risk Factors"), could affect future performance and cause actual results to differ materially from those expressed in or implied by forward-looking statements:

- our ability to complete the Thomas Industries acquisition and to identify, negotiate and complete future acquisitions;
- the speed with which we are able to integrate acquisitions and realize the related financial benefits;
- our ability to maintain and to enter into key purchasing, supply and outsourcing relationships;

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- changes in our purchased material cost, including surcharges;
- our ability to effectively manage the transition of iron casting supply to alternate sources and the skill, commitment and availability of such alternate sources;
- the successful implementation of other strategic initiatives, including, without limitation, restructuring plans, inventory reduction programs and other cost reduction efforts;
- the domestic and/or worldwide level of oil and natural gas prices and oil and gas drilling and production, which affect demand for our petroleum products;

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- changes in domestic and/or worldwide industrial production and industrial capacity utilization rates, which affect demand for our compressor and vacuum products;
- pricing of our products;
- the degree to which we are able to penetrate niche and international markets;
- changes in currency exchange rates (primarily among the U.S. dollar, the euro and the British pound);
- changes in interest rates;
- our ability to attract and retain quality management personnel;
- market performance of our pension plan assets and changes in discount rates used for actuarial assumptions in our pension and other postretirement obligation and expense calculations;
- our continued ability to effectively manage and defend litigation matters pending, or asserted in the future, against us;
- the development and acceptance of our new product offerings;
- the continued successful implementation and utilization of our electronic services; and
- changes in laws and regulations, including accounting standards, tax requirements and interpretations or guidance related to the American Jobs Creation Act of 2004.

We do not undertake, and hereby disclaim, any duty to update these forward-looking statements, even though our situation and circumstances may change in the future.

### NON-GAAP FINANCIAL MEASURES

To supplement our financial information presented in accordance with generally accepted accounting principles, or "GAAP," we use additional measures to clarify and enhance understanding of past performance and prospects for the future. These measures may exclude, for example, the impact of unique items (acquisitions, one-time gains and losses) or items outside of our control (foreign currency exchange rates).

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Gross margin (defined as revenues less cost of sales), gross margin percentage (defined as gross margin divided by revenues), operating earnings (defined as revenue less cost of sales, depreciation and amortization, and selling and administrative expenses) and operating margin (defined as operating earnings divided by revenues) are indicative of short-term operational performance and ongoing profitability. We closely monitor operating earnings and operating margin of each business segment to evaluate past performance and actions required to improve profitability.

EBITDA, as presented in this prospectus supplement, is a supplemental measure of our performance. It is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP or as an alternative to net cash provided by operating activities as a measure of our liquidity.

EBITDA represents net income before provision for income taxes, interest expense and depreciation and amortization. We believe EBITDA provides investors with helpful information with respect to our operating performance and cash flows. We include it to provide additional information with respect to our ability to meet our future debt service, capital expenditures and working capital requirements and because certain covenants in our borrowing arrangements are tied to measures that will be similarly calculated.

In addition, in evaluating this non-GAAP measure, you should be aware that in the future we will incur expenses such as those excluded in calculating it.

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EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- it does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- it does not reflect changes in, or cash requirements for, our working capital needs;
- it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- it does not reflect any cash income taxes that we may be required to pay;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements;
- it is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- it does not reflect limitations on, or costs related to, transferring earnings from our subsidiaries to us; and
- other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, our EBITDA measures should not be considered

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as a measure of discretionary cash available to us to invest in the growth of our business or as a measure of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our GAAP results and using these measures supplementally. See our financial statements and the related notes included elsewhere in this prospectus supplement.

### MARKET AND INDUSTRY DATA

Some of the market and industry data and other statistical information used throughout this prospectus supplement are based on independent industry publications, government publications, reports by market research firms or other published independent sources. Some data are also based on our good faith estimates, which are derived from our review of internal surveys, as well as the independent sources referred to above. Although we believe these sources to be reliable, we have not independently verified the information and cannot guarantee its accuracy or completeness.

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### PROSPECTUS SUPPLEMENT SUMMARY

This summary may not contain all of the information that is important to you. You should read the entire prospectus supplement and the accompanying prospectus and the documents incorporated and deemed to be incorporated by reference therein, including the consolidated financial statements and related notes and other financial data, before making an investment decision. This summary includes a discussion of our pending acquisition of Thomas Industries Inc. under " - The Thomas Industries Acquisition and Related Financing Transactions" but, unless specifically noted, does not otherwise reflect the effect of the Thomas Industries acquisition. The Thomas Industries acquisition is subject to numerous conditions and may not be consummated. See "Risk Factors - Risks Related to the Thomas Industries Acquisition." This summary includes references to EBITDA, a non-GAAP financial measure, for which we provide a reconciliation to net income in " - Summary Historical and Pro Forma Consolidated Financial Information."

### OUR COMPANY

We are a leading designer, manufacturer and marketer of highly engineered air compressors, liquid ring pumps, blowers and certain fluid transfer products. Our products primarily are used to move fluids, gases or solids through the application of pressure, vacuum or other mechanical influences, often in highly demanding applications or environments. Our compressors, liquid ring pumps and blowers are used in a broad range of industrial applications and our fluid transfer products are used primarily for oil and natural gas well drilling, servicing, production and transfer as well as for industrial cleaning and maintenance.

We report our results of operations through two segments, Compressor and Vacuum Products (compressors, liquid ring pumps and blowers) and Fluid Transfer Products, which represented approximately 80% and 20% of our 2004 revenues, respectively. Our history dates back to 1859 when Robert Gardner redesigned the fly-ball governor to provide speed control for steam engines. For the fiscal year ended December 31, 2004, we had revenues of \$739.5 million, EBITDA of \$84.3 million and net income of \$37.1 million. In 2004, we completed the acquisition of Syltone plc ("Syltone") for \$112.5 million and of nash\_elmo Holdings, LLC ("Nash Elmo") for \$224.6 million. For the fiscal year ended December 31, 2004, pro forma for acquisitions completed in 2004, we had revenue of \$895.9 million, EBITDA of \$102.7 million and net income of \$40.4 million.

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We sell our products and services globally to customers in diverse industries around the world. The following charts show the percentage of revenues generated in 2004 by industries served and by geographic regions, pro forma for acquisitions completed in 2004.

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The majority of our products are marketed through our global network of over 1,000 independent distributors and representatives, many of whom sell our products exclusively. We offer our distributors access to one of the broadest product lines in our served markets. In addition, we provide our distributors with sales and product literature, technical assistance and training programs, advertising and sales promotions, order-entry and tracking systems and an annual restocking program. Our distributors maintain an inventory of complete units and parts and provide aftermarket service to end-users. We service original equipment

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manufacturers ("OEMs") and engineering firms through our direct sales force as these customers typically require higher levels of technical assistance, more coordinated shipment scheduling and more complex product service than customers of our less specialized products.

We have an extensive installed base of equipment for which we supply replacement parts and repair services. Our aftermarket parts and service businesses provide us with a recurring source of revenues with attractive margins. Our aftermarket businesses also allow us to be in frequent contact with customers, enabling us to provide enhanced customer service and product information, which often generates additional sales of new products. We estimate that aftermarket parts and services represented approximately 30% of our revenues in 2004.

### OUR BUSINESS SEGMENTS

We report our results of operations through two segments: Compressor and Vacuum Products and Fluid Transfer Products.

**COMPRESSOR AND VACUUM PRODUCTS.** Our Compressor and Vacuum Products segment designs, manufactures, markets and services the following products and related aftermarket parts for industrial and commercial applications: rotary screw, reciprocating, sliding vane and centrifugal compressors; positive displacement, centrifugal and side channel blowers; liquid ring pumps; and engineered systems. Compressors are used in applications that require high-pressure air, while blowers and liquid ring pumps are used when higher-volume, low-pressure air or vacuums are needed in an application. Compressors are used primarily in manufacturing, process industry and material handling applications. Blowers are used primarily in pneumatic conveying, wastewater aeration and engineered vacuum systems, and liquid ring pumps are used primarily in process industry applications. In general, our standard products are sold through distributors or directly to OEMs, while our more specialized products and those designed for specific applications are sold through independent representatives or directly to end-users.

**FLUID TRANSFER PRODUCTS.** Our Fluid Transfer Products segment designs, manufactures, markets and services a wide array of reciprocating pumps as well as water jetting systems, loading arms and related aftermarket parts. Our reciprocating pumps are used in oil and natural gas well drilling, servicing and production and our water jetting systems are used for industrial cleaning and

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maintenance. Our loading arms and related transfer components are used to load and unload ships, tank trucks and rail cars. Most of our pump products are sold directly to end-users or to packagers. Packagers are customers that combine our equipment with ancillary products before they are sold to end-users.

### OUR COMPETITIVE STRENGTHS

**MARKET LEADERSHIP POSITIONS.** We believe we are the second largest manufacturer of compressed air products in the United States and the third largest in the world, as measured by revenues. We believe we are one of the world's two largest manufacturers of pumps used for oil and natural gas well servicing and drilling. We believe that our acquisition of Nash Elmo in 2004 made us the largest worldwide manufacturer of liquid ring pumps and that our acquisition of Syltone in 2004 made us the second largest worldwide manufacturer of loading arms. We have achieved our leadership positions through our commitment to product innovation and quality, our well-developed distribution channels and our strategic acquisitions. We believe that, as a market segment leader, we have greater access to distributors and are more likely to be specified as a supplier when our target customers develop new requirements.

**BRAND NAME RECOGNITION.** Our products are marketed under a variety of well-known brand names in our industries served, including: Gardner Denver(R) compressors, blowers and pumps, Champion(R) compressors, Belliss & Morcom(R) compressors, Elmo Technology(TM) blowers, Sutorbilt(R) blowers, DuroFlow(R) blowers, Drum(R) blowers, Nash(R) liquid ring pumps, Partek(R) water jetting pumps and Emco Wheaton(R) loading arms. Each of these brands enjoys a strong reputation in its market segment, built over many years. We believe that the strength of these brand names helps reduce the importance of price as a competitive factor and provides a measure of built-in demand when we introduce new products.

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**STRONG DISTRIBUTION NETWORK AND OEM ALLIANCES.** We offer our customers one of the industry's broadest selections of high quality products and services. As a result, we have been able to establish strong customer relationships with several key OEMs and exclusive supply arrangements with many of our distributors. These relationships strengthen our market position, facilitate our sales efforts and provide a valuable conduit for feedback when developing new products.

**LARGE INSTALLED EQUIPMENT BASE.** We have maintained strong positions in our market segments over a number of years, which has allowed us to establish a large base of installed equipment. For most of the products in our installed base, a significant portion of total life cycle cost consists of replacement parts and maintenance. Therefore, our installed base provides us with a recurring source of aftermarket revenues, typically with attractive margins. Additionally, we believe that when our customers replace existing equipment they prefer to do so with equipment of the same type or brand to avoid incremental costs related to training, operations and maintenance. As a result, we believe that our large installed base also provides a source of new product revenues.

**BROAD AND DIVERSE PRODUCT AND CUSTOMER BASE.** We have a product-driven strategy that is based on our core competencies of manufacturing compressed air and pump equipment. As a result, we have developed products and services for an extensive array of applications that we market globally to a diverse group of industries and customers. In 2004, no customer represented more than 3% of our total revenues. We believe that our diversity of products and customers reduces our dependence on any particular geographic or served industry segment. Additionally, we believe that our presence in many different industries generates broader brand awareness and facilitates the development and introduction of new products.

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**STRONG CASH FLOW FROM OPERATIONS.** Since becoming an independent company, we have increased our annual cash flow from operations from \$17.5 million in 1994 to \$76.8 million in 2004. We have achieved this through internal growth in revenues and earnings, through acquisitions and by aggressively managing working capital and controlling expenses on an ongoing basis throughout our organization. Our strong cash flow from operations provides us with the financial flexibility to pursue acquisitions and internal investments.

**ABILITY TO EFFECTIVELY INTEGRATE ACQUISITIONS.** We believe that our acquisition and integration expertise is a critical element for the successful implementation of our strategic growth and profitability initiatives. Between our spin-off from Cooper Industries, Inc. in 1994 and 2003, we acquired and successfully integrated 15 businesses. In 2004, we made two additional acquisitions, Syltone and Nash Elmo, and have made meaningful progress toward integrating these businesses. For example, since we acquired Syltone, we have eliminated redundant administrative costs, relocated certain of Syltone's manufacturing operations into our existing facilities, rationalized both Gardner Denver's and Syltone's distribution networks to broaden and strengthen our distribution capabilities and sold certain of Syltone's non-core, underperforming businesses. With respect to Nash Elmo, we have eliminated certain of Nash Elmo's administrative expenses, initiated the integration of Nash Elmo's management information systems and are reviewing opportunities with respect to the rationalization of Nash Elmo's manufacturing operations.

**EXPERIENCED MANAGEMENT TEAM.** Our senior management team has significant experience, averaging more than 12 years with us and more than 20 years in manufacturing. In addition, this team has substantial experience in identifying, structuring and integrating acquisitions, supply chain management programs and lean manufacturing techniques, all of which are important to our long-term growth.

**STRONG CORPORATE GOVERNANCE.** We believe that our corporate culture is based on strong corporate governance and a commitment to stockholder accountability. Seven of the eight members of our Board of Directors are non-employee directors and our senior executives are expected to maintain meaningful holdings of our common stock. We believe our culture and operating performance have been and will continue to be enhanced by our strong corporate governance.

### OUR BUSINESS STRATEGY

Over the last several years, we have employed a six point business strategy that we believe has positioned us for future profitable growth. During this period, we have implemented numerous cost reduction

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and sales initiatives, acquired Syltone and Nash Elmo and announced the pending acquisition of Thomas Industries. We believe that all of these actions have been consistent with our strategy as highlighted below.

**REDUCE COSTS.** We continually seek to increase our efficiency and improve margins in existing and acquired lines of business through the implementation of cost reduction initiatives. The areas we are focusing on include:

- Lean manufacturing techniques. We have implemented lean manufacturing programs such as cellular manufacturing and lot size reduction at many of our facilities. These programs have translated directly into lower-cost manufacturing, shorter lead times, better quality, and reduced inventory investment and have freed more than 300,000 square feet of manufacturing and office space. Our lean manufacturing techniques have also facilitated better communications and problem



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resolution among production personnel and reduced the likelihood of errors. As we have implemented lean techniques, we have developed an internal "lean council" to promote the adoption of our best manufacturing practices throughout our organization. We also have gone beyond internal implementation by partnering with suppliers to achieve additional efficiencies in the supply chain.

- Purchasing and sourcing. Throughout our organization, we have formed purchasing teams tasked with identifying the most cost-effective way to source and manufacture our products. Our purchasing teams seek to reduce basic material costs by identifying the best-value suppliers, implementing global sourcing strategies and working with our manufacturing and engineering personnel to identify less expensive manufacturing input alternatives. Our purchasing teams also review non-critical product components to determine whether it is more cost-effective to manufacture or outsource such products.
  
- Capital investments. We evaluate capital expenditures based on the potential for the investment to generate adequate returns by increasing our operating efficiency and flexibility, expanding production capacity and increasing product quality. Our strategy is to invest throughout our economic cycle. Between 2001 and 2003, when we faced a challenging operating environment, we cumulatively invested \$37.1 million of capital in our business. Our capital expenditures were targeted toward investments such as flexible machining centers that reduced labor and setup expenses and improved product lead time. As our business began to recover in 2004, we believe that these investments contributed to the significant operating leverage we achieved and will continue to benefit us in the future.

PURSUE INTERNATIONAL MARKETS. In 2004, we generated 56% of our revenues in international markets (59% pro forma for acquisitions completed during 2004). Between 1994 and 2004, our revenues from international sales grew at a compound annual growth rate of 27%. The growth of our international revenues and our improved market positions in Europe, Asia and South America are a result of successful acquisitions and the expansion of our distribution channels. We sell through distributors and representatives in more than 20 countries and have manufacturing facilities in Germany, the United Kingdom, China, Finland, Brazil and Canada. Also, in 2004, we opened an assembly facility in China that packages our compressors and blowers to serve growing demand in Asian markets. We believe international markets will continue to offer attractive growth opportunities.

ACCELERATE NEW PRODUCT DEVELOPMENT. As a leader in our industry, we consistently develop new products and enhance existing products to meet the evolving demands of our customers, as well as to enter into new markets and reduce costs. We have implemented formal processes that coordinate research, development and engineering activity with feedback from distributors, end-users and suppliers. We believe that these processes can accelerate the product development cycle by up to 50%, thereby reducing our costs and shortening the time it takes us to introduce new products to the market. For example, we recently developed a new line of global single-stage lubricated compressors using variable speed drives. This product line was developed concurrently in Finland and the U.S., which resulted in a number of advantages, including a more rapid development cycle, more efficient use of engineering resources and global purchasing opportunities that we expect will lower our production costs. We believe that our ability to rapidly design and develop new products in response to the needs of our customers will enhance the future growth of our business.

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MANUFACTURE PROPRIETARY PRODUCTS. We seek to differentiate our products from those of our competitors by developing proprietary products that offer

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superior performance at the lowest total life cycle cost. We also reengineer products and develop new controls and other product functionalities to improve their key performance characteristics. We believe that commodity-like products, such as consumer-grade air compressors, are more susceptible to pricing pressure and are more likely to dilute brand equity. Conversely, we believe that our proprietary products enhance our brand names, provide value to customers and build customer loyalty, allowing us to increase market share and achieve premium pricing.

**EMBRACE NEW TECHNOLOGIES.** We continue to embrace new technologies throughout our business, including within our engineering, manufacturing, sales and distribution functions. For example, we are utilizing our computer systems and Internet technology to allow our business partners immediate and continuous access to sales and technical literature, order processing and tracking, and service and warranty information. We are also linking these ordering systems directly to our manufacturing facilities to reduce order processing paperwork, lead times and the amount of working capital employed. From an engineering perspective, we employ a number of advanced technologies, including computational fluid dynamics, finite element analysis and solid modeling software. Overall, we view our investment in technology as an important means to increase our efficiency and better serve our customers.

**PURSUE STRATEGIC ACQUISITIONS.** We believe that our industry is relatively fragmented and opportunities remain to acquire companies that complement or expand our product offerings, distribution capabilities and geographic presence. Our management team has substantial experience making and integrating acquisitions, having completed 17 acquisitions since Gardner Denver became an independent company in 1994. While we will opportunistically pursue larger transactions such as the pending acquisition of Thomas Industries, we will continue to pursue smaller transactions that incrementally expand our business. As acquired companies are integrated, we will seek to rationalize administrative expenses, manufacturing capacity, product lines and distribution channels to maximize our returns.

### OUR INDUSTRY

Our Compressor and Vacuum Products segment competes in a worldwide market that we estimate to be in excess of \$5 billion per year in sales. The largest market served within our Fluid Transfer Products segment consists of the worldwide market for industrial/process pumps that we estimate to be in excess of \$22 billion per year in sales. Our reciprocating pumps compete for approximately \$2 billion of this market. Products in all of our served markets are sold to a diverse group of customers across a wide range of industries.

Competition in our markets is generally robust and is based on product quality, performance, price and availability. The relative importance of each of these factors varies depending on the specific type of product. Given the potential for equipment failures to cause expensive operational disruption, our customers generally view quality and reliability as critical factors in their equipment purchasing decision. The required frequency of maintenance is highly variable based on the type of equipment and application.

Although there are a few large manufacturers of compressor and vacuum products, the marketplace for these products remains fragmented due to the wide variety of product technologies, applications and selling channels. The marketplace for industrial/process pumps, although dominated by a few multinational manufacturers with a broad product offering, is also fragmented, as the ten largest pump manufacturers account for only approximately 40% of annual industry sales. Because we are currently focused on pumps used in oil and natural gas drilling, servicing and production, we do not typically compete directly with the major full-line manufacturers. Competition in the market segment for oil and natural gas pumps is much more concentrated than for pumps

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generally. The marketplaces for water jetting systems and loading arms tend to be niche-oriented and somewhat concentrated with the largest three or four competitors controlling the majority of the market.

### THE THOMAS INDUSTRIES ACQUISITION AND RELATED FINANCING TRANSACTIONS

On March 9, 2005, we announced that we had signed a definitive agreement to acquire Thomas Industries Inc. (NYSE: ticker "TII") for a purchase price of \$40.00 per share, or approximately

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\$734.2 million, and the assumption of \$9.5 million in long-term capitalized lease obligations. As of December 31, 2004, Thomas Industries had \$267.1 million in cash, cash equivalents and short-term investments. Therefore, the net transaction value, including assumed debt and net of cash, is approximately \$476.6 million. Thomas Industries generated revenues of \$410.1 million and EBITDA of \$226.7 million (\$48.0 million excluding income related to Genlyte Thomas Group LLC or "GTG") for the year ended December 31, 2004. These EBITDA figures include \$5.2 million of non-recurring charges related to plant shutdown, legal and environmental costs. See "Selected Consolidated Financial Information of Thomas Industries" for a reconciliation of EBITDA to net income.

Thomas Industries, headquartered in Louisville, Kentucky, is a worldwide leader in the design, manufacture, and marketing of precision engineered pumps and compressors. Thomas Industries markets its products under a number of well-known brand names, including Rietschle Thomas(R) pumps and compressors, Welch(R) laboratory equipment and Oberdorfer(TM) bronze and high alloy liquid pumps. Thomas Industries serves a diversified, global customer base of OEMs, end-users and engineered system customers with a relationship strategy focused on product innovation, application engineering and value added designs.

Thomas Industries' products are sold into a broad range of attractive end markets, including medical, general industrial, printing, environmental, packaging and laboratory. Thomas Industries has wholly-owned operations in 21 countries, on five continents. Its primary manufacturing facilities are located in Sheboygan, Wisconsin; Monroe, Louisiana; Skokie, Illinois; Syracuse, New York; and Schopfheim, Fahrnu, Puchheim and Memmingen, Germany. In 2004, Thomas Industries completed the construction of a manufacturing facility in Wuxi, China, that is expected to become operational in mid-2005. Thomas Industries has other locations around the world to support sales, marketing, service and distribution. In 2004, more than 60% of Thomas Industries' sales were derived outside the United States.

If completed, the acquisition of Thomas Industries will significantly expand our product portfolio, distribution channels and end markets served. Although the basic technology of Thomas Industries' products is similar to that of our products, Thomas Industries' business is primarily complementary to ours:

- Thomas Industries' products are generally used in smaller, fractional horsepower applications, while our products are typically used in larger applications requiring more power;
- the majority of Thomas Industries' products are sold directly to OEMs while the majority of our products are sold through distributors and manufacturers' representatives; and
- more than 30% of Thomas Industries' OEM sales are to attractive end markets such as medical, environmental and laboratory, in which we have a limited presence.

While our business and Thomas Industries' business are complementary, we

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believe that significant opportunities for synergies exist between our businesses should we complete the acquisition, including:

- reduction of corporate overhead;
- reduction of selling and administrative expense within business units;
- leveraging purchases of common raw materials and components;
- implementation of lean manufacturing initiatives;
- cross-selling of complementary product lines; and
- rationalization of manufacturing capacity.

Our ability to realize these synergies is subject to uncertainties. See "Risk Factors -- Risks Related to the Thomas Industries Acquisition."

The following charts reflect our consolidated revenue mix by industries served and geographic regions for 2004 on a combined basis as if Syltone, Nash Elmo and Thomas Industries had been acquired at the beginning of 2004.

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- (1) Thomas Industries' information based on OEM sales, which represent approximately 76% of Thomas Industries' total sales.

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Our plan to finance the acquisition of Thomas Industries, and to refinance approximately \$35.6 million of our debt, is outlined in the sources and uses table below:

SOURCES	(dollars in millions)	USES	(dollars in millions)
Available cash at Gardner Denver.....	\$ 20.0	Merger consideration.....	\$734.2
Available cash at Thomas Industries(1).....	219.2	Repay existing Gardner Denver debt (2).....	35.6
New term loan.....	230.0	Fees and expenses.....	25.0
		-----	
New senior subordinated notes.....	125.0		
This offering(3).....	200.6		
	-----		
Total.....	\$794.8	Total.....	\$794.8
	=====		=====

Note: Assumes our existing \$375 million credit facility is successfully amended and restated and will not need to be refinanced.

- (1) Represents the estimated immediately available amount of Thomas Industries' total cash and short-term investments.

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- (2) Includes repayment of \$8.7 million of our revolver debt and repayment of \$26.9 million of our other long-term debt.
- (3) Does not assume exercise of over-allotment option. If over-allotment option is exercised an additional \$28.7 million of our revolver debt would be repaid.

Concurrent with this offering, we are offering \$125.0 million aggregate principal amount of Senior Subordinated Notes due 2013 in a private placement. The notes will not be registered under the Securities Act and may not be offered or sold in the United States absent registration or an exemption from the registration requirements. The notes will be unconditionally guaranteed, jointly and severally, by certain of our current and future domestic subsidiaries. The gross proceeds from the notes offering will be placed into escrow, together with an amount in cash, cash equivalents or treasury securities, so that the escrowed funds will be sufficient to pay the special mandatory redemption price described below for the notes, when and if due. The notes are subject to a special redemption on or before January 2, 2006, at a redemption price equal to their price of issuance, plus accrued interest and accretion of any discount to the date of redemption, in the event that the Thomas Industries acquisition is not consummated by December 31, 2005. The proceeds from the notes offering will be released from escrow upon consummation of the Thomas Industries acquisition.

As of December 31, 2004, our existing credit facility consisted of a \$225.0 million revolving credit facility and a \$148.1 million term loan. We expect to enter into an amendment and restatement of this facility which will become effective upon the consummation of the Thomas Industries acquisition. The amended and restated facility is expected to provide an additional \$230.0 million term loan, the proceeds of which will be used as described above. The effectiveness of the amendment and restatement is subject to the consummation

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of the Thomas Industries acquisition, receipt of sufficient proceeds from this offering and our concurrent notes offering and other customary closing conditions.

The acquisition of Thomas Industries is not contingent upon completion of this offering, the concurrent notes offering or the amendment and restatement of our credit facility. We have received a financing commitment letter jointly issued by affiliates of Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. to ensure availability of funding, subject to customary conditions. A number of material conditions must still be satisfied before we can effect the acquisition of Thomas Industries and, as discussed in "Risk Factors," the satisfaction of many of these conditions is outside of our control. While we plan to finance the acquisition as outlined in the sources and uses table above, we may alter our plans depending on market conditions or other factors. Pending the closing of the acquisition of Thomas Industries, net proceeds from this offering will be used to repay a portion of our existing indebtedness. See "Use of Proceeds" and "Unaudited Pro Forma Consolidated Financial Statements."

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Our principal executive offices are located at 1800 Gardner Expressway, Quincy, Illinois 62305, and our telephone number is (217) 222-5400. Our website address is [www.gardnerdenver.com](http://www.gardnerdenver.com). Information contained on our website does not constitute part of this prospectus supplement.

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THE OFFERING

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Issuer.....	Gardner Denver, Inc.
Common stock offered.....	5,000,000 shares of common stock, par value \$0.01 per share.
Common stock outstanding after this offering.....	25,106,468 shares.
Use of proceeds.....	We estimate that the net proceeds of this offering will be \$191.1 million (\$219.8 million if the underwriters exercise their over-allotment option in full). We expect to use the net proceeds from the sale of our common stock in this offering to finance a portion of our acquisition of Thomas Industries. See "Use of Proceeds."
Risk factors.....	You should carefully consider all of the information set forth in this prospectus supplement and the accompanying prospectus and, in particular, should evaluate the specific factors set forth under "Risk Factors" in deciding whether to invest in shares of the common stock.
Dividend policy.....	We have not paid cash dividends in 2003 or 2004 and we do not expect to pay cash dividends in 2005.
New York Stock Exchange symbol.....	GDI
Over-allotment option.....	We have granted the underwriters a 30-day option to purchase from us, from time to time, up to an additional 750,000 shares of our common stock to cover any over-allotments.

The number of shares of our common stock to be outstanding after this offering is based on our shares outstanding as of March 31, 2005, as adjusted for the 5,000,000 shares offered by this prospectus supplement. It excludes:

- Up to 750,000 shares issuable by us if the underwriters exercise their over-allotment option in full;
- 2,351,962 shares reserved for issuance under our existing stock incentive plans, including 1,578,649 shares issuable upon exercise of options outstanding as of March 31, 2005 at a weighted average exercise price of \$23.11 per share;
- 445,055 shares reserved for issuance under our employee stock purchase plan; and
- 241,218 shares reserved for issuance under our retirement savings plan.

Except as otherwise noted in this prospectus supplement, we have assumed that the underwriters will not exercise their over-allotment option.

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SUMMARY HISTORICAL AND PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

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The summary historical consolidated financial information shown below is as of and for each of the years ended December 31, 2002, 2003 and 2004. The information for the three years ended December 31, 2002, 2003 and 2004 is derived from our consolidated financial statements for such years, which are included herein beginning on page F-1.

The table below also sets forth unaudited pro forma financial information after giving effect to the Nash Elmo acquisition, this offering, the Thomas Industries acquisition and the related financing transactions. The unaudited pro forma consolidated statement of operations data for the year ended December 31, 2004 is presented as if these transactions had taken place on January 1, 2004. The unaudited pro forma consolidated balance sheet data is presented as if this offering, the Thomas Industries acquisition and the related financing transactions had been completed on December 31, 2004. The Thomas Industries acquisition is subject to a number of closing conditions and may not be consummated. See "Risk Factors - Risks Related to the Thomas Industries Acquisition."

Effective with the close of business on July 31, 2004, Thomas Industries sold its 32% interest in GTG to Genlyte Group Incorporated, or "Genlyte," for approximately \$400.9 million. However, as required by Article 11 of Regulation S-X, the unaudited pro forma financial information set forth below includes equity income from GTG as well as a gain from the sale of Thomas Industries' interest in GTG. In total, the unaudited pro forma financial information includes approximately \$177.0 million of pretax income, \$95.1 million of net income and \$3.90 of diluted earnings per share from the effects of GTG. See footnote (1) below for information excluding the effects of GTG.

You should read this information in conjunction with the information under "Unaudited Pro Forma Consolidated Financial Statements" and related notes thereto, "Selected Consolidated Financial Information of Gardner Denver" and the respective consolidated financial statements and accompanying notes of Gardner Denver and Thomas Industries included elsewhere in this prospectus supplement. The Gardner Denver consolidated financial statements for the years ended December 31, 2002, 2003 and 2004 have been audited by KPMG LLP, an independent registered public accounting firm.

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	YEAR ENDED DECEMBER 31,			PRO FORMA (1) UNAUDITED 2004
	2002	2003	2004	
	-----			-----
	(in thousands, except per share data)			
<b>CONSOLIDATED STATEMENT OF OPERATIONS DATA:</b>				
Revenues.....	\$418,158	\$439,530	\$ 739,539	\$1,305,970
Costs and expenses				
Cost of sales.....	289,631	307,753	498,435	848,269
Depreciation and amortization.....	14,139	14,566	21,901	50,415
Selling and administrative expenses.....	79,400	85,326	157,453	309,679
Interest expense.....	6,365	4,748	10,102	38,482
Other income, net.....	(204)	(3,221)	(638)	(2,312)
	-----	-----	-----	-----
Total costs and expenses.....	389,331	409,172	687,253	1,244,533
	-----	-----	-----	-----
Equity income from GTG.....	--	--	--	18,608
Gain on sale of GTG.....	--	--	--	160,410
	-----	-----	-----	-----

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Income before income taxes.....	28,827	30,358	52,286	240,455
Provision for income taxes.....	9,225	9,715	15,163	102,529
	-----	-----	-----	-----
Net income.....	\$ 19,602	\$ 20,643	\$ 37,123	\$ 137,926
	=====	=====	=====	=====
Basic earnings per share.....	\$ 1.24	\$ 1.29	\$ 1.96	\$ 5.76
	=====	=====	=====	=====
Diluted earnings per share.....	\$ 1.22	\$ 1.27	\$ 1.92	\$ 5.66
	=====	=====	=====	=====
Basic shares outstanding.....	15,854	16,061	18,955	23,955
Diluted shares outstanding.....	16,042	16,312	19,377	24,377
BALANCE SHEET DATA (AS OF END OF PERIOD):				
Total assets.....	\$478,730	\$589,733	\$1,028,609	\$1,678,512
Long-term debt, less current maturities....	112,663	165,756	280,256	625,733
Total debt.....	120,163	182,631	313,205	642,180
Total liabilities.....	255,807	323,828	623,133	1,081,963
Stockholders' equity.....	222,923	265,905	405,476	596,549
OTHER FINANCIAL DATA:				
Gross margin (2).....	\$128,527	\$131,777	\$ 241,104	\$ 457,701
EBITDA (3).....	49,331	49,672	84,289	329,352
Capital expenditures (4).....	13,641	11,950	19,550	37,971
Net cash provided by operating activities...	52,481	46,283	76,752	--
Orders (5).....	402,019	425,620	786,990	--

- (1) As noted above, effective with the close of business on July 31, 2004, Thomas Industries sold its 32% interest in GTG to Genlyte for approximately \$400,900. The information set forth below adjusts the information presented under the title "Pro Forma Unaudited 2004" to exclude the effects of GTG, assuming Thomas Industries had sold its interest in GTG at the beginning of the period presented and

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used a portion of the net proceeds from the sale to repay all of Thomas Industries' existing debt, other than its capitalized lease obligations.

YEAR ENDED DECEMBER 31, 2004

	PRO FORMA UNAUDITED 2004	ADJUSTMENTS	PRO FORMA UNAUDITED 2004, AS ADJUSTED FOR GTG
	-----	-----	-----
Revenues.....	\$1,305,970	\$ --	\$1,305,970
	-----	-----	-----
Total costs and expenses.....	1,244,533	(2,064)	1,242,469
Equity income from GTG.....	18,608	(18,608)	--
Gain on sale of GTG.....	160,410	(160,410)	--
	-----	-----	-----
Income before income taxes.....	240,455	(176,954)	63,501
Provision for income taxes.....	102,529	(81,891)	20,638
	-----	-----	-----
Net income.....	\$ 137,926	\$ (95,063)	\$ 42,863
	=====	=====	=====
Diluted earnings per share (a).....	\$ 5.66	\$ (3.90)	\$ 1.76
	=====	=====	=====

(a) Based on 24,377 diluted weighted average number of shares



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outstanding.

- (2) Gross margin consists of revenues minus cost of sales (excluding depreciation and amortization).
- (3) EBITDA consists of net income before provision for income taxes, interest expense and depreciation and amortization. EBITDA is not a measurement of financial performance or liquidity determined in accordance with accounting principles generally accepted in the United States and should not be considered as an alternative to net income, net cash provided by operating activities or other consolidated income or cash flow statement data prepared in accordance with generally accepted accounting principles. We present EBITDA because we believe it is frequently used by analysts, investors and other interested parties in the financial evaluation of companies in our industry, and we believe it provides useful information to investors. This definition of EBITDA, however, may differ from the definition used by other companies. A reconciliation of net income to EBITDA is provided as follows:

	YEAR ENDED DECEMBER 31,			PRO FORMA UNAUDITED 2004
	2002	2003	2004	
	(in thousands)			
Net income.....	\$19,602	\$20,643	\$37,123	\$ 137,926
Provision for income taxes.....	9,225	9,715	15,163	102,529
Interest expense.....	6,365	4,748	10,102	38,482
Depreciation and amortization.....	14,139	14,566	21,901	50,415
EBITDA.....	\$49,331	\$49,672	\$84,289	329,352
Adjustment to reflect sale of GTG.....				(178,665)
EBITDA excluding effects of GTG.....				\$ 150,687

- (4) Pro forma capital expenditures represent the sum of our actual capital expenditures for the year ended December 31, 2004, Nash Elmo for the eight month period ended August 31, 2004 and Thomas Industries for the year ended December 31, 2004.
- (5) Orders consist of bookings we believe to be firm for which a customer purchase order has been received or communicated. Since orders can be rescheduled or canceled at any time, orders do not necessarily reflect future sales levels.

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### RISK FACTORS

Before you invest in our shares, you should consider carefully the risk factors described below together with all of the other information included in this prospectus supplement, the accompanying prospectus and the documents we have incorporated by reference into this document. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected and you may lose all or part of your investment.

#### RISKS RELATED TO THE THOMAS INDUSTRIES ACQUISITION

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OUR ABILITY TO CONSUMMATE THE THOMAS INDUSTRIES ACQUISITION IS SUBJECT TO THE SATISFACTION OF A NUMBER OF CONDITIONS, AND IT IS POSSIBLE THAT WE WILL BE UNABLE TO CONSUMMATE THE THOMAS INDUSTRIES ACQUISITION.

The Thomas Industries acquisition is subject to the satisfaction or waiver of a number of closing conditions, including, among other things, the receipt of governmental and third-party consents, the absence of any material adverse change with respect to Thomas Industries and the absence of breaches of the representations, warranties and covenants of Thomas Industries set forth in the agreement and plan of merger, which we refer to as the "Merger Agreement." We cannot assure you that all of the closing conditions to the Thomas Industries acquisition will be satisfied or waived and that we will consummate the Thomas Industries acquisition. In the event the Thomas Industries acquisition is not consummated, we will be unable to realize the anticipated benefits of the acquisition and we may be required to incur certain cash and non-cash charges, including, under certain circumstances, a \$5.0 million payment to Thomas Industries.

THE THOMAS INDUSTRIES ACQUISITION IS SUBJECT TO THE RECEIPT OF CONSENTS AND APPROVALS FROM VARIOUS GOVERNMENT ENTITIES, WHICH MAY JEOPARDIZE OR DELAY COMPLETION OF THE THOMAS INDUSTRIES ACQUISITION OR REDUCE THE ANTICIPATED BENEFITS OF THE THOMAS INDUSTRIES ACQUISITION.

Completion of the Thomas Industries acquisition is conditioned upon filings with, and the receipt of required consents, orders, approvals or clearances from the Federal Trade Commission or the Antitrust Division of the U.S. Department of Justice and regulatory bodies in Germany and Norway. These consents, orders, approvals and clearances may impose conditions on or require divestitures relating to the divisions, operations or assets of Thomas Industries or us. Such conditions or divestitures may jeopardize or delay completion of the Thomas Industries acquisition or may reduce the anticipated benefits of the Thomas Industries acquisition. The Merger Agreement provides that we and Thomas Industries will use our best efforts to obtain the consents of the Federal Trade Commission or the U.S. Department of Justice and the various foreign regulatory bodies that are reviewing the Thomas Industries acquisition, but that we are not required to agree to effect any divestitures in order to obtain such consents.

WE MAY NOT BE ABLE TO EFFECTIVELY INTEGRATE THE BUSINESSES OF THOMAS INDUSTRIES.

Our future success will depend in part on our ability to effectively integrate the businesses of Thomas Industries into our operations. We will face significant challenges in consolidating functions and integrating procedures, personnel, product lines and operations in a timely and efficient manner. The integration process will be complex and time consuming, may be disruptive to the businesses and may cause an interruption of, or a loss of momentum in, the businesses as a result of a number of obstacles such as:

- the loss of key employees or customers;
- the failure to maintain the quality of customer service that each business has historically provided;
- the need to coordinate geographically diverse organizations; and
- the resulting diversion of management's attention from our day-to-day business and the need to hire additional management personnel to address integration obstacles.

If we are not successful in this integration, if it takes longer than anticipated, or if our integrated product and service offerings fail to achieve market acceptance, our business could be adversely affected.

WE MAY NOT BE ABLE TO REALIZE ANTICIPATED COST SAVINGS, SYNERGIES OR REVENUE ENHANCEMENTS FROM THE THOMAS INDUSTRIES ACQUISITION AND WE MAY INCUR SIGNIFICANT CASH INTEGRATION COSTS TO ACHIEVE THESE COST SAVINGS.

Even if we are able to integrate our operations with those of Thomas Industries successfully, we cannot assure you that we will realize the cost savings, synergies or revenue enhancements that we anticipate from such integration or that we will realize such benefits within the time frame that we currently expect. Our ability to realize anticipated cost savings, synergies or revenue enhancements may be affected by a number of factors, including the following:

- Our ability to effectively eliminate redundant administrative overhead and overlapping sales personnel and rationalize manufacturing capacity is difficult to predict. Accordingly, the actual amount and timing of the resulting cost savings are inherently difficult to predict.
- We may incur significant cash integration costs in achieving these cost savings, and any cost savings and other synergies from the Thomas Industries acquisition may be offset by such integration costs.
- The cost savings and other synergies may be offset by increases in other expenses, by operating losses or by problems unrelated to the Thomas Industries acquisition.
- Labor cost savings depend on the avoidance of labor disruptions in connection with the integration of the businesses.

OUR SUBSTANTIAL INDEBTEDNESS COULD ADVERSELY AFFECT OUR FINANCIAL HEALTH.

We have substantial indebtedness now and our indebtedness will increase if we consummate the Thomas Industries acquisition. As of December 31, 2004, pro forma for this offering, the Thomas Industries acquisition and the related financing transactions, we would have had approximately \$642.2 million of indebtedness. Our high level of debt could have a significant adverse future effect on our business. For example:

- we may have limited ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our growth strategy or other purposes;
- a substantial portion of our cash flow may be used to pay principal and interest on our debt, which will reduce the funds available for working capital, capital expenditures, acquisitions and other purposes;
- we may be more vulnerable to adverse changes in general economic, industry and competitive conditions;
- our high debt level and the various covenants contained in our amended and restated senior credit facility, the indenture governing the new notes and the documents governing our other existing indebtedness may place us at a relative competitive disadvantage as compared to some of our competitors; and
- borrowings under our amended and restated credit facility bear

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interest at floating rates, which could result in higher interest expense in the event of an increase in interest rates.

The terms of our existing credit facility, our amended and restated credit facility and the indenture governing the new notes will not prohibit us or our subsidiaries from incurring additional indebtedness. If we or our subsidiaries are in compliance with the financial covenants set forth in these agreements, we and our subsidiaries may be able to incur substantial additional indebtedness. If we or any of our subsidiaries incur additional indebtedness, the related risks that we and they now face may intensify.

### RISKS RELATED TO OUR BUSINESS

#### WE HAVE EXPOSURE TO ECONOMIC DOWNTURNS AND OPERATE IN CYCLICAL MARKETS.

As a supplier of capital equipment to a variety of industries, we are adversely affected by general economic downturns. Demand for our compressor and vacuum products is dependent upon capital spending

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by manufacturing and process industries. Many of our customers, particularly industrial customers, will delay capital projects, including non-critical maintenance and upgrades, during economic downturns. Demand for certain of our fluid transfer products is primarily tied to the number of working and available drilling rigs and oil and natural gas prices. The energy market, in particular, is cyclical in nature as the worldwide demand for oil and natural gas fluctuates. When worldwide demand for these commodities is depressed, the demand for our products used in drilling and recovery applications is reduced.

Accordingly, our operating results for any particular period are not necessarily indicative of the operating results for any future period. The markets for our products have historically experienced downturns in demand. Future downturns could have a material adverse effect on our operating results.

#### WE FACE INTENSE COMPETITION IN THE MARKETS WE SERVE, WHICH COULD MATERIALLY AND ADVERSELY AFFECT OUR OPERATING RESULTS.

We actively compete with companies producing the same or similar products. Depending on the particular product, we experience competition based on a number of factors, including quality, performance, price and availability. We compete against many companies, including divisions of larger companies, that have greater financial resources than us. As a result, these competitors may be better able to withstand a change in conditions within the markets in which we compete and throughout the economy as a whole. In addition, new competitors could enter our markets. In particular, it is possible that our European- and Asian-based competitors could seek to establish a greater presence in the United States market. If we cannot compete successfully, our sales and operating results could be materially and adversely affected.

#### LARGE OR RAPID INCREASES IN THE COSTS OF RAW MATERIALS OR SUBSTANTIAL DECREASES IN THEIR AVAILABILITY AND OUR DEPENDENCE ON PARTICULAR SUPPLIERS OF RAW MATERIALS COULD MATERIALLY AND ADVERSELY AFFECT OUR OPERATING RESULTS.

The primary raw materials we use are cast iron and steel. While we are seeking to enter into long-term contracts with our suppliers, most of our suppliers are not currently parties to long-term contracts with us. Consequently, we are vulnerable to fluctuations in prices of such raw materials. Factors such as supply and demand, freight costs and transportation availability, inventory levels of brokers and dealers, the level of imports and general economic conditions may affect the price of cast iron and steel. We utilize single sources of supply for certain iron castings and other selected

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components. From time to time in recent years, we have experienced a disruption to our supply deliveries and we may experience further supply disruptions. Any such disruption could have a material adverse effect on our ability to meet our commitments to customers and, therefore, our operating results.

WE MAY NOT BE ABLE TO CONTINUE TO MAKE THE ACQUISITIONS NECESSARY FOR US TO REALIZE OUR GROWTH STRATEGY OR INTEGRATE ACQUISITIONS SUCCESSFULLY.

One of our growth strategies is to increase our sales and expand our markets through acquisitions. We have completed 17 acquisitions since becoming an independent company in 1994 and entered into a definitive agreement to acquire Thomas Industries on March 8, 2005. We expect to continue making acquisitions if appropriate opportunities arise. We may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms or otherwise complete future acquisitions. Furthermore, our acquired companies may encounter unforeseen operating difficulties and may require significant financial and managerial resources which would otherwise be available for the ongoing development or expansion of our existing operations. Largely as a consequence of our acquisitions, a substantial portion of our assets consists of goodwill. If we are unable to successfully integrate and operate our acquired business, we may determine that our goodwill assets are impaired and be required to reduce the stated value of such assets. If we are unable to successfully identify acquisition candidates, complete acquisitions and integrate the acquired businesses with our existing businesses (including their internal control procedures), our business, operating results and financial condition may be materially and adversely affected.

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ECONOMIC, POLITICAL AND OTHER RISKS ASSOCIATED WITH INTERNATIONAL SALES AND OPERATIONS COULD ADVERSELY AFFECT OUR BUSINESS.

For the fiscal year ended December 31, 2004, approximately 56% (59% pro forma for acquisitions completed during 2004) of our revenues were from customers in countries outside of the United States. We have manufacturing facilities in Germany, the United Kingdom, China, Finland, Brazil and Canada. We anticipate that we may continue to expand our international operations to the extent that suitable opportunities become available.

Our international operations and United States export sales could be adversely affected as a result of:

- nationalization of private enterprises;
- political or economic instability in certain countries;
- differences in foreign laws, including increased difficulties in protecting intellectual property and uncertainty in enforcement of contract rights;
- changes in the legal and regulatory policies of foreign jurisdictions;
- credit risks;
- currency fluctuations;
- exchange controls;
- changes in tariff restrictions;

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- royalty and tax increases;
- export and import restrictions and restrictive regulations of foreign governments;
- potential problems obtaining supply of raw materials;
- shipping products during times of crisis or war; and
- other factors inherent in foreign operations.

WE ARE A DEFENDANT IN CERTAIN ASBESTOS AND SILICOSIS PERSONAL INJURY LAWSUITS WHICH COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION.

We have been named as a defendant in an increasing number of asbestos and silicosis personal injury lawsuits. The plaintiffs in these suits allege exposure to asbestos or silica from multiple sources, and typically we are one of approximately 25 or more named defendants. In our experience to date, the substantial majority of the plaintiffs have not been physically impaired with a disease by alleged exposure to products for which we have responsibility.

We believe that the pending lawsuits will not, in the aggregate, have a material adverse effect on our consolidated financial position, results of operations or liquidity. However, future developments, including, without limitation, potential insolvencies of insurance companies, could cause a different outcome. Accordingly, there can be no assurance that the resolution of pending or future lawsuits, whether by judgment, settlement, or dismissal, will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

THE NATURE OF OUR PRODUCTS CREATES THE POSSIBILITY OF SIGNIFICANT PRODUCT LIABILITY AND WARRANTY CLAIMS WHICH COULD HARM OUR BUSINESS.

Customers use some of our products in potentially hazardous drilling, completion and production applications that can cause injury or loss of life and damage to property, equipment or the environment. In addition, our products are integral to the production process for some end-users and any failure of our products could result in a suspension of their operations.

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Although we maintain strict quality controls and procedures, we cannot be certain that our products will be completely free from defect. We maintain amounts and types of insurance coverage that we believe are adequate and consistent with normal industry practice. However, we cannot guarantee that insurance will be adequate to cover all liabilities we may incur. We also may not be able to maintain insurance in the future at levels we believe are necessary and at rates we consider reasonable. We may be named as a defendant in product liability or other lawsuits asserting potentially large claims if an accident occurs at a location where our equipment and services have been used.

ENVIRONMENTAL COMPLIANCE COSTS AND LIABILITIES COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION.

Our operations and properties are subject to increasingly stringent domestic and foreign laws and regulations relating to environmental protection, including laws and regulations governing air emissions, water discharges, waste management and workplace safety. Under such laws and regulations, we can be subject to substantial fines and sanctions for violations and be required to install costly pollution control equipment or effect operational changes to

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limit pollution emissions and/or decrease the likelihood of accidental hazardous substance releases. We must conform our operations and properties to these domestic and foreign laws and regulations.

We use and generate hazardous substances and wastes in our manufacturing operations. In addition, many of our current and former properties are or have been used for industrial purposes. We have been identified as a potentially responsible party with respect to several sites designated for cleanup under federal "Superfund" or similar state laws. We have an accrued liability on our balance sheet reflecting costs which are probable and estimable for our projected financial obligations relating to these matters. If we have underestimated our remaining financial obligations, we may face greater exposure that could have an adverse effect on our financial condition, results of operations or liquidity. Stringent fines and penalties may be imposed for non-compliance with regulatory requirements relating to environmental matters, and many environmental laws impose joint and several liability for remediation for cleanup of certain waste sites and for related natural resource damages.

We have experienced, and expect to continue to experience, operating costs to comply with environmental laws and regulations. In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination, or the imposition of new clean-up requirements could require us to incur costs or become the basis for new or increased liabilities that could have a material adverse effect on our business, financial condition, results of operations or liquidity.

OUR SUCCESS DEPENDS ON OUR EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL.

Our future success depends to a significant degree on the skills, experience and efforts of our executive officers and other key personnel. The loss of the services of any of our executive officers, particularly our Chairman, President and Chief Executive Officer, Ross J. Centanni, could have an adverse impact on us. None of our executive officers has an employment agreement with us. However, we have a common stock ownership requirement and provide certain benefits for our executive officers, including change in control agreements, which provide incentives for them to make a long-term commitment to us. Our future success will also depend on our ability to attract and retain qualified personnel and a failure to attract and retain new qualified personnel could have an adverse effect on our operations.

OUR BUSINESS COULD SUFFER IF WE EXPERIENCE EMPLOYEE WORK STOPPAGES OR OTHER LABOR DIFFICULTIES.

We have approximately 3,800 full-time employees. More than half of our employees, including most of our employees outside of the United States, are represented by labor unions. Although we do not anticipate future work stoppages by our union employees, there can be no assurance that work stoppages will not occur.

Although we believe that our relations with our employees are good and we have not experienced any recent strikes or work stoppages, we cannot assure you that we will be successful in negotiating new collective bargaining agreements, that such negotiations will not result in significant increases in the cost of labor or that a breakdown in such negotiations will not result in the disruption of our operations. If any of the

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preceding were to occur, it could impair our ability to manufacture our products and result in increased costs and/or decreased operating results.

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THE RESTRICTIVE COVENANTS IN OUR EXISTING CREDIT FACILITY, OUR AMENDED AND RESTATED CREDIT FACILITY AND THE INDENTURE GOVERNING THE NEW NOTES AND ANY OF OUR FUTURE INDEBTEDNESS COULD ADVERSELY RESTRICT OUR FINANCIAL AND OPERATING FLEXIBILITY AND SUBJECT US TO OTHER RISKS.

Our existing credit facility, our amended and restated credit facility and the indenture governing the new notes contain affirmative and negative covenants that limit our and our subsidiaries' ability to take certain actions. These agreements require or will require us to maintain specified financial ratios and satisfy other financial conditions. These agreements also restrict or will restrict, among other things, our and our subsidiaries' ability to:

- incur additional debt;
- pay dividends or make other distributions or repurchase our capital stock or subordinated debt;
- make certain investments;
- create liens;
- enter into certain types of transactions with affiliates;
- restrict dividend or other payments by our restricted subsidiaries to us;
- use assets as security in other transactions; and
- sell certain assets or merge with or into other companies.

These restrictions may limit our ability to operate our businesses and may prohibit or limit our ability to enhance our operations or take advantage of potential business opportunities as they arise. The breach of any of these covenants by us or the failure by us to meet any of these conditions could result in a default under any or all of such indebtedness. Our ability to continue to comply with such agreements may be affected by events beyond our control, including prevailing economic, financial and industry conditions. In addition, upon the occurrence of an event of default under our debt agreements, all of such amounts outstanding, together with accrued interest, could become immediately due and payable.

THIRD PARTIES MAY INFRINGE UPON OUR INTELLECTUAL PROPERTY AND WE MAY EXPEND SIGNIFICANT RESOURCES ENFORCING OUR RIGHTS OR SUFFER COMPETITIVE INJURY.

Our success depends in part on our proprietary technology. We rely on a combination of patents, copyrights, trademarks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. We may be required to spend significant resources to monitor and police our intellectual property rights. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our operating results.

OUR PENSION AND OTHER POSTRETIREMENT BENEFIT OBLIGATIONS AND EXPENSE (OR INCOME) ARE DEPENDENT UPON ASSUMPTIONS USED IN CALCULATING SUCH AMOUNTS AND ACTUAL RESULTS OF INVESTMENT ACTIVITY.

Pension and other postretirement benefit obligations and expense (or income) are dependent on assumptions used in calculating such amounts and actual results of investment activity. These assumptions include discount rate, rate of compensation increases, expected return on plan assets and expected healthcare trend rates. While we believe that the assumptions are appropriate, differences in actual experience or future changes in assumptions may affect our



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obligations, future expense and funding requirements.

A SIGNIFICANT PORTION OF OUR ASSETS CONSISTS OF GOODWILL AND OTHER INTANGIBLE ASSETS, THE VALUE OF WHICH MAY BE REDUCED IF WE DETERMINE THAT THOSE ASSETS ARE IMPAIRED.

As of December 31, 2004, goodwill and other intangible assets represented approximately \$484.3 million, or 47% of our total assets. Upon completion of the Thomas Industries acquisition, we estimate that we will increase our goodwill and other intangible assets by \$322.5 million. Goodwill is generated in an

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acquisition when the cost of such acquisition exceeds the fair value of the net tangible and identifiable intangible assets we acquire. Goodwill is no longer amortized under generally accepted accounting principles as a result of SFAS No. 142. Instead, goodwill and certain other identifiable intangible assets are subject to impairment analyses at least annually. We could be required to recognize reductions in our net income caused by the impairment of goodwill and other intangibles, that, if significant, could materially and adversely affect our results of operations.

### RISKS RELATED TO THE OFFERING

OUR STOCK PRICE HAS BEEN, AND MAY CONTINUE TO BE, VOLATILE, WHICH COULD RESULT IN SUBSTANTIAL LOSSES FOR INVESTORS PURCHASING SHARES IN THIS OFFERING.

The trading price of our common stock has fluctuated, ranging between \$24.55 and \$43.13 per share over the 52 weeks preceding the date of this prospectus supplement. The overall market and the price of our common stock may continue to be volatile. The trading price of our common stock may be significantly affected by various factors, including:

- general economic and market conditions;
- variations in our quarter-to-quarter operating results;
- changes in investors' and analysts' perceptions of the business risks and conditions of our business;
- the expiration of the lock-up period referred to under "Underwriting" (90 days after the offering); and
- the limited public float of our common stock.

In addition, there can be no assurance that the issuance of shares in this offering and in potential future offerings will not have an adverse effect on the trading price of our common stock.

VARIOUS RESTRICTIONS IN OUR GOVERNING DOCUMENTS AND DELAWARE LAW COULD HINDER A TAKEOVER THAT IS NOT SUPPORTED BY OUR BOARD OF DIRECTORS.

Certain provisions in our corporate documents and Delaware law could delay or prevent a change in control. Our Certificate of Incorporation and By-Laws contain provisions that may make it difficult to acquire control of us, including provisions: regulating the ability of our stockholders to bring matters for action at annual meetings; prohibiting the stockholders from acting by written consent; authorizing the Board of Directors to issue and set the terms of preferred stock; and creating a Board of Directors comprised of three classes of directors with staggered terms. We also have a rights plan in place that would cause extreme dilution to any person or group which attempts to

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acquire a significant interest in us without advance approval of the Board of Directors. In addition, Section 203 of the Delaware General Corporation law imposes restrictions on mergers and other business combinations between us and any holder of 15% or more of our common stock.

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### USE OF PROCEEDS

The net proceeds to us from this offering are estimated to be approximately \$191.1 million after deducting the underwriting discount and commissions and offering expenses payable by us. If the underwriters' option to purchase 750,000 additional shares in this offering is exercised in full, we estimate our net proceeds will be approximately \$219.8 million. We expect to use the net proceeds from this offering, along with the proceeds from the concurrent notes offering, borrowings under our amended and restated credit facility and available cash, to finance our acquisition of Thomas Industries, repay approximately \$8.7 million of our revolver debt and approximately \$26.9 million of our other long term debt and pay related fees and expenses. See the sources and uses table in "Unaudited Pro Forma Consolidated Financial Statements - Thomas Industries Acquisition Financing." The debt to be repaid has a weighted average interest rate of 5.25% and a weighted average maturity of November 2006.

Pending the application of the net proceeds, we expect to repay all amounts outstanding under our revolving credit facility and to invest in short term, interest-bearing securities. If the Thomas Industries acquisition is not consummated, we expect to use the net proceeds from this offering to repay all amounts outstanding under our revolving credit facility and a portion of our term loan.

### PRICE RANGE OF COMMON STOCK

Our common stock is traded on the New York Stock Exchange under the trading symbol "GDI". The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the New York Stock Exchange.

	HIGH	LOW
	-----	-----
FISCAL YEAR ENDED DECEMBER 31, 2003		
First Quarter.....	\$ 20.44	\$ 16.35
Second Quarter.....	\$ 20.80	\$ 18.10
Third Quarter.....	\$ 25.10	\$ 20.05
Fourth Quarter.....	\$ 24.99	\$ 19.95
FISCAL YEAR ENDED DECEMBER 31, 2004		
First Quarter.....	\$ 30.30	\$ 23.75
Second Quarter.....	\$ 28.96	\$ 24.55
Third Quarter.....	\$ 28.53	\$ 25.36
Fourth Quarter.....	\$ 37.95	\$ 27.15
FISCAL YEAR ENDED DECEMBER 31, 2005		
First Quarter.....	\$ 43.13	\$ 33.97
Second Quarter (through April 13, 2005).....	\$ 41.95	\$ 38.13

On April 13, 2005, the last reported sale price of our common stock on the New York Stock Exchange was \$40.12. As of April 13, 2005 there were approximately 7,757 stockholders of record of our common stock.

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## DIVIDEND POLICY

We have not paid a dividend on our common stock since our spin-off from Cooper Industries, Inc. in 1994. We plan to retain all net earnings for debt service and capital accumulation and reinvestment. We do not plan to pay dividends on our common stock for the foreseeable future. Our Board of Directors has sole discretion over the declaration and payment of future dividends. Any future dividends will depend upon our profitability, financial condition, cash requirements, future prospects, general business conditions, legal and contractual restrictions on the payment of dividends and other factors our Board of Directors believes are relevant. Our debt instruments contain restrictions on the payment of cash dividends.

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## CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term debt, long-term debt and stockholders' equity as of December 31, 2004: (1) on an actual basis, (2) as adjusted to give effect to this offering and the application of the estimated net proceeds from this offering to repay indebtedness and (3) on a pro forma basis to give effect to this offering, the Thomas Industries acquisition and the related financing transactions. You should read this information in conjunction with the information under "Selected Consolidated Financial Information of Gardner Denver," "Unaudited Pro Forma Consolidated Financial Statements," "Management's Discussion and Analysis of Financial Conditions and Results of Operations" and our consolidated financial statements and related notes beginning on page F-1.

	DECEMBER 31, 2004		
	ACTUAL	AS ADJUSTED UNAUDITED (1)	PRO FORMA UNAUDITED (2)
	(in thousands except share data)		
Cash and equivalents.....	\$ 64,601	\$ 64,601	\$ 92,500
Short-term borrowings.....	\$ 12,627	\$ 12,627	\$ 1,729
Current maturities of long-term debt.....	\$ 20,322	\$ 20,322	\$ 14,718
Long-term debt:			
Credit line, due 2009.....	113,635	--	104,961
Term loan, due 2009.....	138,750	61,312	138,750
Term loan, due 2010.....	--	--	230,000
Senior Subordinated Notes, due 2013.....	--	--	125,000
Other long-term debt.....	27,871	27,871	27,022
Total long-term debt.....	\$280,256	\$ 89,183	\$ 625,733
Stockholders' equity:			
Common stock (shares authorized: 50,000,000, par value \$0.01; shares issued: 19,947,570 actual; 24,947,570 as adjusted and pro forma).....	217	267	267
Capital in excess of par value.....	262,091	453,114	453,114
Retained earnings.....	139,430	139,430	139,430
Accumulated other comprehensive income.....	30,185	30,185	30,185
Treasury stock at cost.....	(26,447)	(26,447)	(26,447)

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Total stockholders' equity.....	405,476	596,549	596,549
	-----	-----	-----
Total capitalization.....	\$718,681	\$718,681	\$1,238,729
	=====	=====	=====

- (1) Our intention is to use the net proceeds from this offering to finance a portion of the acquisition of Thomas Industries. However, if we are unable to consummate the acquisition of Thomas Industries, we will use the net proceeds from this offering to repay all amounts outstanding under our revolving credit facility and a portion of our term loan as presented above under the title "As Adjusted Unaudited."
- (2) Information presented under the title "Pro Forma Unaudited" assumes that the acquisition of Thomas Industries is consummated. However, the Thomas Industries acquisition is subject to a number of closing conditions and may not be consummated. See "Risk Factors - Risks Related to the Thomas Industries Acquisition."

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The number of shares of our common stock to be outstanding after this offering is based on our shares outstanding as of March 31, 2005, as adjusted for the 5,000,000 shares offered by this prospectus supplement. It excludes:

- Up to 750,000 shares issuable by us if the underwriters exercise their over-allotment option in full;
- 2,351,962 shares reserved for issuance under our existing stock incentive plans, including 1,578,649 shares issuable upon exercise of options outstanding as of March 31, 2005 at a weighted average exercise price of \$23.11 per share;
- 445,055 shares reserved for issuance under our employee stock purchase plan; and
- 241,218 shares reserved for issuance under our retirement savings plan.

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### UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

#### GENERAL DESCRIPTION

The following unaudited pro forma consolidated financial statements are based on our audited historical consolidated financial statements and the audited historical consolidated financial statements of Thomas Industries, each included in this prospectus supplement, adjusted to give effect to the Nash Elmo acquisition, this offering, the Thomas Industries acquisition and the related financing transactions. The unaudited pro forma consolidated statement of operations for the year ended December 31, 2004 gives effect to the Nash Elmo acquisition, this offering, the Thomas Industries acquisition and the related financing transactions as if each had occurred on January 1, 2004. The unaudited pro forma consolidated balance sheet as of December 31, 2004 gives effect to this offering, the Thomas Industries acquisition and the related financing transactions as if each had occurred on December 31, 2004.

#### THOMAS INDUSTRIES ACQUISITION FINANCING

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We intend to use the proceeds from this offering, a concurrent notes offering, borrowings under our amended and restated credit facility and available cash to fund our acquisition of Thomas Industries, to repay a portion of our outstanding indebtedness and to pay related fees and expenses. Our plan to finance the acquisition of Thomas Industries, and to refinance approximately \$35.6 million of our debt, is outlined in the sources and uses table below:

SOURCES -----		USES -----	
(dollars in millions)			
Available cash at Gardner Denver.....	\$ 20.0	Merger consideration.....	\$734.2
Available cash at Thomas Industries(1).....	219.2	Repay existing Gardner Denver debt(2).....	35.6
New term loan.....	230.0	Fees and expenses.....	25.0
		-----	
New senior subordinated notes.....	125.0		
This offering(3).....	200.6		
	-----		
Total.....	\$ 794.8	Total.....	\$794.8
	=====		=====

Note: Assumes our existing \$375 million credit facility is successfully amended and restated and will not need to be refinanced.

- (1) Represents the estimated immediately available amount of Thomas Industries' total cash and short-term investments.
- (2) Includes repayment of \$8.7 million of our revolver debt and repayment of \$26.9 million of our other long-term debt.
- (3) Does not assume exercise of over-allotment option. If over-allotment option is exercised an additional \$28.7 million of our revolver debt would be repaid.

Concurrent with this offering, we are offering \$125.0 million aggregate principal amount of Senior Subordinated Notes due 2013 in a private placement. The notes will not be registered under the Securities Act and may not be offered or sold in the United States absent registration or an exemption from the registration requirements. The notes will be unconditionally guaranteed, jointly and severally, by certain of our current and future domestic subsidiaries. The gross proceeds from the notes offering will be placed into escrow, together with an amount in cash, cash equivalents or treasury securities, so that the escrowed funds will be sufficient to pay the special mandatory redemption price described below for the notes, when and if due. The notes are subject to a special redemption on or before January 2, 2006, at a redemption price equal to their price of issuance, plus accrued interest and accretion of any discount to the date of redemption, in the event that the Thomas Industries acquisition is not consummated by December 31, 2005. The proceeds from the notes offering will be released from escrow upon consummation of the Thomas Industries acquisition.

As of December 31, 2004, our existing credit facility consisted of a \$225.0 million revolving credit facility and a \$148.1 million term loan. We expect to enter into an amendment and restatement of this facility which will become effective upon the consummation of the Thomas Industries acquisition. The amended and restated facility is expected to provide an additional \$230.0 million term loan, the proceeds of which will be

used as described above. The effectiveness of the amendment and restatement is subject to the consummation of the Thomas Industries acquisition, receipt of sufficient proceeds from this offering and our concurrent notes offering and other customary closing conditions.

The acquisition of Thomas Industries is not contingent upon completion of this offering, the concurrent notes offering or the amendment and restatement of our credit facility. We have received a financing commitment letter jointly issued by affiliates of Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. to ensure availability of funding, subject to customary conditions. A number of material conditions must still be satisfied before we can effect the acquisition of Thomas Industries and, as discussed in "Risk Factors," the satisfaction of many of these conditions is outside of our control. While we plan to finance the acquisition as outlined in the sources and uses table above, we may alter our plans depending on market conditions or other factors. Pending the closing of the acquisition of Thomas Industries, net proceeds from this offering will be used to repay a portion of our existing indebtedness. See "Use of Proceeds."

#### THOMAS INDUSTRIES HISTORICAL FINANCIAL STATEMENTS

The historical consolidated financial statements of Thomas Industries included in the unaudited pro forma consolidated financial statements are based on Thomas Industries' audited consolidated financial statements as of, and for the twelve-month period ended, December 31, 2004.

The Genlyte Group Incorporated, or "Genlyte," and Thomas Industries formed Genlyte Thomas Group LLC, or "GTG," on August 31, 1998. Effective with Thomas Industries' investment in GTG, their interest in GTG was accounted for using the equity method of accounting. Effective with the close of business on July 31, 2004, Thomas Industries sold its 32% interest in GTG to Genlyte for approximately \$400.9 million. The historical consolidated statement of operations of Thomas Industries for the year ended December 31, 2004 includes equity income from GTG for the seven months ended July 31, 2004 of \$18.6 million and a pretax gain of \$160.4 million from the sale of its interest in GTG.

#### PRO FORMA ADJUSTMENTS

The unaudited pro forma consolidated financial statements reflect pro forma adjustments that are described in the accompanying notes and are based on available information and certain assumptions we believe are reasonable but are subject to change. In our opinion, all adjustments that are necessary to fairly present the pro forma information have been made pursuant to Article 11 of Regulation S-X. The unaudited pro forma consolidated financial statements do not purport to represent what our results of operations or financial position would actually have been if this offering, the Thomas Industries acquisition and the related financing transactions had occurred on such dates or to project our results of operations or financial position for any future date or period.

The unaudited pro forma consolidated financial statements reflect our preliminary estimates of the allocation of the purchase price for the Thomas Industries acquisition and are subject to change. The unaudited pro forma consolidated financial statements do not reflect any operating efficiencies and cost savings that we may achieve with respect to the combined entities nor any expense associated with achieving these benefits.

As required by Article 11 of Regulation S-X, the Unaudited Pro Forma Consolidated Statement of Operations includes equity income from GTG, as well as a gain from the sale of Thomas Industries' interest in GTG. In total, the Unaudited Pro Forma Consolidated Statement of Operations includes approximately

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\$177.0 million of pretax income, \$95.1 million of net income and \$3.90 of diluted earnings per share from the effects of GTG. Thus, the pro forma results are not indicative of future results of operations of Thomas Industries or the combined businesses of Gardner Denver, Nash Elmo and Thomas Industries. Absent the effects of GTG, we would have had \$1.76 of pro forma diluted earnings per share. For information that excludes the effects of GTG, see Note (F) in the Unaudited Pro Forma Consolidated Statement of Operations.

### OTHER RELATED INFORMATION IN THIS PROSPECTUS SUPPLEMENT

You should read the following unaudited pro forma consolidated financial statements in conjunction with our historical audited consolidated financial statements and the related notes, Thomas Industries' historical

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audited consolidated financial statements and the related notes, "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus supplement.

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### UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2004  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	GARDNER DENVER HISTORICAL	NASH ELMO HISTORICAL FOR EIGHT MONTHS ENDED AUGUST 31, 2004	NASH ELMO PRO FORMA ADJUSTMENTS	PRO FORMA GARDNER DENVER AND NASH ELMO
	-----	-----	-----	-----
Revenues.....	\$739,539	\$156,317	\$ --	\$895,856
Costs and expenses				
Cost of sales.....	498,435 (A)	97,066	--	595,501
Depreciation and amortization.....	21,901	4,817	2,000 (B)	28,718
Selling and administrative expenses.....	157,453	40,952	--	198,405
Interest expense.....	10,102	3,160	2,918 (C)	16,180
Other income, net.....	(638)	(63)	--	(701)
	-----	-----	-----	-----
Total costs and expenses.....	687,253	145,932	4,918	838,103
Equity income from GTG.....	--	--	--	--
Gain on sale of GTG.....	--	--	--	--
	-----	-----	-----	-----
Income before income taxes...	52,286	10,385	(4,918)	57,753
Provision for income taxes...	15,163	3,028	(865) (D)	17,326
	-----	-----	-----	-----
Net income.....	\$ 37,123	\$ 7,357	\$ (4,053)	\$ 40,427
	=====	=====	=====	=====
Basic earnings per share.....	\$ 1.96			\$ 2.13
	=====			=====
Diluted earnings per share...	\$ 1.92			\$ 2.09
	=====			=====
Basic weighted average number of shares outstanding.....	18,955			18,955

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	=====	=====
Diluted weighted average		
number of shares		
outstanding.....	19,377	19,377
	=====	=====

	THOMAS INDUSTRIES HISTORICAL (F)	THOMAS INDUSTRIES ACQ. AND RELATED FINANCING PRO FORMA ADJUSTMENTS	PRO FORMA GARDNER DENVER, NASH ELMO, THOMAS INDUSTRIES AND RELATED FINANCING (F)
	-----	-----	-----
Revenues.....	\$410,114	\$ --	\$1,305,970
Costs and expenses			
Cost of sales.....	252,768	--	848,269
Depreciation and amortization.....	16,340	5,357 (G)	50,415
Selling and administrative expenses.....	111,274	--	309,679
Interest expense.....	2,691	27,568 (H)	38,482
Other income, net.....	(1,611)	--	(2,312)
	-----	-----	-----
Total costs and expenses....	381,462	32,925	1,244,533
Equity income from GTG.....	18,608	--	18,608
Gain on sale of GTG.....	160,410	--	160,410
	-----	-----	-----
Income before income taxes...	207,670	(32,925)	240,455
Provision for income taxes...	93,516	(10,700) (I)	102,529
	-----	-----	-----
Net income.....	\$114,154	\$ (22,225)	\$ 137,926
	=====	=====	=====
Basic earnings per share.....			\$ 5.76
			=====
Diluted earnings per share...			\$ 5.66
			=====
Basic weighted average number of shares outstanding.....			23,955
			=====
Diluted weighted average number of shares outstanding.....			24,377
			=====

NOTE: THE ABOVE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS INCLUDES EQUITY INCOME FROM THOMAS INDUSTRIES' 32% INVESTMENT IN GTG. GENLYTE AND THOMAS INDUSTRIES FORMED GTG ON AUGUST 30, 1998. EFFECTIVE WITH THOMAS INDUSTRIES' INVESTMENT IN GTG, ITS INTEREST IN GTG WAS ACCOUNTED FOR USING THE EQUITY METHOD OF ACCOUNTING. EFFECTIVE WITH THE CLOSE OF BUSINESS ON JULY 31, 2004, THOMAS INDUSTRIES SOLD ITS 32% INTEREST IN GTG TO GENLYTE FOR APPROXIMATELY \$400,900. AS REQUIRED BY ARTICLE 11 OF REGULATION S-X, THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS INCLUDES EQUITY INCOME FROM GTG, AS WELL AS A GAIN FROM THE SALE OF THOMAS INDUSTRIES' INTEREST IN GTG. IN TOTAL, THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS INCLUDES \$176,954 OF PRETAX INCOME, \$95,063 OF NET INCOME AND \$3.90 OF DILUTED EARNINGS PER SHARE FROM THE EFFECTS OF GTG. FOR INFORMATION THAT



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EXCLUDES THE EFFECTS OF GTG, SEE NOTE (F) BELOW.

See accompanying notes to unaudited pro forma consolidated financial statements

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### UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2004  
(IN THOUSANDS)

	GARDNER DENVER HISTORICAL	ADJUSTMENTS FOR THE OFFERING	GARDNER DENVER AS ADJUSTED	THOMAS INDUSTRIES HISTORICAL	THOMAS INDU ACQ RE FIN PRO ADJU
	-----	-----	-----	-----	-----
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and equivalents.....	\$ 64,601	\$ --	\$ 64,601	\$133,472	\$ (1
Short-term investments.....	--	--	--	133,627	(1
Receivables, net.....	163,927	--	163,927	58,305	
Inventories, net.....	138,386	--	138,386	75,207	
	-----	-----	-----	-----	-----
Deferred income taxes.....	9,465	--	9,465	5,101	
Other current assets.....	9,143	--	9,143	7,514	
	-----	-----	-----	-----	-----
Total current assets.....	385,522	--	385,522	413,226	(2
	-----	-----	-----	-----	-----
Property, plant and equipment, net.....	148,819	--	148,819	114,868	
Goodwill.....	374,159	--	374,159	68,639	1
Other intangibles, net.....	110,173	--	110,173	22,659	1
	-----	-----	-----	-----	-----
Other assets.....	9,936	--	9,936	2,544	(
	-----	-----	-----	-----	-----
Total assets.....	\$1,028,609	\$ --	\$ 1,028,609	\$621,936	\$
	=====	=====	=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Current liabilities</b>					
Short-term borrowings and current maturities of long-term debt.....	\$ 32,949	\$ --	\$ 32,949	\$ 1,797	\$ (
Accounts payable and accrued liabilities.....	206,069	--	206,069	53,961	
Dividends payable.....	--	--	--	1,689	
	-----	-----	-----	-----	-----
Total current liabilities.....	239,018	--	239,018	57,447	(
	-----	-----	-----	-----	-----
Long-term debt, less current maturities.....	280,256	(191,073) (J)	89,183	7,751	5
Postretirement benefits other than pensions.....	30,503	--	30,503	--	

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Deferred income taxes.....	21,324	--	21,324	8,978	
Other liabilities.....	52,032	--	52,032	20,827	
	-----	-----	-----	-----	-----
Total liabilities.....	623,133	(191,073)	432,060	95,003	5
	-----	-----	-----	-----	-----
Total stockholders' equity.....	405,476	191,073 (J)	596,549	526,933	(5)
	-----	-----	-----	-----	-----
Total liabilities and stockholders' equity.....	\$1,028,609	\$ --	\$ 1,028,609	\$621,936	\$
	=====	=====	=====	=====	=====

See accompanying notes to unaudited pro forma consolidated financial statements  
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NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

- (A) Includes a \$3,735 non-recurring unfavorable impact related to recording the acquired inventory of Syltone and Nash Elmo at fair value.
- (B) Reflects the change in Nash Elmo's depreciation and amortization expense due to the depreciation of the step-up in its property, plant and equipment to estimated fair value over estimated average useful lives ranging from 3 to 25 years, and the amortization of the separately identifiable intangible assets with finite lives at estimated fair values over estimated useful lives ranging from 5 to 20 years. This adjustment is based on our estimated allocation of the purchase price for the Nash Elmo acquisition. We will base the final allocation on appraisals that have not yet been completed.
- (C) Reflects the following interest expense on the incremental borrowings necessary to finance the Nash Elmo acquisition:

Interest on the incremental credit line borrowing (\$117,480 at 3.75%).....	\$ 2,937
Interest on the incremental term loan borrowing (\$108,750 at 3.75%).....	2,719
Incremental interest on our previously existing borrowings due to an increase in rates on borrowings and commitments resulting from the increased leverage from the Nash Elmo acquisition.....	213
Net impact on amortization of debt issue costs related to the financing for the Nash Elmo acquisition.....	(117)
Elimination of historical interest expense on Nash Elmo's debt repaid in conjunction with the Nash Elmo acquisition.....	(2,834)
	-----
Total interest expense adjustment.....	\$ 2,918
	=====

For purposes of determining the adjustment for the credit line and the term loan borrowings, the applicable LIBOR rate plus the applicable margin per our credit agreement was used.

- (D) Reflects the income tax effects of the pro forma adjustments to provide

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for the combined effective income tax rate for Gardner Denver and Nash Elmo of 30.0%.

- (E) Reflects the reduction in interest expense assuming net proceeds from the stock offering of \$191,073 were used to pay down debt:

Interest on paid down credit line borrowing (\$113,635 at 3.85%).....	\$ (4,375)
Interest on paid down term loan borrowing (\$77,438 at 3.85%).....	(2,981)
Interest on remaining borrowings due to decreased leverage from stock offering.....	(843)
Net impact on amortization of debt issue costs related to debt retired.....	242
	-----
	\$ (7,957)
	=====

For purposes of determining the adjustment to interest expense for the credit line and term loan borrowings, the applicable LIBOR rate plus the applicable margin per our credit agreement was used.

- (F) As noted above, effective with the close of business on July 31, 2004, Thomas Industries sold its 32% interest in GTG to Genlyte for approximately \$400,900. The information set forth below adjusts the information presented under the title "Pro Forma Gardner Denver, Nash Elmo, Thomas Industries and Related Financing" to exclude the effects of GTG, assuming Thomas Industries had sold its interest in GTG at the beginning of the period presented and used a portion of the net proceeds from the sale to repay all of Thomas Industries' existing debt, other than its capitalized lease obligations.

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	YEAR ENDED DECEMBER 31	
	PRO FORMA GARDNER DENVER, NASH ELMO, THOMAS INDUSTRIES AND RELATED FINANCING	ADJUSTMENTS
	(in thousands, except per sh	
Revenues.....	\$1,305,970	--
Costs and expenses		
Cost of sales.....	848,269	--
Depreciation and amortization.....	50,415	--
Selling and administrative expenses.....	309,679	(353) (1)
Interest expense.....	38,482	(1,711) (2)
Other income, net.....	(2,312)	--
	-----	-----

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Total costs and expenses.....	1,244,533	(2,064)
Equity income from GTG.....	18,608	(18,608) (3)
Gain on sale of GTG.....	160,410	(160,410) (4)
	-----	-----
Income before income taxes.....	240,455	(176,954)
Provision for income taxes.....	102,529	(81,891) (5)
	-----	-----
Net income.....	\$ 137,926	\$ (95,063)
	=====	=====
Basic earnings per share.....	\$ 5.76	
	=====	
Diluted earnings per share.....	\$ 5.66	
	=====	
Basic weighted average number of shares outstanding....	23,955	
	=====	
Diluted weighted average number of shares outstanding.....	24,377	
	=====	

- (1) The adjustment reflects the reduced bank fees and deferred loan amortization due to applying a portion of the proceeds from the sale of Thomas Industries' interest in GTG to pay down previously existing bank debt, except capitalized lease obligations, as of the beginning of the period.
- (2) The adjustment reflects the reduced interest expense due to applying a portion of the proceeds from the sale of Thomas Industries' interest in GTG to pay down debt as of the beginning of the period.
- (3) The adjustment reflects the elimination of Thomas Industries' equity income from GTG due to the sale of GTG as of the beginning of the period.
- (4) The adjustment reflects the elimination of the pretax gain on sale of Thomas Industries' interest in GTG as of the beginning of the period.
- (5) The adjustment reflects the income tax effects of adjustments (1), (2), (3) and (4) based on an overall effective tax rate to 32.5% without the impact of the gain on Thomas Industries' sale of its interest in GTG or its equity income prior to the sale.

Financial information for Thomas Industries includes \$5,245 of non-recurring charges related to plant shutdown, legal and environmental costs.

- (G) Reflects the change in Thomas Industries' depreciation and amortization expense due to the depreciation of the step-up in property, plant and equipment to the estimated fair value over estimated average useful lives ranging from 3 to 25 years, and the amortization of the separately identifiable intangible assets with finite lives at estimated fair values over estimated useful lives ranging from 5 to 20 years. This adjustment is based on our estimated allocation of the purchase price for the Thomas Industries acquisition. We will base the final allocation on appraisals that have not yet been completed.

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- (H) Reflects the following interest expense on the estimated incremental

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borrowings necessary to finance the Thomas Industries acquisition (as discussed above under "- Thomas Industries Acquisition and Related Financing").

Reversal of interest savings noted in footnote (E) above to reflect the paydown of such debt.....	\$ 7,957
Interest on the new senior subordinated notes and term loan borrowings (\$355,000 at 5.10%).....	18,095
Incremental interest on our previously existing borrowings due to an increase in rates on borrowings and commitments resulting from the increased leverage from the Thomas Industries acquisition.....	939
Elimination of historical interest expense on other borrowings to be repaid (\$35,573 at 5.25%).....	(1,868)
Net impact on amortization of debt issue costs related to the financing for the Thomas Industries acquisition.....	1,171
Prepayment penalty on other borrowings to be repaid.....	1,274
	-----
Total interest expense adjustment.....	\$27,568
	=====

The prepayment penalty on other borrowings to be repaid of \$1,274 was based upon interest rates in effect as of January 1, 2004. Based upon interest rates in effect at the time of this offering and principal currently outstanding, the actual prepayment penalty is expected to be approximately \$324.

- (I) Reflects the income tax effects of the pro forma adjustments to provide for the combined effective income tax rate for Gardner Denver, Nash Elmo and Thomas Industries (excluding the effect of GTG) of 32.5%.
- (J) Reflects the issuance of 5,000,000 shares of common stock, par value \$0.01 per share at \$40.12 per share less direct costs associated with the offering of \$9,527. These net proceeds will be used to pay down the existing credit line (\$113,635) and a portion of the existing term loan (\$77,438).
- (K) Reflects the following estimated sources and uses of cash, purchase price allocation and net fair value adjustments to Thomas' assets and liabilities including goodwill:

Sources and uses of cash:

Consideration to be paid at closing for the shares of Thomas Industries.....	\$ 734,200
Cash to be paid for estimated direct acquisition costs, including financial advisory, legal, accounting, auditing and other costs.....	8,500
	-----
Aggregate purchase price.....	\$ 742,700
	=====
Available cash at Gardner Denver.....	20,000
Available cash and short-term investments at Thomas Industries.....	219,200
	-----
Total existing cash used for the acquisition.....	\$ 239,200
	=====
Borrowings available under existing credit line.....	113,635

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Borrowings available under existing term loan.....	77,438
Borrowings available under new term loan.....	230,000
Borrowings available under new senior subordinated notes....	125,000
Existing Gardner Denver debt to be repaid.....	(35,573)
	-----
Total new borrowings.....	510,500
Less estimated debt issuance costs related to new borrowings.....	(7,000) (N)
	-----
Net borrowings directly related to the acquisition purchase price.....	\$ 503,500
	=====

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Estimated purchase price allocation:	
Aggregate purchase price.....	\$ 742,700
Book value of Thomas Industries' net assets.....	(526,933)
Capitalized estimated manufacturing profit in inventory acquired.....	(3,192) (L)
Elimination of LIFO reserve.....	(4,957)
Step-up in property, plant and equipment to fair value.....	(25,791) (M)
Elimination of Thomas Industries' historical intangible assets (other than goodwill).....	22,659
Separately identifiable intangible assets (other than goodwill).....	(108,000)
Adjustment of pension liabilities (equal to excess of the projected benefit obligation over the fair value of plan assets less Thomas Industries' existing liability.....	3,500
Additional deferred tax liabilities, net (on fair value changes to assets and liabilities).....	42,857
Other asset and liability fair value adjustments, net.....	3,000
	-----
Net adjustment to goodwill.....	\$ 145,843
	=====

This reflects our preliminary estimates of the purchase price allocation for the Thomas Industries acquisition, which may change upon completion of appraisals. Further, we may identify other assets and liabilities to which a portion of the purchase price will be allocated. The purchase price allocation also does not include an accrual for any anticipated restructuring activities in connection with the Thomas Industries acquisition. We have not yet performed a detailed analysis to identify and measure additional adjustments that may be necessary to conform Thomas Industries' accounting policies with our accounting policies.

The adjusted pro forma balance of Thomas Industries' other separately identifiable intangible assets is estimated to be comprised of the following:

Other intangible assets:	
Customer lists and relationships, to be amortized over 20 years.....	\$ 50,000
Trademarks and trade names, indefinite lives.....	45,000
Technology (primarily patents and software), to be amortized	

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over 5-10 years.....	9,500
Other, to be amortized over 5 years.....	3,500
	-----
	\$108,000
	=====

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the pro forma statement of operations does not include amortization of goodwill and other intangible assets with indefinite useful lives to be acquired in the Thomas Industries acquisition.

- (L) Reflects the estimated purchase accounting adjustment for capitalization of estimated manufacturing profit in inventory to be acquired with Thomas Industries. The pro forma statement of operations does not reflect the one time adjustment on cost of sales during the period this inventory is sold.
- (M) Reflects the estimated purchase accounting adjustment to Thomas Industries' property, plant and equipment to step-up the basis to estimated fair value. This adjustment is based on the estimated allocation of the purchase price for the Thomas Industries acquisition. The final allocation of the purchase price will be based on appraisals that have not yet been completed.
- (N) Reflects the estimated additional debt issuance costs related to the new borrowings which will be capitalized and amortized through maturity.
- (O) Reflects the elimination of Thomas Industries' historical consolidated equity.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION OF GARDNER DENVER

The selected historical consolidated financial information presented below is for, and as of the end of, each of the years in the five-year period ended December 31, 2004. Our consolidated financial statements for the years ended December 31, 2002, 2003 and 2004 have been audited by KPMG LLP, an independent registered public accounting firm. Our consolidated financial statements for the years ended December 31, 2000 and 2001 have been audited by Arthur Andersen LLP, independent auditors. The consolidated financial statements as of December 31, 2003 and 2004, and for each of the years in the three-year period ended December 31, 2004, and the reports thereon, are included in this prospectus supplement.

The selected consolidated financial information should be read in conjunction with the consolidated financial statements for the years ended December 31, 2004, 2003 and 2002, the related notes, and the independent registered public accounting firm's reports.

	YEAR ENDED DECEMBER 31,				
	2000	2001	2002	2003	2004
	-----				
	(in thousands, except per share data)				
STATEMENT OF OPERATIONS DATA:					
Revenues.....	\$379,358	\$419,770	\$418,158	\$439,530	\$ 739,539
Costs and expenses					
Cost of sales.....	268,290	294,249	289,631	307,753	498,435

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Depreciation and amortization					
(1).....	15,881	17,567	14,139	14,566	21,901
Selling and administrative					
expenses.....	59,784	69,678	79,400	85,326	157,453
Interest expense.....	7,669	6,796	6,365	4,748	10,102
Other income, net.....	(2,160)	(3,203)	(204)	(3,221)	(638)
	-----	-----	-----	-----	-----
Total costs and expenses.....	349,464	385,087	389,331	409,172	687,253
	-----	-----	-----	-----	-----
Income before income taxes.....	29,894	34,683	28,827	30,358	52,286
Provision for income taxes.....	11,210	12,659	9,225	9,715	15,163
	-----	-----	-----	-----	-----
Net income.....	\$ 18,684	\$ 22,024	\$ 19,602	\$ 20,643	\$ 37,123
	=====	=====	=====	=====	=====
Basic earnings per share.....	\$ 1.22	\$ 1.42	\$ 1.24	\$ 1.29	\$ 1.96
	=====	=====	=====	=====	=====
Diluted earnings per share.....	\$ 1.21	\$ 1.40	\$ 1.22	\$ 1.27	\$ 1.92
	=====	=====	=====	=====	=====
Basic shares outstanding.....	15,300	15,553	15,854	16,061	18,955
Diluted shares outstanding.....	15,489	15,783	16,042	16,312	19,377
BALANCE SHEET DATA (AS OF END OF PERIOD):					
Total assets.....	\$403,881	\$488,688	\$478,730	\$589,733	\$1,028,609
Long-term debt, less current					
maturities.....	115,808	160,230	112,663	165,756	280,256
Total debt.....	121,589	167,605	120,163	182,631	313,205
Total liabilities.....	232,733	289,960	255,807	323,828	623,133
Stockholders' equity.....	171,148	198,728	222,923	265,905	405,476
OTHER FINANCIAL DATA:					
Gross margin (2).....	\$111,068	\$125,521	\$128,527	\$131,777	\$ 241,104
EBITDA (3).....	53,444	59,046	49,331	49,672	84,289
Capital expenditures.....	13,549	11,524	13,641	11,950	19,550
Net cash provided by operating					
activities.....	30,636	44,153	52,481	46,283	76,752
Orders (4).....	379,985	413,438	402,019	425,620	786,990

(1) As a result of adopting Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangibles Assets," periodic goodwill amortization ceased effective January 1, 2002.

(2) Gross margin consists of revenues minus cost of sales (excluding depreciation and amortization).

(3) EBITDA consists of net income before provision for income taxes, interest expense and depreciation and amortization. EBITDA is not a measurement of financial performance or liquidity determined in accordance with accounting principles generally accepted in the United States and should not be considered as an alternative to net income, net cash provided by operating activities or other consolidated income or cash flow statement data prepared in accordance with generally accepted accounting principles.

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We present EBITDA because we believe it is frequently used by analysts, investors and other interested parties in the financial evaluation of companies in our industry, and we believe it provides useful information to investors. This definition of EBITDA, however, may differ from the definition used by other companies. A reconciliation of net income to EBITDA is provided as follows:



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	YEAR ENDED DECEMBER 31,				
	2000	2001	2002	2003	2004
	(in thousands)				
Net income.....	\$18,684	\$22,024	\$19,602	\$20,643	\$37,123
Provision for income taxes...	11,210	12,659	9,225	9,715	15,163
Interest expense.....	7,669	6,796	6,365	4,748	10,102
Depreciation and amortization.....	15,881	17,567	14,139	14,566	21,901
EBITDA.....	\$53,444	\$59,046	\$49,331	\$49,672	\$84,289

(4) Orders consists of bookings we believe to be firm for which a customer purchase order has been received or communicated. Since orders can be rescheduled or canceled at any time, orders do not necessarily reflect future sales levels.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THOMAS INDUSTRIES

The selected historical consolidated financial information presented below is for, and as of the end of, each of the years in the five-year period ended December 31, 2004. Thomas Industries' consolidated financial statements for the years ended December 31, 2002, 2003 and 2004 have been audited by Ernst & Young LLP, an independent registered public accounting firm. Its consolidated financial statements for the years ended December 31, 2000 and 2001 have been audited by Arthur Andersen, LLP, independent auditors. The consolidated financial statements as of December 31, 2003 and 2004, and for each of the years in the three-year period ended December 31, 2004, and the reports thereon, are included in this prospectus supplement.

The selected consolidated financial information should be read in conjunction with the consolidated financial statements for the years ended December 31, 2004, 2003 and 2002, the related notes, and the independent registered public accounting firm's report.

	YEAR ENDED DECEMBER 31,				
	2000	2001	2002	2003	2004
	(in thousands, except per share data)				
STATEMENT OF OPERATIONS DATA:					
Net sales.....	\$188,824	\$184,382	\$240,602	\$376,774	\$410,114
Costs of products sold.....	120,835	118,625	154,904	246,832	262,654
Gross profit.....	67,989	65,757	85,698	129,942	147,460
Selling, general and administrative expenses.....	44,070	43,411	59,989	101,943	117,728
Equity income from GTG.....	24,575	24,835	28,804	32,138	18,608
Gain on sale of GTG.....	--	--	--	--	160,410

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Operating income.....	48,494	47,181	54,513	60,137	208,750
Interest expense.....	3,995	3,630	3,370	4,237	2,691
Interest income and other.....	3,799	1,489	456	312	2,335
Other income (expense).....	--	--	(434)	(533)	(724)
	-----	-----	-----	-----	-----
Income before income taxes and minority interest.....	48,298	45,040	51,165	55,679	207,670
Income taxes.....	18,213	16,870	18,452	18,340	93,516
	-----	-----	-----	-----	-----
Income before minority interest.....	30,085	28,170	32,713	37,339	114,154
Minority interest, net of tax.....	--	--	21	25	--
	-----	-----	-----	-----	-----
Net income.....	\$ 30,085	\$ 28,170	\$ 32,692	\$ 37,314	\$114,154
	=====	=====	=====	=====	=====
Net income per share - Basic.....	\$ 1.95	\$ 1.86	\$ 2.06	\$ 2.17	\$ 6.53
Net income - Diluted.....	\$ 1.91	\$ 1.80	\$ 2.00	\$ 2.12	\$ 6.44
Dividends declared per share.....	\$ 0.30	\$ 0.34	\$ 0.34	\$ 0.37	\$ 0.38
BALANCE SHEET DATA (AS OF END OF PERIOD):					
Total assets.....	\$306,112	\$306,714	\$491,016	\$573,134	\$621,936
Long-term debt, less current maturities.....	40,727	24,938	104,047	102,673	7,751
Total debt.....	48,513	32,726	114,869	115,646	9,548
Total liabilities.....	88,710	69,001	176,615	189,779	95,003
Stockholders' equity.....	217,402	237,713	314,367	383,355	526,933
OTHER FINANCIAL DATA:					
EBITDA(1).....	\$ 59,756	\$ 56,583	\$ 65,003	\$ 75,123	\$226,701
Capital expenditures.....	10,188	8,548	8,358	20,108	16,403

- (1) EBITDA consists of net income before minority interest, provision for income taxes, interest expense and depreciation and amortization. EBITDA is not a measurement of financial performance or liquidity determined in accordance with accounting principles generally accepted in the United States and should not be considered as an alternative to net income, net cash provided by operating activities or other

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consolidated income or cash flow statement data prepared in accordance with generally accepted accounting principles. We present EBITDA because we believe it is frequently used by analysts, investors and other interested parties in the financial evaluation of companies in our industry, and we believe it provides useful information to investors. This definition of EBITDA, however, may differ from the definition used by other companies. A reconciliation of net income to EBITDA is provided as follows:

	YEAR ENDED DECEMBER 31,				
	2000	2001	2002	2003	2004
	-----	-----	-----	-----	-----
	(in thousands)				
Net income.....	\$ 30,085	\$ 28,170	\$ 32,692	\$ 37,314	\$ 114,154
Minority interest, net of tax.....	--	--	21	25	--
Provision for income taxes.....	18,213	16,870	18,452	18,340	93,516
Interest expense.....	3,995	3,630	3,370	4,237	2,691
Depreciation and					

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amortization.....	7,463	7,913	10,468	15,207	16,340
	-----	-----	-----	-----	-----
EBITDA.....	\$ 59,756	\$ 56,583	\$ 65,003	\$ 75,123	\$ 226,701
	-----	-----	-----	-----	-----
Equity income from GTG.....	(24,575)	(24,835)	(28,804)	(32,138)	(18,608)
Gain on sale of GTG.....	--	--	--	--	(160,410)
Bank fees and deferred loan amortization.....	--	--	--	--	353 (a)
	-----	-----	-----	-----	-----
EBITDA excluding effects of GTG.....	\$ 35,181	\$ 31,748	\$ 36,199	\$ 42,985	\$ 48,036 (b)
	=====	=====	=====	=====	=====

(a) Resulting from Thomas Industries' repayment of debt.

(b) Includes \$5,245 of non-recurring charges related to plant shutdown, legal and environmental costs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Consolidated Financial Statements and notes thereto.

OVERVIEW

The Company believes it is one of the leading designers, manufacturers and marketers of engineered stationary air compressors, liquid ring pumps and blowers for various industrial and transportation applications and of pumps used in the petroleum and industrial markets and other fluid transfer equipment serving chemical, petroleum and food industries.

Since its spin-off from Cooper Industries, Inc. in 1994, the Company has completed 17 acquisitions, growing its revenues from approximately \$176 million to \$740 million in 2004. Of the 17 acquisitions, the two largest were completed in 2004 with the purchase of nash\_elmo Holdings, LLC ("Nash Elmo") and Syltone plc ("Syltone").

On September 1, 2004, the Company acquired Nash Elmo, a leading global manufacturer of industrial vacuum pumps. Nash Elmo is primarily split between two businesses, liquid ring pumps and side channel blowers. Both businesses' products are complementary to the Compressor and Vacuum Products segment's existing product portfolio. Nash Elmo, previously headquartered in Trumbull, CT, has primary manufacturing facilities located in Bad Neustadt and Nuremberg, Germany; Zibo, China; and Campinas, Brazil. For the year ended December 31, 2003, Nash Elmo's revenues and earnings before income taxes were \$212.4 million and \$7.8 million, respectively. Nash Elmo's largest markets are in Europe, Asia, North America and South America. Approximately 70% of Nash Elmo's revenues are generated from liquid ring pump products (including related engineered systems and aftermarket services), while the remaining 30% are derived from side channel blower products (including aftermarket services).

On January 2, 2004, the Company acquired the outstanding shares of Syltone, previously a publicly traded company listed on the London Stock Exchange. Syltone, previously headquartered in Bradford, United Kingdom ("U.K."), is one of the world's largest manufacturers of equipment used for loading and unloading liquid and dry bulk products on commercial transportation vehicles. This equipment includes compressors, blowers and other ancillary products that are

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complementary to the Company's existing product lines. Syltone is also one of the world's largest manufacturers of fluid transfer equipment (including loading arms, swivel joints, couplers and valves) used to load and unload ships, tank trucks and rail cars. For the twelve months ended September 30, 2003, Syltone generated revenues and operating profit (in accordance with accounting principles generally accepted in the U.K.) of L84.4 million and L6.3 million, respectively (approximately \$151.1 million and \$11.3 million, respectively as calculated using the December 31, 2003 exchange rate of \$1.79/L). Syltone's largest markets are Europe and North America, which represent approximately 67% and 20% of its revenues, respectively. Approximately 70% of Syltone's revenues are generated through transportation-related activities while the remaining 30% are derived from fluid transfer-related activities.

Subsequent to the acquisition of Nash Elmo and Syltone, the Company continues to be organized based upon the products and services it offers and has four operating divisions: Compressor, Blower, Liquid Ring Pump and Fluid Transfer. These divisions comprise two reportable segments, Compressor and Vacuum Products (formerly Compressed Air Products) and Fluid Transfer Products. The Compressor, Blower (which now includes the Syltone transportation-related activities and Nash Elmo's side channel blower business) and Liquid Ring Pump (consisting of Nash Elmo's liquid ring pump business) Divisions are aggregated into one reportable segment (Compressor and Vacuum Products) since the long-term financial performance of these businesses are affected by similar economic conditions, coupled with the similar nature of their products, manufacturing processes and other business characteristics. During the third quarter of 2004, the Company's former Pump and Fluid Transfer (which consisted of the Syltone fluid transfer-related activities) Divisions were combined into one division, Fluid Transfer. These two divisions were previously aggregated into one reportable segment (Fluid Transfer Products) primarily due to the same factors as noted above, and thus, there has been no change to the Fluid Transfer Products segment.

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In the Compressor and Vacuum Products segment, the Company designs, manufactures, markets and services the following products and related aftermarket parts for industrial and commercial applications: rotary screw, reciprocating, sliding vane and centrifugal compressors; positive displacement, centrifugal and side channel blowers; and liquid ring pumps and engineered systems. Stationary air compressors are used in manufacturing, process applications and materials handling, and to power air tools and equipment. Blowers are used primarily in pneumatic conveying, wastewater aeration, numerous applications in industrial manufacturing and engineered vacuum systems. Liquid ring pumps are used in many different vacuum applications and engineered systems, such as water removal, distilling, reacting, efficiency improvement, lifting and handling, and filtering, principally in the pulp and paper, industrial manufacturing, chemical and power industries. Revenues of the Compressor and Vacuum Products segment constituted 80% of total revenues in 2004.

In the Fluid Transfer Products segment, the Company designs, manufactures, markets and services a diverse group of pumps, water jetting systems and related aftermarket parts used in oil and natural gas production, well servicing and drilling and industrial cleaning and maintenance. This segment also designs, manufactures, markets and services other fluid transfer components and equipment for the chemical, petroleum and food industries. Revenues of the Fluid Transfer Products segment constituted 20% of total revenues in 2004.

The Company sells its products through independent distributors and sales representatives, and directly to original equipment manufacturers, engineering firms, packagers and end-users.

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The following table sets forth percentage relationships to revenues of certain income statement items for the years presented.

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
	-----	-----	-----
Revenues.....	100.0%	100.0%	100.0%
	-----	-----	-----
Costs and expenses			
Cost of sales.....	67.4	70.0	69.3
Depreciation and amortization.....	2.9	3.3	3.3
Selling and administrative expenses.....	21.3	19.4	19.0
Interest expense.....	1.4	1.1	1.5
Other income, net.....	(0.1)	(0.7)	--
	-----	-----	-----
Total costs and expenses.....	92.9	93.1	93.1
	-----	-----	-----
Income before income taxes.....	7.1	6.9	6.9
Provision for income taxes.....	2.1	2.2	2.2
	-----	-----	-----
Net income.....	5.0%	4.7%	4.7%
	=====	=====	=====

### RECENT DEVELOPMENTS

On March 8, 2005, the Company signed a definitive agreement to acquire Thomas Industries Inc. ("Thomas Industries"), a New York Stock Exchange listed company trading under the ticker symbol "TII." Thomas Industries is a worldwide leader in the design, manufacture and marketing of precision engineered pumps, compressors and blowers. The agreed-upon purchase price is \$40.00 per share for all outstanding shares and share equivalents (approximately \$734.2 million) and the assumption of \$9.5 million of long-term capitalized lease obligations. As of December 31, 2004, Thomas Industries had \$267.1 million in cash, cash equivalents and short-term investments. The net transaction value, including assumed debt and net of cash, is approximately \$476.6 million. See "Our Business - The Thomas Industries Acquisition."

The acquisition is expected to close in 2005 and is subject to the approval of Thomas Industries' stockholders and other customary closing conditions, including the receipt of applicable regulatory approvals.

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### YEAR ENDED DECEMBER 31, 2004, COMPARED WITH YEAR ENDED DECEMBER 31, 2003

#### REVENUES

Revenues increased \$300.0 million (68%) to \$739.5 million in 2004, compared to \$439.5 million in 2003. This increase was primarily due to acquisitions in 2004, which contributed \$247.3 million in revenues. Increased shipments of well stimulation pumps, pump parts, compressors and blowers, combined with changes in currency exchange rates and price increases, also contributed to this increase. Revenues outside the United States, as a percentage of total revenues, increased to 56% in 2004, compared to 42% in 2003, primarily due to acquisitions and volume increases in Europe, China and South Africa.

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Revenues for the Compressor and Vacuum Products segment increased \$220.4 million (60%) to \$589.4 million in 2004, compared to \$369.0 million in 2003. This increase is primarily due to acquisitions in 2004 (52%), increased volume of compressor and blower shipments in the U.S., Europe, China and South Africa (3%), changes in currency exchange rates (3%) and price increases (2%).

Fluid Transfer Products segment revenues increased \$79.7 million to \$150.2 million in 2004, compared to \$70.5 million in 2003. This 113% increase is primarily due to the acquisition of Syltone (78%), increased shipments of well stimulation pumps, water jetting systems and related aftermarket (34%) and price increases (4%). These positive factors were partially offset by a decreased volume of drilling pump shipments (3%).

### COSTS AND EXPENSES

Gross margin increased \$109.3 million (83%) to \$241.1 million in 2004, compared to \$131.8 million in 2003. Gross margin percentage increased to 32.6% in 2004, compared to 30.0% in 2003. This increase in gross margin percentage was principally attributable to the increased volume in both segments and the related positive impact of increased leverage of fixed and semi-fixed costs over a higher revenue base. Acquisitions completed in 2004 also positively impacted gross margin percentage, as their gross margin percentage (35.1%) was higher than the Company's previously existing businesses despite a non-recurring negative impact of approximately \$3.7 million stemming from recording their inventory at fair value on the respective acquisition dates. Finally, favorable sales mix also contributed to the increased gross margin as 2004 included a higher percentage of aftermarket sales compared to the prior year. These positive factors were partially offset by higher material costs due to surcharges on castings and other components stemming from increases in scrap iron and other metal prices. Higher warranty costs and some supply chain inefficiencies that affected material availability also negatively impacted gross margin.

Depreciation and amortization increased \$7.3 million to \$21.9 million in 2004, compared to \$14.6 million in 2003, primarily due to the Syltone and Nash Elmo acquisitions.

Selling and administrative expenses increased \$72.1 million (85%) to \$157.5 million in 2004, compared to \$85.3 million in 2003, primarily due to acquisitions in 2004 (\$61.9 million). Higher compensation and fringe benefit costs, professional fees and changes in currency exchange rates also contributed to this increase. As a percentage of revenues, selling and administrative expenses increased to 21.3% for 2004 from 19.4% in the prior year, primarily due to the 2004 acquisitions.

Other income, net decreased \$2.6 million in 2004 to \$0.6 million, compared to \$3.2 million in 2003. This change was primarily due to higher foreign currency transaction gains recorded in 2003. Prior year results included a \$3.2 million gain in the fourth quarter related to the appreciation of U.S. dollar borrowings, which were converted to British pounds prior to being used to consummate the Syltone acquisition. An additional \$1.2 million gain was recorded related to these borrowings in the first quarter of 2004. Prior year results also included a \$0.4 million pretax gain on the sale of an idle manufacturing facility in Syracuse, New York.

The Compressor and Vacuum Products segment generated operating earnings as a percentage of revenues of 7.9% in 2004, compared to 7.5% in 2003. 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, favorable sales

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mix and restructuring programs initiated in the fourth quarter of 2003. These positive factors were partially offset by higher material, compensation and fringe benefit and warranty costs. Operating earnings as a percentage of revenues from Compressor and Vacuum Products segment businesses that existed prior to the Nash Elmo and Syltone acquisitions were 7.9% for 2004.

The Fluid Transfer Products segment generated operating earnings as a percentage of revenues of 10.0% in 2004, compared to 5.8% in 2003. This improvement was primarily attributable to the positive impact of increased leverage of the segment's fixed and semi-fixed costs over a higher revenue base, operational improvements and price increases. These positive factors were partially offset by the impact of the Syltone business included in this segment which had lower operating earnings as a percentage of revenues than the segment's previously existing businesses. Operating earnings as a percentage of revenues from Fluid Transfer Products segment businesses that existed prior to the Syltone acquisition were 13.6% in 2004.

Interest expense increased \$5.4 million (113%) to \$10.1 million in 2004, compared to \$4.7 million in 2003, due to higher average borrowings stemming from the Syltone and Nash Elmo acquisitions and higher average interest rates. The average interest rate was 5.0% in 2004, compared to 3.9% in 2003. See Note 7 to the Consolidated Financial Statements for further information on the Company's borrowing arrangements.

Income before income taxes increased \$21.9 million (72%) to \$52.3 million in 2004, compared to \$30.4 million in 2003. Acquisitions in 2004 contributed \$10.6 million to this increase. The balance of the increase is primarily due to the increased volume in both segments and the related positive impact of increased leverage of fixed and semi-fixed costs over a higher revenue base. These positive factors were partially offset by higher material, compensation and fringe benefit and warranty costs.

The provision for income taxes increased by \$5.4 million to \$15.2 million in 2004, compared to \$9.7 million in 2003, as a result of the incremental income before taxes partially offset by a lower overall effective tax rate. The Company's effective tax rate was lowered to 29.0% in 2004 compared to 32.0% in 2003. The lower rate is principally due to favorable tax audit settlements in Finland and the U.S. of \$1.4 million and \$0.2 million, respectively. A higher proportion of earnings derived from lower taxed non-U.S. jurisdictions also contributed to the lower effective tax rate. These positive factors were partially offset by incremental taxes accrued in the amount of \$0.9 million for the planned repatriation of certain non-U.S. earnings in 2005 at a reduced income tax rate pursuant to the American Jobs Creation Act of 2004.

Net income increased \$16.5 million (80%) to \$37.1 million (\$1.92 diluted earnings per share) in 2004, compared to \$20.6 million (\$1.27 diluted earnings per share) in 2003. The increase in net income is primarily attributable to the same factors that resulted in increased income before taxes and the lower effective tax rate as noted above. Changes in currency exchange rates also contributed favorably by increasing net income by approximately \$0.8 million. Net income included \$0.1 million (\$0.01 diluted earnings per share) and \$0.2 million (\$0.02 diluted earnings per share) in after-tax LIFO income in 2004 and 2003, respectively. The estimated incremental impact on diluted earnings per share from acquisitions was \$0.33 in 2004, which was partially offset by a \$0.23 dilutive impact from a stock offering completed in the first quarter of 2004.

YEAR ENDED DECEMBER 31, 2003, COMPARED WITH  
YEAR ENDED DECEMBER 31, 2002

REVENUES

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Revenues increased \$21.3 million to \$439.5 million in 2003, compared to \$418.2 million in 2002, primarily due to changes in currency exchange rates. Revenues outside the United States, as a percentage of total revenues, increased to 42% in 2003, compared to 37% in 2002. This increase is due to changes in currency exchange rates (primarily the euro and British pound) and volume increases in Asia and Canada.

Revenues for the Compressor and Vacuum Products segment increased \$19.0 million (5%) to \$369.0 million in 2003, compared to \$350.0 million in 2002. Revenues in this segment increased approximately \$17.3 million due to changes in currency exchange rates. Increased prices contributed approximately \$2.6 million but were partially offset by lower centrifugal blower volume.

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Revenues in the Fluid Transfer Products segment increased \$2.4 million (4%) to \$70.5 million in 2003, compared to \$68.1 million in 2002. Volume increases contributed approximately 3 percentage points of the change, primarily due to increased shipments of well stimulation pumps and petroleum pump parts which was partially offset by lower drilling pump shipments. Increased prices contributed the remaining 1 percentage point increase. In 2002, Fluid Transfer Products segment revenues were supported by drilling pump backlog carried over from 2001 orders.

### COSTS AND EXPENSES

During the fourth quarter of 2003, the Company announced and initiated restructuring plans to eliminate redundant manufacturing capacity, streamline operations and reduce costs. These activities represent further integration of previously completed acquisitions, which the Company expects will better leverage existing manufacturing facilities. As a result of the restructuring, the Company expects to realize a net reduction in headcount of approximately 80 personnel (approximately 4% of its workforce as of September 30, 2003) by the end of 2005. The substantial majority of this headcount reduction was realized during the fourth quarter of 2003. As part of the restructuring program, the Company refocused the marketing strategies of its German blower business to place more emphasis on the truck blower market rather than industrial applications for its products. In addition, the Company exited the marketing and manufacturing of certain highly engineered compressor packages in the U.K. and U.S. The Company also announced its plan to implement new manufacturing processes and systems improvements to reduce inventory and its intent to establish a compressor packaging and assembly operation in China. The aggregate financial impact of these profitability improvement programs (restructuring plans, inventory reduction plan and establishment of China operations) resulted in a reduction in diluted earnings per share of approximately \$0.12 in the fourth quarter of 2003.

Atchison Casting Corporation, the Company's largest supplier of iron castings in 2002, downsized and subsequently closed its LaGrange, Missouri foundry in the second half of 2002. As a result, the Company implemented its previously developed contingency plan to secure alternate supply sources. There was a negative impact on the Company's financial performance (estimated at \$0.04-\$0.05 and \$0.01-\$0.03 diluted earnings per share in 2003 and 2002, respectively) as additional costs were incurred to expedite delivery of castings from new suppliers and accelerate depreciation expense of pattern modification charges from alternate casting suppliers who are no longer servicing the Company.

Gross margin increased \$3.3 million (3%) in 2003 to \$131.8 million, compared to \$128.5 million in 2002. Gross margin percentage of revenues decreased to 30.0% in 2003 from 30.7% in 2002. This decrease in the gross margin



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percentage was principally attributable to charges to cost of sales of \$2.1 million incurred in conjunction with implementing the profitability improvement programs discussed above. This factor contributed 0.5 percentage points of the 0.7 percentage point decrease in gross margin as a percentage of revenues. Unfavorable sales mix (including a lower proportion of drilling pump and centrifugal blower sales which generate higher gross margins, and a higher proportion of compressor package sales, which generate lower gross margins), and incremental costs associated with the disruption in the Company's casting supply chain also contributed to this decrease. These negative factors were partially offset by cost reduction efforts, including continued acquisition integration.

Selling and administrative expenses increased by 7% to \$85.3 million in 2003 from \$79.4 million in 2002, primarily due to changes in currency exchange rates. Selling and administrative expenses increased 4% due to changes in currency exchange rates and 1% due to expenses associated with the profitability improvement programs. The remaining increase of 2% was primarily attributable to higher compensation and postretirement expenses, which were partially offset by lower medical costs and other cost reduction efforts, including continued acquisition integration. As a percentage of revenues, selling and administrative expenses were 19.4% in 2003, compared to 19.0% in 2002. The increase in this ratio was primarily attributable to the factors discussed above, partially offset by the impact of higher revenues.

Operating earnings for the Compressor and Vacuum Products segment decreased \$2.0 million (7%) to \$27.8 million, compared to \$29.8 million in 2002. This decrease was primarily attributable to \$2.7 million of charges incurred in the fourth quarter of 2003 for the profitability improvement programs. Higher

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compensation, postretirement and warranty expenses combined with costs associated with the disruption within the Company's casting supply chain also contributed to this decrease. These negative factors were partially offset by changes in currency exchange rates, lower medical costs and cost reductions efforts, including continued acquisition integration. As a percentage of revenues, operating earnings decreased to 7.5% in 2003, compared to 8.5% in 2002, as a result of the factors noted above. The expenses incurred in the fourth quarter of 2003 related to implementing the profitability improvement programs contributed 0.8 percentage points of this 1.0 percentage point decrease in operating earnings as a percentage of revenues.

Operating earnings for the Fluid Transfer Products segment decreased \$1.1 million to \$4.1 million in 2003, a 21% decrease from \$5.2 million in 2002. This decrease was primarily attributable to a less favorable sales mix due to a lower proportion of revenues from drilling pumps, which generate higher margins than other pump products. Higher compensation and postretirement expenses also contributed to this decrease. As a percentage of revenues, operating earnings for this segment decreased to 5.8% in 2003, compared to 7.6% in 2002, as a result of the factors noted above.

Interest expense decreased \$1.6 million (25%) to \$4.7 million for 2003, compared to \$6.4 million in 2002, due to lower average borrowings and interest rates. The average interest rate for 2003 was 3.9% compared to 4.4% in 2002.

Other income, net increased \$3.0 million to \$3.2 million in 2003 compared to \$0.2 million in 2002, due to an unrealized currency transaction gain of \$3.2 million recorded in the fourth quarter of 2003. This gain related to the appreciation of U.S. dollar borrowings, which were converted to British pounds in November 2003 prior to being used to consummate the Syltone acquisition in January 2004.

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Income before income taxes increased \$1.5 million (5%) to \$30.4 million in 2003 from \$28.8 million in 2002. This increase was primarily the result of the unrealized currency transaction gain, lower interest expense and changes in currency exchange rates discussed above. These positive factors were partially offset by the lower operating earnings in each segment.

The provision for income taxes increased by \$0.5 million (5%) to \$9.7 million in 2003, compared to \$9.2 million in 2002, as a result of the higher income before taxes. The Company's effective tax rate was 32% in both years.

Net income increased \$1.0 million (5%) to \$20.6 million (\$1.27 diluted earnings per share) in 2003, compared to \$19.6 million (\$1.22 diluted earnings per share) in 2002. Net income included \$0.2 million (\$0.02 diluted earnings per share) and \$0.3 million (\$0.02 diluted earnings per share) in after-tax LIFO income in 2003 and 2002, respectively. The increase in net income was primarily attributable to the same factors that resulted in increased income before taxes discussed above. Changes in currency exchange rates also contributed favorably by increasing net income by approximately \$0.8 million in 2003.

### OUTLOOK

In 2004, orders for compressor and vacuum products were \$611.3 million, compared to \$352.7 million in 2003. Order backlog for the Compressor and Vacuum Products segment was \$169.9 million as of December 31, 2004, compared to \$48.7 million as of December 31, 2003. The favorable impact from 2004 acquisitions for this segment was approximately \$193.9 million and \$99.4 million for orders and backlog, respectively, for the year ended and as of December 31, 2004. Excluding this impact, the increase in orders and backlog compared to the prior year was primarily due to improvement in industrial demand in the U.S. and Europe combined with incremental market share gains in Europe, China and South Africa and favorable changes in currency exchange rates. The Company also experienced an increase in demand for positive displacement blowers and locomotive compressors due to an improved transportation market in the U.S. These positive factors were partially offset by the Company's exit from the marketing and manufacture of certain highly engineered compressor packages in the U.K. and U.S. in fourth quarter of 2003.

Because air is often used as a fourth utility in the manufacturing process, demand for compressor and vacuum products is generally correlated to manufacturing capacity utilization rates and the rate of change of industrial equipment production. Over longer time periods, demand also follows the economic growth patterns

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indicated by the rates of change in the Gross Domestic Product. These indicators have been relatively weak in both 2004 and 2003 but did improve gradually during 2004. As a result, orders for compressor and vacuum products are anticipated to improve modestly in 2005 as the U.S. and European industrial economies continue to recover.

Demand for fluid transfer products, which are primarily petroleum related, has historically corresponded to market conditions and expectations for oil and natural gas prices. Orders for fluid transfer products were \$175.7 million in 2004, an increase of \$102.8 million (141%) compared to \$72.9 million in 2003. Order backlog for the Fluid Transfer Products segment was \$52.3 million at December 31, 2004, compared to \$9.7 million as of December 31, 2003, representing a 442% increase. The increase in orders and backlog for this segment due to 2004 acquisitions is \$55.5 million and \$17.7 million, respectively. Increased demand for well stimulation pumps, drilling pumps and petroleum pump parts also contributed to the increase as a result of elevated prices for oil and natural gas. Future increases in demand for these products

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will likely be dependent upon rig counts and oil and natural gas prices, which the Company cannot predict.

### LIQUIDITY AND CAPITAL RESOURCES

#### OPERATING WORKING CAPITAL

During 2004, operating working capital (defined as receivables plus inventories, less accounts payable and accrued liabilities) increased \$34.6 million to \$96.2 million compared to \$61.6 million in the prior year primarily due to the 2004 acquisitions. Inventory turnover decreased to 4.6 at December 31, 2004, compared to 4.9 at December 31, 2003. Days sales outstanding improved to 61 days at December 31, 2004, compared to 63 days at December 31, 2003, due to increased use of progress billings and improved collections.

#### CASH FLOWS

During 2004, the Company generated cash flows from operations totaling \$76.8 million, an increase of \$30.5 million (66%) compared to 2003. This increase was primarily the result of acquisitions (\$22.8 million) and higher net income from previously existing businesses. Net of cash acquired, \$295.3 million was used to fund the Nash Elmo and Syltone acquisitions (including direct acquisition costs) in 2004. This use of cash was primarily funded by net borrowings of \$84.7 million, the common stock offering in March 2004 that generated \$79.6 million and excess cash reserves. The effect of exchange rate changes on cash and cash equivalents was \$3.8 million in 2004 compared to \$10.7 million in 2003. This decrease is primarily due to a significant strengthening of the British pound against the U.S. dollar during 2003 combined with the fact that the Company had significant British pound denominated cash and cash equivalents on hand during the fourth quarter of 2003 to fund the Syltone acquisition in January 2004. The cash flows provided by operating and financing activities and used in investing activities, combined with the effect of exchange rate changes, resulted in a net cash decrease of \$68.2 million during 2004.

#### CAPITAL EXPENDITURES AND COMMITMENTS

Capital projects designed to increase operating efficiency and flexibility, expand production capacity and increase product quality resulted in expenditures of \$19.6 million in 2004, compared to \$12.0 million in 2003. This increase was primarily due to 2004 acquisitions, the completion of a new assembly and packaging facility in China and the integration of certain businesses onto the Company's common enterprise resource planning system. Commitments for capital expenditures at December 31, 2004 are approximately \$10 million. 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 income tax obligations which arise from the exercise or vesting of incentive stock options, restricted stock or performance shares. The Gardner Denver Board has authorized up to 400,000 shares for repurchase under this program, and of this amount, approximately 200,000 shares

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remain available for repurchase. During 2004, no shares were repurchased under these repurchase programs. As of December 31, 2004, a total of 1,572,542 shares

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have been repurchased at a cost of \$22.8 million under both repurchase programs. In 2004, the Company also acquired 17,799 shares of its common stock, valued at \$0.5 million, which were tendered for the exercise of stock options.

### LIQUIDITY

On March 6, 2002, the Company amended and restated its then existing Revolving Line of Credit Agreement (the "Credit Agreement"), increasing the aggregate borrowing capacity to \$150.0 million and extending the maturity date to March 6, 2005. On September 1, 2004, the Company amended and restated the Credit Agreement once again, increasing the borrowing capacity to \$375.0 million. This latter amended and restated Credit Agreement provided the Company with access to senior secured credit facilities including a \$150.0 million five-year Term Loan and a \$225.0 million five-year Revolving Line of Credit (the "Credit Line"). Proceeds from the Credit Agreement were used to fund the Nash Elmo acquisition and retire debt outstanding under its previously existing Credit Line and Term Loan.

The Credit Line matures on September 1, 2009. On December 31, 2004, the Credit Line had an outstanding principal balance of \$113.6 million, leaving \$111.4 million available for letters of credit or future use, subject to the terms of the Credit Line.

The \$150.0 million Term Loan has a final maturity of September 1, 2009. The Term Loan requires principal payments totaling \$7.5 million, \$15.0 million, \$22.5 million, \$37.5 million and \$67.5 million in years one through five, respectively. Other terms and conditions of the Term Loan are similar to those of the Credit Line.

The Company's borrowing arrangements permit certain investments and dividend payments and are generally unsecured with the exception of the Credit Agreement, which requires the pledge of the stock of certain wholly-owned subsidiaries, and a security interest in the Company's manufacturing facility in Bad Neustadt, Germany. There are no material restrictions on the Company as a result of its credit arrangements, other than customary covenants regarding certain earnings, liquidity and capital ratios.

On September 24, 2003, the Company filed with the Securities and Exchange Commission ("SEC") a shelf registration statement regarding \$150 million of its securities. In March 2004, the Company sold 3.45 million shares of common stock lowering the amount of securities available on the shelf to \$65.5 million. On January 31, 2005, the Company filed a second shelf registration statement regarding \$184.5 million of its securities, bringing the total securities currently available to \$250.0 million. The registration statement has since been declared effective by the SEC and allows the Company to complete one or more offerings of its common stock, preferred stock, debt securities or warrants. The Company intends to use the net proceeds from any offerings for acquisitions, capital expenditures, repayment of borrowings, working capital and other general corporate purposes. This offering is being made pursuant to these registration statements.

On March 8, 2005, the Company executed an agreement and plan of merger ("Merger Agreement") through which it expects to effectively acquire all the outstanding shares of Thomas Industries. The Company's acquisition of Thomas Industries through the Merger Agreement is not contingent on the Company's ability to finance the transaction.

Simultaneously with the execution of the Merger Agreement, the Company executed a Commitment Letter with Bear, Stearns & Co. Inc. and JP Morgan Chase Bank, NA and affiliated parties (together, the "Commitment Parties"). This Commitment Letter obligates the Commitment Parties, subject to limited conditions, to provide senior secured credit facilities to the Company in the

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aggregate amount of \$930.0 million if the Company's acquisition of Thomas Industries is consummated. These credit facilities could be used by the Company to finance the acquisition of Thomas Industries, pay related fees and expenses, refinance the existing indebtedness of the Company, and finance the Company's continuing operations after the acquisition of Thomas Industries.

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Although these credit facilities are available to the Company through the Commitment Letter, the Company currently plans to finance the Thomas Industries acquisition through the amendment and expansion of its existing Credit Agreement, this offering, \$125.0 million of new notes and available cash. The size and timing of these financings are subject to prevailing market conditions. See "Use of Proceeds."

Management currently expects the Company's cash flows in 2005 to be sufficient to fund its scheduled debt service and provide required resources for working capital and capital investments.

### CONTRACTUAL OBLIGATIONS

At December 31, 2004 certain of the Company's contractual obligations, including estimated payments due by period, are as follows (dollars in thousands):

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Debt.....	\$313,571	\$ 32,949	\$54,090	\$210,496	\$16,036
Operating leases.....	38,233	9,608	12,661	6,305	9,659
Purchase obligations.....	73,339	73,231	108	--	--
Total.....	\$425,143	\$115,788	\$66,859	\$216,801	\$25,695
	=====	=====	=====	=====	=====

Purchase obligations consist primarily of inventory purchases made in the normal course of business to meet operational requirements. The above table excludes \$103.9 million of other non-current liabilities recorded in the balance sheet, which primarily consist of pension and other postretirement liabilities and deferred income taxes, because the timing of payments related to such liabilities is uncertain. The table also excludes interest payments on existing debt arrangements. For further information regarding the Company's debt arrangements and related interest rates, see Note 7 to the Consolidated Financial Statements.

### MARKET RISK

The Company is exposed to market risk related to changes in interest rates, as well as European and other foreign currency exchange rates, and selectively uses derivative financial instruments, including forwards and swaps, to manage these risks. The Company does not hold derivatives for trading purposes. The value of market-risk sensitive derivatives and other financial instruments is subject to change as a result of movements in market rates and prices. Sensitivity analysis is one technique used to evaluate these impacts. Based on a hypothetical ten percent change in interest rates or ten percent weakening in

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the U.S. dollar across relevant foreign currencies, principally the euro, British pound and Chinese Yuan (if permitted to float independently of the U.S. dollar), the potential losses in future earnings, fair value and cash flows are not material to the Company.

### CONTINGENCIES

The Company is a party to various legal proceedings, lawsuits and administrative actions, which are of an ordinary or routine nature. In addition, due to the bankruptcies of several asbestos manufacturers and other primary defendants, the Company has been named as a defendant in an increasing number of asbestos personal injury lawsuits. The Company has also been named as a defendant in an increasing number of silicosis personal injury lawsuits. The plaintiffs in these suits allege exposure to asbestos or silica from multiple sources and typically the Company is one of approximately 25 or more named defendants. In the Company's experience, the vast majority of the plaintiffs are not impaired with a disease for which the Company bears any responsibility.

Predecessors to the Company manufactured, distributed and sold products allegedly at issue in the pending asbestos and silicosis litigation lawsuits (the "Products"). The Company has potential responsibility for certain of these Products, namely: (a) air compressors which used asbestos containing components manufactured and supplied by third parties; and (b) portable air compressors used in sandblasting operations

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as a component of sandblasting equipment manufactured and sold by others. The sandblasting equipment is alleged to have caused the silicosis disease plaintiffs claim in these cases.

Neither the Company nor its predecessors ever mined, manufactured, mixed, produced or distributed asbestos fiber. The asbestos-containing components used in the Products were completely encapsulated in a protective non-asbestos binder and enclosed within the subject Products. Furthermore, the Company has never manufactured or distributed portable air compressors.

The Company has entered into a series of cost sharing agreements with multiple insurance companies to secure coverage for asbestos and silicosis lawsuits. The Company also believes some of the potential liabilities regarding these lawsuits are covered by indemnity agreements with other parties. The Company's uninsured settlement payments for past asbestos and silicosis lawsuits have been immaterial.

The Company believes that the pending and future asbestos and silicosis lawsuits will not, in the aggregate, have a material adverse effect on its consolidated financial position, results of operations or liquidity, based on: the Company's anticipated insurance and indemnification rights to address the risks of such matters; the limited potential asbestos exposure from the components described above; the Company's experience that the vast majority of plaintiffs are not impaired with a disease attributable to alleged exposure to asbestos or silica from or relating to the Products; various potential defenses available to the Company with respect to such matters; and the Company's prior disposition of comparable matters. However, due to inherent uncertainties of litigation and because future developments could cause a different outcome, there can be no assurance that the resolution of pending or future lawsuits, whether by judgment, settlement or dismissal, will not have a material adverse effect on its consolidated financial position, results of operations or liquidity.

The Company has also been identified as a potentially responsible party

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with respect to several sites designated for environmental cleanup under various state and federal laws. The Company does not own any of these sites. The Company does not believe that the future potential costs related to these sites will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

### NEW ACCOUNTING STANDARDS

In May 2004, the FASB issued Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," ("FAS 106-2"). FAS 106-2 supersedes Staff Position No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," and provides guidance on the accounting, disclosure, effective date and transition related to the Prescription Drug Act. FAS 106-2 was effective for the third quarter of 2004. According to an actuarial assessment, the Company currently provides prescription drug benefits, which are actuarially equivalent to the Medicare prescription drug benefit, to certain retired and other employees and will therefore qualify for the subsidy. As a result, the Company accounted for the federal subsidy attributable to past services as an actuarial gain, which reduced the accumulated post-retirement benefit obligation. This actuarial gain is then amortized in future periods in accordance with Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The federal subsidy attributable to employee service rendered in current and future periods will reduce future net periodic postretirement benefit cost as those employees provide service. The Company has adopted FAS 106-2, resulting in a favorable impact to diluted earnings per share of \$0.01 in 2004. The favorable impact to diluted earnings per share in 2005 is expected to be \$0.02.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - an amendment to ARB No. 43, Chapter 4." This statement amends previous guidance and requires expensing for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). In addition, the statement requires that allocation of fixed production overheads to inventory be based on the normal capacity of production facilities. SFAS No. 151 is effective for inventory costs incurred during annual periods beginning after June 15, 2005. The Company is currently evaluating the impact of SFAS No. 151 on its future consolidated financial statements.

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In December 2004, the FASB issued a revision to SFAS No. 123, "Accounting for Stock-Based Compensation," SFAS No. 123-R, "Share-Based Payment." SFAS No. 123-R focuses primarily on transactions in which an entity exchanges its equity instruments for employee services and generally establishes standards for the accounting for transactions in which an entity obtains goods or services in share-based payment transactions. The Company will adopt SFAS No. 123-R in the first quarter of 2006.

In December 2004, the FASB issued Staff Position No. FAS 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004," ("FAS 109-1"), and Staff Position No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," ("FAS 109-2"). FAS 109-1 requires that companies who qualify for the recent tax law's deduction for domestic production activities to account for it as a special deduction under Statement No. 109 and reduce their tax expense in the period or periods the amounts are deductible on the tax return. FAS 109-2 allows companies additional time to evaluate whether foreign earnings will be repatriated under the

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repatriation provisions of the new tax law and requires specific disclosures for companies needing additional time to complete the evaluation. Both staff positions are effective immediately. During 2004, the Company determined that approximately \$16.6 million of existing foreign earnings should meet the requirements of the American Jobs Creation Act of 2004 (the "AJCA"). The Company intends to repatriate these earnings during calendar 2005, as soon as the qualifying requirements are met. Since these earnings are no longer considered indefinitely reinvested, the Company accrued \$0.9 million of income tax expense in 2004. In addition, the Company is evaluating the potential to repatriate other foreign earnings pursuant to the AJCA. Whether the Company repatriates these foreign earnings is dependent upon the Company's ability to meet the requirements of the AJCA with respect to these earnings. Until that determination is made, the Company will make no change in its current intention to indefinitely reinvest accumulated earnings of its foreign subsidiaries except with respect to the \$16.6 million noted above. The range of additional amounts that the Company is considering for repatriation under the AJCA is between zero and \$40 million. The potential range of income tax is between zero and \$2.1 million.

### CRITICAL ACCOUNTING POLICIES

Management has evaluated the accounting policies used in the preparation of the Company's financial statements and related notes and believes those policies to be reasonable and appropriate. Certain of these accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, trends in the industry, information provided by customers and information available from other outside sources, as appropriate. The most significant areas involving management judgments and estimates are described below. Management believes that the amounts recorded in the Company's financial statements related to these areas are based on their best judgments and estimates, although actual results could differ materially under different assumptions or conditions.

### INVENTORIES

Inventories, which consist of materials, labor and manufacturing overhead, are carried at the lower of cost or market value. As of December 31, 2004, \$97.5 million (70%) of the Company's inventory is accounted for on a first-in, first-out (FIFO) basis with the remaining \$40.9 million (30%) accounted for on a last-in, first-out (LIFO) basis. Management regularly reviews inventory for obsolescence to determine whether a write-down is necessary. Various factors are considered in making this determination, including recent sales history and predicted trends, industry market conditions and general economic conditions.

### GOODWILL AND OTHER INTANGIBLES

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations." Among other things, this standard requires that intangible assets acquired in a business combination be recognized (at fair value) apart from goodwill if they meet one of two criteria - the

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contractual-legal criterion or the separability criterion. The Company has also adopted SFAS No. 142 "Goodwill and Other Intangible Assets." Under the provisions of this standard, intangible assets deemed to have indefinite lives and goodwill are not subject to amortization. All other intangible assets are amortized over their estimated useful lives. Goodwill and other intangible assets not subject to amortization are tested for impairment annually, or more



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frequently if events or changes in circumstances indicate that the asset might be impaired. This testing requires comparison of carrying values to fair values, and when appropriate, the carrying value of impaired assets is reduced to fair value. During the second quarter of 2004, the Company completed its annual impairment test and determined that no impairment existed. While management believes that its estimates of fair value are reasonable, different assumptions regarding such factors as product volumes, selling price changes, labor and material cost changes, productivity, interest rates and foreign exchange rates could affect such valuations.

### PENSION AND OTHER POSTRETIREMENT BENEFITS

Pension and other postretirement benefit obligations and expense (or income) are dependent on assumptions used in calculating such amounts. These assumptions include discount rate, rate of compensation increases, expected rates of return on plan assets and expected healthcare trend rates. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods. While management believes that the assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Company's pension and other postretirement benefit obligations and future expense (or income). In addition, due to the significant declines in the financial markets in recent years, the fair value of the plan assets of certain of the Company's funded defined benefit pension plans was less than their accumulated benefit obligation at December 31, 2004. As a result, the Company has recorded a cumulative reduction to stockholders' equity (accumulated other comprehensive income) in the amount of \$5.6 million (after tax) as of December 31, 2004. This non-cash reduction in stockholders' equity did not impact the Company's compliance with its existing debt covenants and could be reversed in future periods if a combination of factors, including interest rate increases, improved investment results and contributions, cause the pension plans to return to or exceed fully funded status. However, depending upon the performance of the equity and bond markets in 2005 and beyond, the Company could also be required to record additional charges to stockholders' equity in the future.

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### OUR INDUSTRY

Our Compressor and Vacuum Products segment competes in a worldwide market for Compressor and Vacuum products and services which we estimate to be in excess of \$5 billion per year in sales. Our Pump Product segment competes in a worldwide market for pump products which we estimate to be in excess of \$22 billion per year in sales. Our reciprocating pumps compete for approximately \$2 billion of that market. Products in all of our served markets are sold to a diverse group of customers across a wide range of industries.

Almost all manufacturing plants and industrial facilities, as well as many service industries, utilize air compressors and/or blowers. Our largest customers for compressor products are durable and non-durable goods manufacturers; process industries (petroleum, primary metals, pharmaceutical, food and paper); manufacturers of carpet cleaning equipment, pneumatic conveying equipment, and dry and liquid bulk transports; wastewater treatment facilities; and automotive service centers and niche applications such as PET bottle blowing, breathing air equipment and compressed natural gas. Typical applications for our pumps include oil transfer, salt water disposal, ammine pumping for gas processing, repressurizing, enhanced oil recovery, hydraulic power and other liquid transfer applications.

Compressed air and pump products are best characterized as mature, with evolutionary technological advances. Technological advances in compressed air

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products include development of oil-free air compressors, increased product efficiency, reduction of noise levels and advanced control systems to upgrade the flexibility and precision of regulating pressure and capacity. Emerging compressed air market niches result from new technologies in plastics extrusion, oil and natural gas well drilling, field gas gathering, mobile and stationary vacuum applications, utility and fiber optic installation and environmental impact minimization, as well as other factors. Technological advances in pump products include development of larger horsepower and lighter weight pumps.

Given the wide variety of end-users who use compressed air and pump products, strong distribution channels are critical. Products are sold through independent distributors, sales representatives, company stores, and directly to OEMs, engineering firms and end-users. Competitors within our industry use various combinations of distribution channels to reach customers.

Competition in our markets is generally robust and is based on product quality, performance, price and availability. The relative importance of each of these factors varies depending on the specific type of product. Given the potential for equipment failures to cause expensive operational disruption, our customers generally view quality and reliability as critical factors in their equipment purchasing decision. The required frequency of maintenance is highly variable based on the type of equipment and application.

Although there are a few large manufacturers of compressed air products, the marketplace for these products remains fragmented due to the wide variety of product technologies, applications and selling channels. Our principal competitors in sales of compressed air products include Ingersoll-Rand, Sullair (owned by United Technologies Corporation), Atlas Copco, Quincy Compressor (owned by En Pro Industries), CompAir and Roots. The marketplace for pumps, although dominated by a few multinational manufacturers with a broad product offering, is also fragmented, as the ten largest pump manufacturers account for only approximately 40% of annual sales. Because we are currently focused on pumps used in oil and natural gas production, well servicing and well drilling, we do not typically compete directly with the major full-line manufacturers. Competition in the market segment for oil and natural gas pumps is much more concentrated than for pumps generally. Our principal competitors in sales of petroleum pump products include National-Oilwell and SPM Flow Control, Inc. The marketplaces for water jetting systems and loading arms tend to be niche-oriented and somewhat concentrated with the largest three or four competitors controlling the majority of the market. Our principal competitors in sales of water jetting systems include NLB Corp., WOMA Apparatebau GmbH and Hammelmann Maschinenfabrik GmbH. Our principal competitors in sales of loading arms are OPW Engineered Systems (owned by Dover Corporation) and Kanon in distribution applications; and FMC Technology and Schwelm Verladetechnik GmbH in both marine and distribution technologies.

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### OUR BUSINESS

Other than under " - The Thomas Industries Acquisition," the following discussion of our business does not reflect our planned acquisition of Thomas Industries.

Gardner Denver designs, manufactures and markets compressor and vacuum products and fluid transfer products. We believe we are one of the leading manufacturers of highly engineered stationary air compressors, blowers and liquid ring pumps for industrial applications in the United States. Stationary air compressors are used in manufacturing, process applications and materials handling, and to power air tools and equipment. Blowers are used primarily in pneumatic conveying, wastewater aeration and engineered vacuum systems. Liquid

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ring pumps are used primarily in process industry applications. We also believe that we are one of the leading manufacturers of reciprocating pumps used in oil and natural gas well drilling, servicing and production, water jetting systems and loading arms.

For the year ended December 31, 2004, we had revenues of \$739.5 million, of which approximately 80% were derived from sales of compressor and vacuum products while approximately 20% were from sales of fluid transfer products. Approximately 44% of our total revenues for the year ended December 31, 2004 were derived from sales in the United States and approximately 56% were from sales to customers in various countries outside the United States. Of the total non-U.S. sales, 58% were to Europe, 23% to Asia, 9% to Canada, 8% to Latin America and 2% to other regions.

Pro forma for the year ended December 31, 2004, assuming that the Syltone and Nash Elmo acquisitions were completed on January 1, 2004, we had revenues of \$895.9 million, of which approximately 83% were derived from sales of compressor and vacuum products while approximately 17% were from sales of fluid transfer products. Approximately 41% of our total pro forma revenues for the year ended December 31, 2004 were derived from sales in the United States and approximately 59% were from sales to customers in various countries outside the United States. Of the total pro forma non-U.S. sales, 59% were to Europe, 22% to Asia, 7% to Canada, 7% to Latin America and 5% to other regions.

### COMPRESSOR AND VACUUM PRODUCTS SEGMENT

In the Compressor and Vacuum Products segment, we design, manufacture, market and service the following products and related aftermarket parts for industrial and commercial applications: rotary screw, reciprocating, sliding vane and centrifugal air compressors; positive displacement, centrifugal and side channel blowers; and liquid ring pumps and engineered systems. We also design, manufacture, market and service complementary ancillary products (access platforms, axles and gear boxes, power take-offs and valves) as a result of the Syltone acquisition. Our sales of compressor and vacuum products for the year ended December 31, 2004 were \$589.4 million, of which approximately 42% were to customers in the United States.

Compressors are used to increase the pressure of gas, including air, by mechanically decreasing its volume. Our reciprocating compressors range from 0.5 to 1,500 horsepower and are sold under the Gardner Denver, Champion and Belliss & Morcom trademarks, among others. Our rotary screw compressors range from 5 to 680 horsepower and are sold under the Gardner Denver trademark, among others.

Blowers and liquid ring pumps are used to produce a high volume of air at low pressure and to produce vacuum. Our positive displacement blowers range from 0 to 36 pounds per square inch gauge, or "PSIG," pressure and 0-28 inches of mercury, or "Hg," vacuum and 0 to 43,000 cubic feet per minute, or "CFM," and are sold under the trademarks Sutorbilt, DuroFlow and Drum, among others. Our multistage centrifugal blowers are sold under the Gardner Denver trademark, among others, and range from 0.5 to 25 PSIG pressure and 0-18" Hg vacuum and 100 to 50,000 CFM. Our side channel blowers range from 0 to 15 PSIG pressure and 0 to 1,800 CFM and are sold under the trademark Elmo Technology. Our rotary sliding vane compressors and vacuum pumps range from 0 to 150 PSIG and 0 to 3,000 CFM and are sold under the Gardner Denver trademark, among others. Our engineered vacuum systems are used in industrial cleaning and maintenance and are sold under the Gardner Denver trademark, among others. Our liquid ring pumps and engineered systems range from 0 to 150 PSIG and 1,000 to 3,000 CFM and are sold under the Nash trademark, among others.

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Almost all manufacturing plants and industrial facilities, as well as many

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service industries, utilize air compressors or blowers. The largest customers for our compressor products are durable and non-durable goods manufacturers; process industries (petroleum, primary metals, pharmaceutical, food and paper); original equipment manufacturers; manufacturers of carpet cleaning equipment, pneumatic conveying equipment, and dry and liquid bulk transports; wastewater treatment facilities; and automotive service centers and niche applications such as PET bottle blowing, breathing air equipment and compressed natural gas. Manufacturers of machinery and related equipment use stationary compressors for automated systems, controls, materials handling and special machinery requirements. The petroleum, primary metals, pharmaceutical, food and paper industries require compressed air and vacuums for process, instrumentation and control, packaging and pneumatic conveying. Blowers are instrumental to local utilities for aeration in treating industrial and municipal waste. Blowers are also used in service industries, for example, residential carpet cleaning to vacuum moisture from carpets during the shampooing and cleaning process. Blowers and rotary vane compressors are used on trucks to vacuum leaves and debris from street sewers and to unload liquid and dry bulk and powder materials such as cement, grain and plastic pellets. Additionally, blowers are used in packaging technologies, medical applications, printing and paper processing and numerous chemical process applications. Liquid ring pumps are used in many different vacuum applications and engineered systems, such as water removal, distilling, reacting, efficiency improvement, lifting and handling, and filtering, principally in the pulp and paper, industrial manufacturing, chemical and power industries.

As a result of the Syltone acquisition, we have 14 vehicle fitting facilities in 11 countries worldwide. These fitting facilities offer customized vehicle installations of systems, which include compressors, generators, hydraulics, pumps and oil and fuel systems. Typical uses for such systems include road demolition equipment, tire removal, electrical tools and lighting, hydraulic hand tools and high-pressure water jetting pumps. The fitting facility in the U.K. also manufactures access platforms which are hydraulically powered and are typically used for overhead service applications. The diverse range of customers for these products include local government authorities, utility companies (electricity, water, gas, telecommunications) and tire and road service providers.

The Compressor and Vacuum Products segment operates production facilities around the world, including nine plants (including two remanufacturing facilities) in the U.S., five in the U.K., three in Germany, two in China, and one each in Finland, Brazil and Canada. The most significant facilities include owned properties in Sedalia, Missouri; Gloucester, U.K.; Princeton, Illinois; and Bad Neustadt and Schopfheim, Germany and leased properties in Peachtree City, Georgia; Tampere, Finland; and Nuremburg, Germany.

### FLUID TRANSFER PRODUCTS SEGMENT

We design, manufacture, market and service a diverse group of pumps, water jetting systems and related aftermarket parts used in oil and natural gas well drilling, servicing and production and in industrial cleaning and maintenance. This segment also designs, manufactures, markets and services other fluid transfer components and equipment for the chemical, petroleum and food industries. Sales of our fluid transfer products for the year ended December 31, 2004 were \$150.2 million, of which approximately 52% were to customers in the United States.

Positive displacement reciprocating pumps are marketed under the Gardner Denver trademark, among others. Typical applications of Gardner Denver pumps in oil and natural gas production include oil transfer, water flooding, salt water disposal, pipeline testing, ammine pumping for gas processing, re-pressurizing, enhanced oil recovery, hydraulic power and other liquid transfer applications. Our production pumps range from 16 to 600 horsepower and consist of horizontal

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and vertical designed pumps. We market one of the most complete product lines of well servicing pumps. Well servicing operations include general workover service, completions (bringing wells into production after drilling), and plugging and abandonment of wells. Our well servicing products consist of high-pressure plunger pumps ranging from 165 to 400 horsepower. We also manufacture intermittent duty triplex and quintuplex plunger pumps ranging from 250 to 3,000 horsepower for well cementing and stimulation, including reservoir fracturing or acidizing. Duplex pumps, ranging from 16 to 135 horsepower, are produced for shallow drilling, which includes water well drilling, seismic drilling and mineral exploration. Continuous duty triplex mud pumps for oil and natural gas drilling rigs

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range from 275 to 2,000 horsepower. A small portion of Gardner Denver pumps are sold for use in industrial applications.

Our water jetting pumps and systems are used in industrial cleaning and maintenance and are sold under the Partek trademark, among others. Applications in this market segment include runway and ship hull cleaning, concrete demolition and metal surface preparation.

Our other fluid transfer components and equipment include loading arms, swivel joints, couplers and valves used to load and unload ships, tank trucks and rail cars. These products are sold primarily under the Emco Wheaton trademark, among others.

The Fluid Transfer Products segment operates seven production facilities (including one remanufacturing facility) in the U.S and one each in Germany and Canada. The most significant facilities include owned properties in Quincy, Illinois; Tulsa, Oklahoma and Kirchhain, Germany and two leased properties in Houston, Texas and one in Oakville, Ontario.

### CUSTOMERS AND CUSTOMER SERVICE

We sell our products through independent distributors and sales representatives and directly to OEMs, engineering firms and end-users. We have been able to establish strong customer relationships with numerous key OEMs and exclusive supply arrangements with many of our distributors. We use a direct sales force to service OEM and engineering firm accounts because these customers typically require higher levels of technical assistance, more coordinated shipment scheduling and more complex product service than customers of our less specialized products. As a majority of our products are marketed through independent distribution, we are committed to developing and supporting our distribution network of over 1,000 distributors and representatives. We have distribution centers in Memphis, Tennessee and St. Peters, Missouri that stock parts, accessories and small compressor and vacuum products in order to provide adequate and timely availability. We also lease sales office and warehouse space in various U.S. locations and foreign countries. We provide our distributors with sales and product literature, technical assistance and training programs, advertising and sales promotions, order-entry and tracking systems and an annual restocking program. Furthermore, we participate in major trade shows and have a telemarketing department to generate sales leads and support the distributors' sales staffs.

Our distributors maintain an inventory of complete units and parts and provide aftermarket service to end-users. There are several hundred field service representatives for our products in the distributor network. Our service personnel and product engineers provide the distributors' service representatives with technical assistance and field training, particularly with respect to installation and repair of equipment. We also provide aftermarket

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support through our remanufacturing facilities in Indianapolis, Indiana; Fort Worth, Texas; and Mayfield, Kentucky and our 14 vehicle fitting facilities. The Indianapolis operation remanufactures and repairs air ends for rotary screw compressors, blowers and reciprocating compressors. The Fort Worth facility repairs and remanufactures well servicing pumps, while the Mayfield operation provides aftermarket parts and repairs for centrifugal compressors. The vehicle fitting facilities provide preventative maintenance programs, repairs, refurbishment, upgrades and spare parts for access platforms and vehicle systems.

### RESEARCH AND DEVELOPMENT

Compressor and vacuum and fluid transfer products are best characterized as mature, with evolutionary technological advances. Technological trends in compressor and vacuum products include development of oil-free air compressors, increased product efficiency, reduction of noise levels and advanced control systems to upgrade the flexibility and precision of regulating pressure and capacity. Emerging compressor and vacuum market niches result from new technologies in plastics extrusion, oil and natural gas well drilling, field gas gathering, mobile and stationary vacuum applications, utility and fiber optic installation and environmental impact minimization, as well as other factors. Trends in fluid transfer products include development of larger horsepower and lighter weight pumps and loading arms to convey natural gas.

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We actively engage in a continuing research and development program. Our research and development centers are dedicated to various activities, including new product development, product performance improvement and new product applications.

Our products are designed to satisfy the safety and performance standards set by various industry groups and testing laboratories. Care is exercised throughout the manufacturing and final testing process to ensure that products conform to industry, government and customer specifications.

Expenditures for research and development were \$6.2 million in 2004, \$2.8 million in 2003 and \$2.4 million in 2002.

### MANUFACTURING

In general, our manufacturing processes involve machining castings and forgings which are assembled into finished components. These components are sold as finished products or packaged with purchased components into complete systems. We operate 32 manufacturing facilities that utilize a broad variety of processes. At our manufacturing locations, we maintain advanced manufacturing, quality assurance and testing equipment geared to the specific products that we manufacture, and use extensive process automation in our manufacturing operations. Most of our manufacturing facilities utilize computer-aided numerical control tools and manufacturing techniques that concentrate the equipment necessary to produce similar products in one area of the plant, which we refer to as cell manufacturing. One operator using cell manufacturing can monitor and operate several machines, as well as assemble and test products made by such machines, thereby improving operating efficiency and product quality while reducing the amount of work-in-process and finished product inventories.

We have representatives on the American Petroleum Institute's working committee and we have relationships with standard enforcement organizations such as Underwriters Laboratories, Det Norske Veritas and the Canadian Standard Association. We maintain ISO 9001-2000 certification on the quality systems at a majority of our manufacturing and design locations.

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### RAW MATERIALS

The primary raw materials we use are cast iron and steel. Such materials are generally available from a number of suppliers. We do not currently have long-term contracts with our suppliers of raw materials, but we believe that our sources of raw materials are reliable and adequate for our needs. We utilize single sources of supply for certain iron castings and other selected components. A disruption in deliveries from a given supplier could therefore have an adverse effect on our ability to meet our commitments to customers. Nevertheless, we believe that we have appropriately balanced this risk against the cost of sustaining a greater number of suppliers. Moreover, we have sought, and will continue to seek, cost reductions in our purchases of materials and supplies by consolidating purchases, pursuing alternate sources of supply and using online bidding competitions among potential suppliers.

### BACKLOG

Our backlog was approximately \$222.2 million at December 31, 2004 as compared to approximately \$58.4 million at December 31, 2003. Backlog consists of orders believed to be firm for which a customer purchase order has been received or communicated. Since orders may be rescheduled or canceled, backlog does not necessarily reflect future sales levels. For further discussion of backlog levels, see the information included under "Outlook" contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### PATENTS, TRADEMARKS AND OTHER INTELLECTUAL PROPERTY

We believe that the success of our business depends more on the technical competence, creativity and marketing abilities of our employees than on any individual patent, trademark or copyright. Nevertheless, as part of our ongoing research, development and manufacturing activities, we have a policy of seeking to protect our proprietary products, product enhancements and processes with appropriate intellectual property protections.

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In the aggregate, patents and trademarks are of considerable importance to the manufacturing and marketing of many of our products. However, we do not consider any single patent or trademark, or group of patents or trademarks, to be material to our business as a whole, except for the Gardner Denver trademark. Other important trademarks we use include Champion, Belliss & Morcom, Elmo Technology, Sutorbilt, DuroFlow, Drum, Nash, Partek and Emco Wheaton. We have registered our trademarks in the countries where it is deemed necessary.

We also rely upon trade secret protection for our confidential and proprietary information. We routinely enter into confidentiality agreements with our employees. There can be no assurance, however, that others will not independently obtain similar information and techniques or otherwise gain access to our trade secrets or that we can effectively protect our trade secrets.

### EMPLOYEES

As of January 2005, we had approximately 3,800 full-time employees. More than half of our employees, including most employees outside of the United States, are represented by labor unions. We believe that our current relations with employees are satisfactory.

### ENVIRONMENTAL MATTERS

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We are subject to numerous federal, state, local and foreign laws and regulations relating to the storage, handling, emission, disposal and discharge of materials into the environment. We believe that our existing environmental control procedures are adequate and we have no current plans for substantial capital expenditures in this area. We have an environmental policy that confirms our commitment to a clean environment and to compliance with environmental laws. We have an active environmental management program aimed at compliance with existing environmental regulations and developing methods to eliminate or significantly reduce the generation of pollutants in the manufacturing processes.

We have been identified as a potentially responsible party, or "PRP," with respect to several sites designated for cleanup under federal "Superfund" or similar state laws, which impose liability for cleanup of certain waste sites and for related natural resource damages. Persons potentially liable for such costs and damages generally include the site owner or operator and persons that disposed or arranged for the disposal of hazardous substances found at those sites. Although these laws impose joint and several liability, in application, the PRPs typically allocate the investigation and cleanup costs based upon the volume of waste contributed by each PRP. Based on currently available information, Gardner Denver was only a small contributor to a substantial majority of these waste sites, and we have, or are attempting to negotiate, de minimis settlements for their cleanup. The cleanup of the remaining sites is substantially complete and our future obligations entail a share of the sites' ongoing operating and maintenance expense.

We have an accrued liability on our balance sheet to the extent costs are known or can be estimated for our remaining financial obligations for these matters. Based upon consideration of currently available information, we do not anticipate any materially adverse effect on our results of operations, financial condition, liquidity or competitive position as a result of compliance with federal, state, local or foreign environmental laws or regulations, or cleanup costs relating to the sites discussed above.

### THE THOMAS INDUSTRIES ACQUISITION

On March 9, 2005, we announced that we had signed a definitive agreement to acquire Thomas Industries Inc. Thomas Industries is a worldwide leader in the design, manufacture and marketing of precision engineered pumps, compressors and blowers. The agreed-upon purchase price is \$40.00 per share for all outstanding shares and share equivalents (approximately \$734.2 million) and the assumption of \$9.5 million of long-term capitalized lease obligations. As of December 31, 2004, Thomas Industries had \$267.1 million in cash, cash equivalents and short-term investments. The net transaction value, including assumed debt and net of cash, is approximately \$476.6 million.

Thomas Industries is a leading supplier of pumps, compressors and blowers to the OEM market in such applications as medical equipment, gasoline vapor and refrigerant recovery, automotive and transportation applications, printing, packaging, tape drives and laboratory equipment. Thomas Industries designs,

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manufacturers, markets, sells and services these products through worldwide operations with regional headquarters as follows: North American Group - Sheboygan, Wisconsin; European Group - Puchheim, Germany; and Asia Pacific Group - Hong Kong, China.

Thomas Industries has wholly-owned operations in 21 countries on five continents. Its primary manufacturing facilities are located in Sheboygan, Wisconsin; Monroe, Louisiana; Skokie, Illinois; Syracuse, New York; Schopfheim, Fahrna, Puchheim and Memmingen, Germany; and Wuxi, China. The manufacturing



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operations in the United States produce rotary vane, linear, piston and diaphragm pumps and compressors, and various liquid pumps. These products are directly sold worldwide to OEMs, as well as through fluid power and industrial distributors. The German operations manufacture a complementary line of rotary vane, linear, diaphragm, gear, side channel, radial, claw, screw and rotary lobe pumps, compressors and blowers, as well as various liquid pumps, air-centers and centralized systems. These products are also distributed worldwide. The manufacturing facility in China was constructed during late 2004 and will begin production in mid 2005.

Thomas Industries' largest markets are Europe and the United States, which represent approximately 52% and 38% of its revenues, respectively. Of the total European sales, approximately 61% are within Germany and 39% are within other European countries. Approximately 10% of Thomas Industries' revenues are generated in Asia Pacific. At December 31, 2004, Thomas Industries employed approximately 2,200 people.

For the year ended December 31, 2004, Thomas Industries' revenues and operating income were \$410.1 million and \$208.8 million, respectively. Operating income for this period included \$18.6 million from Thomas Industries' 32% interest in GTG and a \$160.4 million nonrecurring gain on the sale of this joint venture in July 2004. Operating income included \$5.2 million of non-recurring charges related to plant shutdown, legal and environmental costs.

The acquisition of Thomas Industries is expected to close in 2005 and is subject to the approval of Thomas Industries' stockholders and other customary closing conditions, including the receipt of applicable regulatory approvals. See "Risk Factors - Risks Related to the Thomas Industries Acquisition."

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### MANAGEMENT

#### EXECUTIVE OFFICERS AND DIRECTORS

Set forth below is information regarding our executive officers and directors as of April 13, 2005.

NAME	AGE	OFFICE
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Ross J. Centanni.....	59	Chairman, President and Chief Executive Officer
Michael S. Carney.....	47	Vice President and General Manager, Blower Division
Helen W. Cornell.....	46	Vice President, Finance and Chief Financial Officer
Tracy D. Pagliara.....	42	Vice President, Administration, General Counsel and Secretary
J. Dennis Shull.....	56	Vice President and General Manager, Compressor Division
Richard C. Steber.....	54	Vice President and General Manager, Liquid Ring Pump Division
Donald G. Barger, Jr.....	62	Director
Frank J. Hansen.....	63	Director
Raymond R. Hipp.....	62	Director
Thomas M. McKenna.....	67	Director
David Petratis.....	47	Director
Diane K. Schumacher.....	51	Director
Richard L. Thompson.....	65	Director

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ROSS J. CENTANNI, age 59, has been President and Chief Executive Officer and a director of Gardner Denver since its incorporation in November 1993. He has been Chairman of Gardner Denver's Board of Directors since November 1998. Prior to Gardner Denver's spin-off from Cooper Industries, Inc., or "Cooper," in April 1994, he was Vice President and General Manager of Gardner Denver's predecessor, the Gardner-Denver Industrial Machinery Division, where he also served as Director of Marketing from August 1985 to June 1990. He has a B.S. degree in industrial technology and an M.B.A. degree from Louisiana State University. Mr. Centanni is a director of Esterline Technologies, a publicly held manufacturer of components for avionics, propulsion and guidance systems, and Denman Services, Inc., a privately held supplier of medical products. He is also a member of the Petroleum Equipment Suppliers Association Board of Directors and a member of the Executive Committee of the International Compressed Air and Allied Machinery Committee.

MICHAEL S. CARNEY, age 47, joined the Company as Vice President and General Manager, Gardner Denver Blower Division in November 2001. Prior to joining Gardner Denver, Mr. Carney worked for Woods Equipment Company from 1995 to May 2001. The last position he held with Woods was Vice President, Construction Business. From 1979 to 1995, Mr. Carney worked for General Electric Company in various management positions. Mr. Carney has a B.S.M.E. degree from the University of Notre Dame, an M.S.E.E. degree from the University of Cincinnati, and an M.S.I.A. degree from Purdue University.

HELEN W. CORNELL, age 46, was appointed Vice President, Finance and Chief Financial Officer in August 2004. She served as Vice President and General Manager, Fluid Transfer Division and Operations Support of Gardner Denver from March 2004 until her promotion. She served as Vice President, Strategic Planning and Operations Support from August 2001 until March 2004 and as Vice President, Compressor Operations for the Compressor and Pump Division from April 2000 until August 2001. From November 1993 until accepting her operations role, Ms. Cornell held positions of increasing responsibility as the Corporate Secretary and Treasurer of the Company, serving in the role of Vice President, Corporate Secretary and Treasurer from April 1996 until April 2000. She holds a B.S. degree in accounting from the University of Kentucky and an M.B.A. from Vanderbilt University. She is a Certified Public Accountant and a Certified Management Accountant.

TRACY D. PAGLIARA, age 42, was appointed Vice President, Administration, General Counsel and Secretary of Gardner Denver in March 2004. He previously served as Vice President, General Counsel and

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Secretary from August 2000 until his promotion. Prior to joining Gardner Denver, Mr. Pagliara held positions of increasing responsibility in the legal departments of Verizon Communications/GTE Corporation from August 1996 to August 2000 and Kellwood Company from May 1993 to August 1996, ultimately serving in the role of Assistant General Counsel for each company. Mr. Pagliara, a Certified Public Accountant, has a B.S. degree in accounting and a J.D. degree from the University of Illinois.

J. DENNIS SHULL, age 56, has been the Vice President and General Manager, Gardner Denver Compressor Division since January 2002. He previously served the Company as Vice President and General Manager, Gardner Denver Compressor and Pump Division since its organization in August 1997. Prior to August 1997, he served as Vice President, Sales and Marketing since the Company's incorporation in November 1993. From August 1990 until November 1993, Mr. Shull was the Director of Marketing for the Gardner Denver Industrial Machinery Division. Mr. Shull has a B.S. degree in business from Northeast Missouri State University and an M.A. in business from Webster University.

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RICHARD C. STEBER, age 54, has been the Vice President and General Manager, Gardner Denver Liquid Ring Pump Division since January 2005. He previously served the Company as Vice President and General Manager of the Gardner Denver Fluid Transfer Division (formerly the Gardner Denver Pump Division) from January 2002 until his promotion. Prior to joining Gardner Denver, he was employed by Goulds Pumps, a division of ITT Industries, for twenty-five years, most recently as the President and General Manager for Europe, Middle East, and Africa. He previously held positions of Vice President for both the sales and marketing organizations at Goulds Pumps, with domestic and international responsibility. Mr. Steber has a B.S. degree in engineering from the State University of New York College of Environmental Science and Forestry at Syracuse University.

DONALD G. BARGER, JR., age 62, has been a director of Gardner Denver since its spin-off from Cooper in April 1994. Mr. Barger is the Senior Vice President and Chief Financial Officer of Yellow Roadway Corporation, a publicly held company specializing in the transportation of goods and materials. He joined the predecessor company, Yellow Corporation, or "Yellow," in December 2000 in the same capacity. Prior to joining Yellow, he served as Vice President and Chief Financial Officer of Hillenbrand Industries Inc., or "Hillenbrand," a publicly held company serving healthcare and funeral services, from March 1998 until December 2000. Mr. Barger was also Vice President, Chief Financial Officer of Worthington Industries, Inc., a publicly held manufacturer of metal and plastic products and processed steel products, from September 1993 until joining Hillenbrand. Mr. Barger has a B.S. degree from the United States Naval Academy and an M.B.A. from the University of Pennsylvania, Wharton School of Business. Mr. Barger is a director of the Quanex Corporation.

FRANK J. HANSEN, age 63, has been a director of Gardner Denver since June 1997. Mr. Hansen was the President and Chief Executive Officer of IDEX Corporation, a publicly held manufacturer of proprietary fluid handling and industrial products, from April 1999 until his retirement in April 2000. He was President and Chief Operating Officer from January 1998 to April 1999 and Senior Vice President and Chief Operating Officer from July 1994 until January 1998. Mr. Hansen has a B.S. degree in business administration from Portland State University.

RAYMOND R. HIPPI, age 62, has been a director of Gardner Denver since November 1998. Since July 2002, Mr. Hipp has served as a strategic alternative and merger and acquisition consultant. Mr. Hipp served as Chairman, President and CEO and a Director of Alternative Resources Corporation, a provider of information technology staffing and component outsourcing, a position he held from July 1998 until his retirement in June 2002. From August 1996 until May 1998, Mr. Hipp was the Chief Executive Officer of ITI Marketing Services, a provider of telemarketing services. Mr. Hipp has a B.S. degree from Southeast Missouri State University.

THOMAS M. MCKENNA, age 67, has been a director of Gardner Denver since its spin-off from Cooper in April 1994. Mr. McKenna served as the President of United Sugars Corporation, a marketing cooperative which is one of the nation's largest sugar marketers to both the industrial and retail markets, from December 1998 until his retirement in December 2002. He was President and Chief Executive Officer of Moorman Manufacturing Company, a privately held manufacturer of agricultural supplies, from August 1993 until

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January 1998. Mr. McKenna has a B.A. degree from St. Mary's College and an M.B.A. from Loyola University.

DAVID D. PETRATIS, age 47, has been a director of Gardner Denver since July 2004. Mr. Petratis has been the President and Chief Executive Officer of the

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North American Operating Division of Schneider Electric, located in Palatine, Illinois, since January 2004. Schneider Electric is headquartered in Paris, France and provides a market-leading brand of electrical distribution and industrial control products, systems and services. Mr. Petratis previously served as the President and Chief Operating Officer of the North American Division of Schneider Electric from December 2002 until his promotion. He was President of MGE Americas, a privately held manufacturer of power supplies, from 1996 through 2002. Mr. Petratis earned a B.A. degree in Industrial Management from the University of Northern Iowa and an M.B.A. from Pepperdine University. He has held positions on the Board of Directors of the University of California, Irvine Graduate School of Management, the California State (Fullerton) Quality Advisory Board and Project Independence, a community agency in Costa Mesa, California for the developmentally disabled. Mr. Petratis also serves on the Board of Governors of National Electrical Manufacturers Association (NEMA).

DIANE K. SCHUMACHER, age 51, has been a director of Gardner Denver since August 2000. Ms. Schumacher has served as Senior Vice President, General Counsel and Secretary of Cooper from 1995 to 2003 and presently serves as Senior Vice President, General Counsel and Chief Compliance Officer. Ms. Schumacher holds a B.A. degree in economics from Southern Illinois University and a J.D. degree from DePaul University College of Law. She also completed the Harvard Advanced Management Program and serves as a director of the American Arbitration Association and is a member of the Executive Committee.

RICHARD L. THOMPSON, age 65, has been a director of Gardner Denver since November 1998. Mr. Thompson served as a Group President and Executive Office Member of Caterpillar Inc., or "Caterpillar," a publicly held manufacturer of construction machinery and equipment, from 1995 until his retirement in June 2004. He earned a B.S. in electrical engineering and an M.B.A. from Stanford University and completed the Caterpillar Advanced Management Program. Mr. Thompson serves as Vice Chairman of the Board of Directors of Lennox International, Inc., a publicly held manufacturer of HVAC and refrigeration equipment, and as a director of NiSource Inc., a publicly held electric and gas utility.

DESCRIPTION OF CAPITAL STOCK

Information about our capital stock appears under "Description of Our Capital Stock" in the accompanying prospectus.

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UNDERWRITING

Subject to the terms and conditions of an Underwriting Agreement, dated April , 2005, the underwriters named below, acting through their representatives, Bear, Stearns & Co. Inc., J.P. Morgan Securities Inc. and KeyBanc Capital Markets, a division of McDonald Investments, Inc. have severally agreed with us, subject to the terms and conditions of the Underwriting Agreement, to purchase from us the number of shares of common stock set forth below opposite their respective names.

UNDERWRITERS	NUMBER OF SHARES
-----	-----
Bear, Stearns & Co. Inc.....	
J. P. Morgan Securities Inc.....	
KeyBanc Capital Markets, a division of McDonald Investments, Inc.	

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Total.....	----- 5,000,000 =====
------------	-----------------------------

The Underwriting Agreement provides that the obligations of the several underwriters to purchase and accept delivery of the shares of our common stock offered by this prospectus supplement are subject to approval by their counsel of legal matters and to other conditions set forth in the Underwriting Agreement. The underwriters are obligated to purchase and accept delivery of all the shares of common stock offered hereby, other than those shares covered by the over-allotment option described below, if any are purchased.

The representatives of the underwriters have advised us that the underwriters propose to initially offer shares of our common stock to the public at the public offering price set forth on the cover page of this prospectus supplement and to certain dealers at that price less a concession not in excess of \$        per share, of which \$        may be reallocated to other dealers. After this offering, the public offering price, concession and other terms of the offering may be changed by the representatives. No such change shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus supplement. The shares of our common stock are offered by the underwriters as stated herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

We have granted to the underwriters an option, exercisable within 30 days after the date of the prospectus supplement, to purchase from time to time up to an aggregate of 750,000 shares of common stock to cover over-allotments, if any, at the public offering price less underwriting discounts and commissions. If the underwriters exercise their over-allotment option to purchase any of the 750,000 additional shares, each underwriter, subject to certain conditions, will become obligated to purchase its pro-rata portion of these additional shares based on the underwriter's percentage underwriting commitment in the offering as indicated in the preceding table. If purchased, these additional shares will be sold by the underwriters on the same terms as those on which the shares offered hereby are being sold. We will be obligated, pursuant to the over-allotment option, to sell shares to the underwriters to the extent the over-allotment option is exercised. The underwriters may exercise the over-allotment option only to cover over-allotments made in connection with the sale of the shares of common stock offered in this offering.

The following table shows the public offering price, underwriting discounts and commissions and proceeds, before expenses, to us. Such amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option to purchase additional shares.

		TOTAL	
PER SHARE	WITHOUT OVER- ALLOTMENT	WITH OVER-ALLOTME	
-----	-----	-----	
Public offering price.....	\$	\$	\$
Underwriting discount.....			
Proceeds to Gardner Denver.....			

We estimate expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be

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approximately \$500,000.

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We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the underwriters may be required to make in respect of those liabilities.

Each of our executive officers and directors will agree, subject to specified exceptions, not to:

- offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to any shares or any options or warrants to purchase any shares, or any securities convertible into or exchangeable for shares owned as of the date of this prospectus supplement or thereafter acquired directly by those holders or with respect to which they have the power of disposition, or
- enter into any swap or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of any shares (regardless of whether any of these transactions are to be settled by the delivery of shares, or such other securities, in cash or otherwise)

for a period of 90 days after the date of this prospectus supplement without the prior written consent of Bear, Stearns & Co. Inc. This restriction terminates after the close of trading of the common stock on the 90th day after the date of this prospectus supplement. However, Bear, Stearns & Co. Inc. may, in its sole discretion and at any time or from time to time before the termination of the 90-day period, without notice, release all or any portion of the securities subject to lock-up agreements. There are no existing agreements between the representative and any of our stockholders who will execute a lock-up agreement, providing consent to the sale of shares prior to the expiration of the lock-up period.

In addition, we have agreed that, subject to certain exceptions, during the lock-up period we will not, without the prior written consent of Bear, Stearns & Co. Inc., consent to the disposition of any shares held by stockholders subject to lock-up agreements prior to the expiration of the lock-up period, or issue, sell, contract to sell, or otherwise dispose of, any shares, any options or warrants to purchase any shares or any securities convertible into, exercisable for or exchangeable for common stock other than our sale of shares in this offering, the issuance of our shares upon the exercise of outstanding options or warrants, and the issuance of options or shares under existing incentive and benefit plans.

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the shares of common stock offered by this prospectus supplement in any jurisdiction when action for that purpose is required. The shares of common stock offered by this prospectus supplement may not be offered or sold, directly or indirectly, nor may this prospectus supplement or any other offering material or advertisements in connection with the offer and sale of any such shares be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus supplement comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus supplement. This prospectus supplement does not constitute an offer to sell or a solicitation of an offer to buy any shares of common stock offered by this prospectus supplement in any jurisdiction

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in which such an offer or a solicitation is unlawful.

OUR SHARES ARE TRADED ON THE NEW YORK STOCK EXCHANGE UNDER THE SYMBOL "GDI."

A prospectus supplement in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriters of this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations. Other than the prospectus supplement in electronic format, the information on any underwriter's web site and any information contained in any other web site maintained by an underwriter is not part of the prospectus supplement or the registration statement of which this prospectus supplement forms a part, has not been approved and/or endorsed by us or any underwriter in its capacity as underwriter and should not be relied upon by investors.

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The representatives of the underwriters have advised us that, pursuant to Regulation M under the Securities Exchange Act, some participants in the offering may engage in transactions, including stabilizing bids, syndicate covering transactions or the imposition of penalty bids, that may have the effect of stabilizing or maintaining the market price of the shares of common stock at a level above that which might otherwise prevail in the open market. A "stabilizing bid" is a bid for or the purchase of shares of common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of the shares of common stock. A "syndicate covering transaction" is the bid for or purchase of shares of common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with the offering. A "penalty bid" is an arrangement permitting the representatives to reclaim the selling concession otherwise accruing to an underwriter or syndicate member in connection with this offering if the shares of common stock originally sold by such underwriter or syndicate member are purchased by the representatives in a syndicate covering transaction and have therefore not been effectively placed by such underwriter or syndicate member. The representatives of the underwriters have advised us that such transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

The underwriters may, from time to time, engage in transactions with, and perform services for, us in the ordinary course of their business. Pending consummation of the Thomas Industries acquisition, we intend to use a portion of the proceeds of this offering to repay outstanding amounts under our existing senior credit facility. Affiliates of Bear, Stearns & Co. Inc., J.P. Morgan Securities Inc. and KeyBanc Capital Markets are lenders under our existing senior credit facility and, as a result, would receive a portion of the proceeds of this offering pending consummation of the acquisition. In addition, JPMorgan Chase Bank, N.A., an affiliate of J.P. Morgan Securities Inc., is the agent under, and J.P. Morgan Securities Inc. is the lead arranger under, our existing senior credit facility. Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. are expected to be the lead arrangers under our amended and restated credit facility. In addition, Bear Stearns Corporate Lending Inc., an affiliate of Bear, Stearns & Co. Inc., and JPMorgan Chase Bank, N.A., an affiliate of J.P. Morgan Securities Inc., are expected to be lenders under and the syndication agent and administration agent, respectively, under our amended and restated credit facility. KeyBank National Association, an affiliate of KeyBanc Capital Markets, is expected to be a lender under our amended and restated credit facility.

LEGAL MATTERS

Certain legal matters in connection with the shares of common stock will be passed upon for us by Bryan Cave LLP, St. Louis, Missouri. Certain legal matters will be passed upon for the underwriters by Cahill Gordon & Reindel LLP, New York, New York.

EXPERTS

The consolidated financial statements of Gardner Denver, Inc. and subsidiaries as of December 31, 2004 and 2003, and for each of the years in the three-year period ended December 31, 2004, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004, have been included in this prospectus supplement in reliance upon the reports of KPMG LLP, an independent registered public accounting firm, and upon the authority of said firm as experts in accounting and auditing.

The audit report on management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting as of December 31, 2004, contains an explanatory paragraph that states that Gardner Denver, Inc. acquired Nash Elmo on September 1, 2004, and management excluded from its assessment of the effectiveness of the Gardner Denver, Inc.'s internal control over financial reporting as of December 31, 2004, Nash Elmo's internal control over financial reporting. Total assets related to Nash Elmo as of December 31, 2004 of \$331 million and revenues for the four-month period subsequent to the acquisition (September 1 - December 31, 2004) of \$84 million were included in the consolidated financial statements of Gardner Denver, Inc. and subsidiaries as of and for the year ended December 31, 2004. The audit of internal control over financial reporting of Gardner Denver, Inc. also excluded an evaluation of the internal control over financial reporting of Nash Elmo.

The consolidated financial statements of Thomas Industries Inc. at December 31, 2004 and 2003, and for each of the years in the three-year period ended December 31, 2004, in this prospectus supplement and registration statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

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### REPORT ON MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Gardner Denver management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control over financial reporting will provide only reasonable assurance with respect to financial statement preparation.

Under the supervision and with the participation of management, including the chief executive officer and chief financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in "Internal Control -- Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in "Internal Control -- Integrated Framework," management concluded that internal control over financial reporting was effective as of December 31, 2004, subject to the scope limitation with respect to Nash Elmo as discussed in the paragraph below.

Gardner Denver acquired Nash Elmo on September 1, 2004. As permitted by SEC guidance, management excluded from its assessment of the effectiveness of Gardner Denver's internal control over financial reporting as of December 31, 2004, Nash Elmo's internal control over financial reporting. Total assets related to Nash Elmo as of December 31, 2004 were \$331 million and revenues for the four-month period subsequent to the acquisition (September 1 -- December 31, 2004) were \$84 million.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of

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Gardner Denver, Inc.:

We have audited the accompanying consolidated balance sheets of Gardner Denver, Inc. and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gardner Denver, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Gardner Denver, Inc.'s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

St. Louis, Missouri  
March 11, 2005

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of  
Gardner Denver, Inc.:

We have audited management's assessment, included in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting, that Gardner Denver, Inc. (the Company) maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Gardner Denver, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public

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Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Gardner Denver, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control -- Integrated Framework issued by COSO. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control -- Integrated Framework issued by COSO.

The Company acquired Nash Elmo on September 1, 2004, and management excluded from its assessment of the effectiveness of Gardner Denver, Inc.'s internal control over financial reporting as of December 31, 2004, Nash Elmo's internal control over financial reporting. Total assets related to Nash Elmo at December 31, 2004 of \$331 million and revenues for the four-month period subsequent to the acquisition (September 1 -- December 31, 2004) of \$84 million were included in the consolidated financial statements of Gardner Denver, Inc. and subsidiaries as of and for the year ended December 31, 2004. Our audit of internal control over financial reporting of Gardner Denver, Inc. also excluded an evaluation of the internal control over financial reporting of Nash Elmo.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Gardner Denver, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2004, and our report dated March 11, 2005 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

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St. Louis, Missouri  
March 11, 2005

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GARDNER DENVER, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31  
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	2004	2003	2002
	-----	-----	-----
REVENUES.....	\$739,539	439,530	418,158
COSTS AND EXPENSES			
Cost of sales.....	498,435	307,753	289,631
Depreciation and amortization.....	21,901	14,566	14,139
Selling and administrative expenses.....	157,453	85,326	79,400
Interest expense.....	10,102	4,748	6,365
Other income, net.....	(638)	(3,221)	(204)
	-----	-----	-----
TOTAL COSTS AND EXPENSES.....	687,253	409,172	389,331
	=====	=====	=====
INCOME BEFORE INCOME TAXES.....	52,286	30,358	28,827
PROVISION FOR INCOME TAXES.....	15,163	9,715	9,225
	-----	-----	-----
NET INCOME.....	\$ 37,123	20,643	19,602
	=====	=====	=====
BASIC EARNINGS PER SHARE.....	\$ 1.96	1.29	1.24
	=====	=====	=====
DILUTED EARNINGS PER SHARE.....	\$ 1.92	1.27	1.22
	=====	=====	=====

The accompanying notes are an integral part of these statements.

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GARDNER DENVER, INC.

CONSOLIDATED BALANCE SHEETS  
DECEMBER 31  
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	2004	2003
	-----	-----
ASSETS		
Current assets		
Cash and equivalents.....	\$ 64,601	132,803
Receivables, (net of allowances of \$7,543 in 2004 and \$4,534 in 2003).....	163,927	81,345
Inventories, net.....	138,386	64,327
Deferred income taxes.....	9,465	3,652

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Other current assets.....	9,143	5,682
	-----	-----
Total current assets.....	385,522	287,809
	-----	-----
Property, plant and equipment, net.....	148,819	75,428
Goodwill.....	374,159	205,488
Other intangibles, net.....	110,173	10,341
Deferred income taxes.....	--	5,374
Other assets.....	9,936	5,293
	-----	-----
Total assets.....	\$1,028,609	589,733
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings and current maturities of long-term debt.....	\$ 32,949	16,875
Accounts payable and accrued liabilities.....	206,069	84,081
	-----	-----
Total current liabilities.....	239,018	100,956
	-----	-----
Long-term debt, less current maturities.....	280,256	165,756
Postretirement benefits other than pensions.....	30,503	32,110
Deferred income taxes.....	21,324	--
Other liabilities.....	52,032	25,006
	-----	-----
Total liabilities.....	\$ 623,133	323,828
	-----	-----
Stockholders' equity:		
Common stock, \$0.01 par value; 50,000,000 shares authorized; 19,947,570 and 16,117,026 shares outstanding in 2004 and 2003, respectively.....	217	178
Capital in excess of par value.....	262,091	174,474
Retained earnings.....	139,430	102,307
Accumulated other comprehensive income.....	30,185	14,893
Treasury stock at cost, 1,739,661 and 1,721,862 shares in 2004 and 2003, respectively.....	(26,447)	(25,947)
	-----	-----
Total stockholders' equity.....	405,476	265,905
	-----	-----
Total liabilities and stockholders' equity.....	\$1,028,609	589,733
	=====	=====

The accompanying notes are an integral part of these statements.

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GARDNER DENVER, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31  
(DOLLARS IN THOUSANDS)

COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	STO
-----	-----	-----	-----	-----	-----

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Balance January 1, 2002.....	\$174	166,262	(25,602)	62,062	(4,168)
	====	=====	=====	=====	=====
Stock issued for benefit plans and options.....	3	4,785			
Treasury stock.....			(217)		
Net income.....				19,602	
Foreign currency translation adjustments.....					8,482
Minimum pension liability adjustments, net of tax of \$4,976.....					(8,460)
	----	-----	-----	-----	-----
Balance December 31, 2002.....	\$177	171,047	(25,819)	81,664	(4,146)
	====	=====	=====	=====	=====
Stock issued for benefit plans and options.....	1	3,427			
Treasury stock.....			(128)		
Net income.....				20,643	
Foreign currency translation adjustments.....					15,734
Minimum pension liability adjustments, net of tax of \$(1,678).....					3,305
	----	-----	-----	-----	-----
Balance December 31, 2003.....	\$178	174,474	(25,947)	102,307	14,893
	====	=====	=====	=====	=====
Stock offering.....	35	79,522			
Stock issued for benefit plans and options.....	4	8,095			
Treasury stock.....			(500)		
Net income.....				37,123	
Foreign currency translation adjustments.....					15,712
Minimum pension liability adjustments, net of tax of \$140.....					(420)
	----	-----	-----	-----	-----
Balance December 31, 2004.....	\$217	262,091	(26,447)	139,430	30,185
	====	=====	=====	=====	=====

The accompanying notes are an integral part of these statements.

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GARDNER DENVER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31  
(DOLLARS IN THOUSANDS)

2004                      2003                      2002

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	-----	-----	-----
Cash flows from operating activities:			
Net income.....	\$ 37,123	20,643	19,602
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization.....	21,901	14,566	14,139
Unrealized foreign currency transaction gain, net....	(980)	(3,212)	--
Net gain on asset dispositions.....	(40)	(370)	(20)
LIFO liquidation income.....	(132)	(367)	(394)
Stock issued for employee benefit plans.....	3,239	2,434	2,342
Deferred income taxes.....	537	5,724	2,455
Changes in assets and liabilities:			
Receivables.....	(6,011)	(3,568)	13,321
Inventories.....	(1,745)	7,270	11,254
Accounts payable and accrued liabilities.....	20,526	4,095	(9,313)
Other assets and liabilities, net.....	2,334	(932)	(905)
	-----	-----	-----
Net cash provided by operating activities.....	76,752	46,283	52,481
	-----	-----	-----
Cash flows from investing activities:			
Business acquisitions, net of cash acquired.....	(295,313)	(2,402)	--
Capital expenditures.....	(19,550)	(11,950)	(13,641)
Disposals of property, plant and equipment.....	557	1,959	200
Foreign currency hedging transactions.....	(1,258)	--	(5)
Other.....	--	(516)	--
	-----	-----	-----
Net cash used in investing activities.....	(315,564)	(12,909)	(13,446)
	-----	-----	-----
Cash flows from financing activities:			
Principal payments on short-term borrowings.....	(3,648)	--	--
Proceeds from short-term borrowings.....	327	--	--
Principal payments on long-term debt.....	(274,470)	(59,532)	(109,442)
Proceeds from long-term debt.....	362,533	122,000	62,000
Proceeds from issuance of common stock.....	79,557	--	--
Proceeds from stock options.....	4,860	993	2,446
Purchase of treasury stock.....	(500)	(128)	(217)
Debt issuance costs.....	(1,847)	(302)	(754)
	-----	-----	-----
Net cash provided by (used in) financing activities.....	166,812	63,031	(45,967)
	-----	-----	-----
Effect of exchange rate changes on cash and equivalents.....	3,798	10,731	2,619
	-----	-----	-----
(Decrease) increase in cash and equivalents.....	(68,202)	107,136	(4,313)
Cash and equivalents, beginning of year.....	132,803	25,667	29,980
	-----	-----	-----
Cash and equivalents, end of year.....	\$ 64,601	132,803	25,667
	=====	=====	=====

The accompanying notes are an integral part of these statements.

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS OR AMOUNTS DESCRIBED IN MILLIONS)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### BASIS OF PRESENTATION

The accompanying consolidated financial statements reflect the operations of Gardner Denver, Inc. ("Gardner Denver" or the "Company") and its subsidiaries. Certain prior year amounts have been reclassified to conform with current year presentation.

### PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated.

### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### FOREIGN CURRENCY TRANSLATION

Assets and liabilities of the Company's foreign operations are translated at the exchange rate in effect at the balance sheet date, while revenues and expenses are translated at average rates prevailing during the year. Translation adjustments are reported in accumulated other comprehensive income, a separate component of stockholders' equity.

### REVENUE RECOGNITION

The Company recognizes product revenue when the products are shipped and title passes to the customer and collection is reasonably assured. Service revenue is recognized when services are performed and earned and collection is reasonably assured.

### CASH EQUIVALENTS

Cash equivalents are highly liquid investments (valued at cost, which approximates fair value) acquired with an original maturity of three months or less. As of December 31, 2003, \$62.4 million (\$111.4 million) in cash was deposited on account to acquire the shares of Syltone (See Note 2). These funds were restricted for such use until the acquisition was consummated. As of December 31, 2004, cash of \$5.3 million was pledged to financial institutions as collateral to support the issuance of standby letters of credit and similar instruments on behalf of the Company and its subsidiaries.

### INVENTORIES

Inventories, which consist of materials, labor and manufacturing overhead, are carried at the lower of cost or market value. As of December 31, 2004, \$97.5 million (70%) of the Company's inventory is accounted for on a first-in, first-out (FIFO) basis, with the remaining \$40.9 million (30%) accounted for on a last-in, first-out (LIFO) basis.

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)



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### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets: buildings -- 10 to 45 years; machinery and equipment -- 10 to 12 years; office furniture and equipment -- 3 to 10 years; and tooling, dies, patterns, etc. -- 3 to 7 years.

### GOODWILL AND OTHER INTANGIBLES

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations." Among other things, this standard requires that intangible assets acquired in a business combination be recognized (at fair value) apart from goodwill if they meet one of two criteria -- the contractual-legal criterion or the separability criterion. The Company has also adopted SFAS No. 142 "Goodwill and Other Intangible Assets." Under the provisions of this standard, intangible assets deemed to have indefinite lives and goodwill are not subject to amortization. All other intangible assets are amortized over their estimated useful lives. Goodwill and other intangible assets not subject to amortization are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. This testing requires comparison of carrying values to fair values, and when appropriate, the carrying value of impaired assets is reduced to fair value.

The Company uses the straight-line method to amortize intangible assets (subject to amortization) over their estimated useful lives, generally 5 to 20 years. During the second quarter of 2004, the Company completed its annual impairment test and determined that no impairment existed.

### IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed are reported at the lower of the carrying amount or fair value, less costs to dispose.

### PRODUCT WARRANTY

The Company's product warranty liability is calculated based primarily upon historical warranty claims experience. Management also factors into the product warranty accrual any specific warranty issues identified during the period which are expected to impact future periods and may not be consistent with historical claims experience. Product warranty accruals are reviewed regularly by management and adjusted from time to time when actual warranty claims experience differs from that estimated.

### PENSION AND OTHER POSTRETIREMENT BENEFITS

Pension and other postretirement benefit obligations and expense (or income) are dependent on assumptions used in calculating such amounts. These assumptions include the discount rate, rate of compensation increases, expected return on plan assets and expected healthcare trend rates. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods.

### INCOME TAXES

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The Company has determined tax expense and other deferred tax information based on the liability method. Deferred income taxes are provided to reflect temporary differences between financial and tax reporting.

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GARDNER DENVER, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### RESEARCH AND DEVELOPMENT

Costs for research and development are expensed as incurred and were \$6,186, \$2,808 and \$2,398 for the years ended December 31, 2004, 2003 and 2002, respectively.

#### FINANCIAL INSTRUMENTS

All derivative instruments are reported on the balance sheet at fair value. For each derivative instrument designated as a cash flow hedge, the gain or loss on the derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. For each derivative instrument designated as a fair value hedge, the gain or loss on the derivative instrument and the offsetting gain or loss on the hedged item are recognized immediately in earnings. Currency fluctuations on non-U.S. dollar borrowings that have been designated as hedges on the Company's investment in a foreign subsidiary are included in other comprehensive income.

#### STOCK-BASED COMPENSATION

As allowed under SFAS No. 123, "Accounting for Stock-Based Compensation," the Company measures its compensation cost of equity instruments issued under employee compensation plans using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees," and related interpretations. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment to SFAS No. 123," to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Under APB No. 25, no compensation cost was recognized for the Company's stock option plans. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards outstanding during 2004, 2003 and 2002 consistent with the provisions of this Statement, the Company's net income and earnings per share would have been as shown in the table below:

	2004	2003	2002
	-----	-----	-----
Net income, as reported.....	\$37,123	20,643	19,602
Less: Total stock-based employee compensation expense determined under fair value method, net of related tax effects.....	(1,359)	(1,252)	(1,274)
Pro forma net income.....	\$35,764	19,391	18,328
	=====	=====	=====
Earnings per share:			
Basic earnings per share, as reported.....	\$ 1.96	1.29	1.24
Basic earnings per share, pro forma.....	\$ 1.89	1.21	1.16
Diluted earnings per share, as reported.....	\$ 1.92	1.27	1.22

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Diluted earnings per share, pro forma..... \$ 1.85 1.19 1.14

Compensation costs charged against income (net of tax) for restricted stock issued under the Company's Incentive Plan totaled \$0.2 million in 2003. There were no restricted stock awards in 2004 or in 2002.

### COMPREHENSIVE INCOME

Items impacting the Company's comprehensive income, but not included in net income, consist of translation adjustments, including realized and unrealized gains and losses (net of income taxes) on the foreign currency hedge of the Company's investment in a foreign subsidiary, fair market value adjustments of interest rate swaps and additional minimum pension liability (net of income taxes). See Note 8 for further discussion of additional minimum pension liability adjustments.

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GARDNER DENVER, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### NEW ACCOUNTING STANDARDS

In May 2004, the FASB issued Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," ("FAS 106-2"). FAS 106-2 supersedes Staff Position No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," and provides guidance on the accounting, disclosure, effective date and transition related to the Prescription Drug Act. FAS 106-2 was effective for the third quarter of 2004. According to an actuarial assessment, the Company currently provides prescription drug benefits, which are actuarially equivalent to the Medicare prescription drug benefit, to certain retired and other employees and will therefore qualify for the subsidy. As a result, the Company accounted for the federal subsidy attributable to past services as an actuarial gain, which reduced the accumulated post-retirement benefit obligation. This actuarial gain is then amortized in future periods in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The federal subsidy attributable to employee service rendered in current and future periods will reduce future net periodic postretirement benefit cost as those employees provide service. The Company has adopted FAS 106-2 resulting in a favorable impact to diluted earnings per share of \$0.01 in 2004. The favorable impact to diluted earnings per share in 2005 is expected to be \$0.02.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs -- an amendment to ARB No. 43, Chapter 4." This statement amends previous guidance and requires expensing for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). In addition, the statement requires that allocation of fixed production overheads to inventory be based on the normal capacity of production facilities. SFAS No. 151 is effective for inventory costs incurred during annual periods beginning after June 15, 2005. The Company is currently evaluating the impact of SFAS No. 151 on its future consolidated financial statements.

In December 2004, the FASB issued a revision to SFAS No. 123, "Accounting for Stock-Based Compensation," SFAS No. 123-R, "Share-Based Payment." SFAS No. 123-R focuses primarily on transactions in which an entity exchanges its equity instruments for employee services and generally establishes standards for the accounting for transactions in which an entity obtains goods or services in share-based payment transactions. The Company will adopt SFAS No. 123-R in the

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third quarter of fiscal 2005 and currently expects an unfavorable impact on diluted earnings per share of approximately \$0.03 to \$0.05, in the second half of 2005.

In December 2004, the FASB issued Staff Position No. FAS 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004," ("FAS 109-1"), and Staff Position No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," ("FAS 109-2"). FAS 109-1 requires that companies who qualify for the recent tax law's deduction for domestic production activities to account for it as a special deduction under Statement No. 109 and reduce their tax expense in the period or periods the amounts are deductible on the tax return. FAS 109-2 allows companies additional time to evaluate whether foreign earnings will be repatriated under the repatriation provisions of the new tax law and requires specific disclosures for companies needing additional time to complete the evaluation. Both staff positions are effective immediately and the required income tax disclosures have been included in Note 10.

### NOTE 2: ACQUISITIONS

On September 1, 2004, the Company acquired nash\_elmo Holdings, LLC ("Nash Elmo"). Nash Elmo is a leading global manufacturer of industrial vacuum pumps and is primarily split between two businesses, liquid ring pumps and side channel blowers. Both businesses' products are complementary to the Compressor and Vacuum Products segment's existing product portfolio. The purchase price of \$224.6 million, including

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GARDNER DENVER, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

assumed bank debt (net of cash acquired) and direct acquisition costs, was paid in cash and the assumption of certain of Nash Elmo's debt (\$10.4 million). There are no additional contingent payments or commitments related to this acquisition.

This acquisition has been accounted for by the purchase method and, accordingly, its results are included in the Company's consolidated financial statements from the date of acquisition. The purchase price (including direct acquisition costs) has been allocated primarily to receivables (\$35,629); inventory (\$47,749); property, plant and equipment (\$34,461); intangible assets (\$170,893); other assets (\$6,880); accounts payable and accrued liabilities (\$48,985); net deferred income tax liabilities (\$18,515) and other long-term liabilities (\$3,547), based on their estimated fair values on the date of acquisition. This allocation reflects the Company's preliminary estimates of the purchase price allocation and is subject to change upon completion of appraisals in 2005. Further, other assets and liabilities may be identified to which a portion of the purchase price could be allocated.

The following table summarizes the preliminary fair values of the intangible assets acquired in the Nash Elmo acquisition:

Amortized intangible assets:	
Customer lists and relationships.....	\$ 44,000

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Other.....	7,245
Unamortized intangible assets:	
Goodwill.....	91,648
Tradenames.....	28,000
	-----
Total intangible assets.....	\$170,893
	=====

The preliminary weighted average amortization period for customer lists and relationships and other amortized intangible assets is 20 years and 5 years, respectively. The total amount of goodwill that is expected to be deductible for tax purposes is approximately \$10 to \$15 million. The assignment of goodwill has been allocated to the Compressor and Vacuum Products segment.

On January 2, 2004, the Company acquired the outstanding shares of Syltone plc ("Syltone"), previously a publicly traded company listed on the London Stock Exchange. Syltone, previously headquartered in Bradford, United Kingdom ("U.K."), is one of the world's largest manufacturers of equipment used for loading and unloading liquid and dry bulk products on commercial transportation vehicles. This equipment includes compressors, blowers and other ancillary products that are complementary to the Company's product lines. Syltone is also one of the world's largest manufacturers of fluid transfer equipment (including loading arms, swivel joints, couplers and valves) used to load and unload ships, tank trucks and rail cars. The purchase price of L63.0 million (or approximately \$112.5 million), including assumed bank debt (net of cash acquired) and direct acquisition costs, was paid in the form of cash (L46.3 million), new loan notes (L5.2 million) and the assumption of Syltone's existing bank debt, net of cash acquired (L11.5 million). There are no additional contingent payments or commitments related to this acquisition.

This acquisition has been accounted for by the purchase method, and accordingly, its results are included in the Company's consolidated financial statements from the date of acquisition. The purchase price has been allocated primarily to receivables (\$30,382); inventory (\$20,554); property, plant and equipment (\$33,488); intangible assets (\$90,160); accounts payable and accrued liabilities (\$40,581); net deferred income tax liabilities (\$1,796) and other long-term liabilities (\$19,658), based on their estimated fair values on the date of acquisition.

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table summarizes the fair values of the intangible assets acquired in the Syltone acquisition:

Amortized intangible assets:	
Customer lists and relationships.....	\$ 8,000
Other.....	4,867
Unamortized intangible assets:	
Goodwill.....	68,803
Tradenames.....	8,490
	-----
Total intangible assets.....	\$90,160
	=====

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The weighted average amortization period for customer lists and relationships and other amortized intangible assets is 20 years and 5 years, respectively. The total amount of goodwill that is expected to be deductible for tax purposes is not anticipated to be significant, given the stock nature of the acquisition. The assignment of goodwill has been allocated to the Compressor and Vacuum Products segment (\$57,194) and the Fluid Transfer Products segment (\$11,609). See Note 14 for additional segment information.

The following table summarizes the unaudited supplemental pro forma information as if the Nash Elmo and Syltone acquisitions had been completed on January 1, 2003 (this unaudited information is subject to change upon finalization of the purchase price allocation of Nash Elmo):

	2004	2003
	-----	-----
	(UNAUDITED)	
Revenues.....	\$895,856	790,696
Net Income.....	43,043	20,356
Diluted earnings per share.....	\$ 2.22	1.25

The 2003 pro forma net income reflects the negative impact of a one-time adjustment on cost of sales of approximately \$3.6 million stemming from recording Syltone's and Nash Elmo's inventory at fair value.

In August 2003, the Company paid \$2.4 million to acquire certain assets and assume certain liabilities of a small machine shop operation in Odessa, Texas. This operation services and repairs well stimulation and drilling pumps serving the Permian Basin and thus, its financial results were included in the Fluid Transfer Products segment from the date of acquisition. There are no additional contingent payments or commitments related to this acquisition. The amounts assigned to goodwill and other intangible assets were inconsequential.

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.

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 3: INVENTORIES

	2004	2003
	-----	-----
Raw materials, including parts and subassemblies.....	\$ 62,477	34,992
Work-in-process.....	23,405	8,506
Finished goods.....	57,321	25,362
	-----	-----
	143,203	68,860

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Excess of FIFO costs over LIFO costs.....	(4,817)	(4,533)
	-----	-----
Inventories, net.....	\$138,386	64,327
	=====	=====

During 2004, 2003 and 2002, reductions in inventory quantities (net of acquisitions) resulted in liquidations of LIFO inventory layers carried at lower costs prevailing in prior years. The effect was to increase net income in 2004, 2003 and 2002 by \$94, \$249 and \$268, respectively. It is the Company's policy to record the earnings effect of LIFO inventory liquidations in the quarter which a decrease for the entire year becomes certain. In each of the years 2002 through 2004, the LIFO liquidation income was recorded in the fourth quarter. The Company believes that FIFO costs in the aggregate approximates replacement or current cost and thus the excess of replacement or current cost over LIFO value was \$4.8 million and \$4.5 million as of December 31, 2004 and 2003, respectively.

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

	2004	2003
	-----	-----
Land and land improvements.....	\$ 15,304	8,710
Buildings.....	75,482	41,727
Machinery and equipment.....	141,130	114,594
Tooling, dies, patterns, etc. ....	23,516	13,884
Office furniture and equipment.....	22,715	14,574
Other.....	10,242	6,780
Construction in progress.....	4,664	2,612
	-----	-----
Accumulated depreciation.....	(144,234)	(127,453)
	-----	-----
Property, plant and equipment, net.....	\$ 148,819	75,428
	=====	=====

NOTE 5: GOODWILL AND OTHER INTANGIBLE ASSETS

As discussed in Note 1, the Company has adopted SFAS No. 142. This statement required, among other things, the discontinuation of goodwill amortization, assignment of goodwill to reporting units, and completion of a transitional goodwill impairment test. Substantially all goodwill was assigned to the reporting unit that acquired the business. Under the impairment test, if a reporting unit's carrying amount exceeds its estimated fair value, a goodwill impairment is recognized to the extent that the reporting unit's carrying amount of goodwill exceeds the implied fair value of the goodwill. The fair value of each reporting unit was estimated using discounted cash flows and market multiples. During the second quarter of 2004, the Company completed its annual impairment test and determined that no impairment existed.

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The changes in the carrying amount of goodwill attributable to each business segment for the years ended December 31, 2004 and 2003 are as follows:

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	COMPRESSOR & VACUUM PRODUCTS	FLUID TRANSFER PRODUCTS	TOTAL
	-----	-----	-----
Balance as of January 1, 2003.....	\$176,230	25,531	201,761
	=====	=====	=====
Acquisitions.....	--	103	103
Foreign currency translation.....	3,624	--	3,624
	-----	-----	-----
Balance as of December 31, 2003.....	179,854	25,634	205,488
	=====	=====	=====
Acquisitions.....	148,842	11,609	160,451
Foreign currency translation.....	7,379	841	8,220
	-----	-----	-----
Balance as of December 31, 2004.....	\$336,075	38,084	374,159
	=====	=====	=====

Other intangible assets at December 31, 2004 and 2003 consisted of the following:

	DECEMBER 31, 2004		DECEMBER 31, 2003	
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
	-----	-----	-----	-----
Amortized intangible assets:				
Customer lists and relationships.....	\$ 53,855	\$ (2,153)	1,295	(927)
Acquired technology.....	19,218	(9,732)	13,312	(8,002)
Other.....	11,352	(2,508)	2,943	(1,337)
Unamortized intangible assets:				
Trademarks.....	40,141	--	3,057	--
	-----	-----	-----	-----
Total other intangible assets.....	\$124,566	\$ (14,393)	20,607	(10,266)
	=====	=====	=====	=====

Amortization of intangible assets was \$4.4 million and \$1.4 million in 2004 and 2003, respectively. Amortization of intangible assets is anticipated to be approximately \$7.0 million per year for 2005 through 2009 based upon intangible assets with finite useful lives included in the balance sheet as of December 31, 2004.

NOTE 6: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2004	2003
	-----	-----
Accounts payable-trade.....	\$ 81,977	39,691
Salaries, wages and related fringe benefits.....	39,251	14,661
Taxes.....	12,860	3,422
Advance payments on sales contracts.....	11,600	1,000
Product warranty.....	10,671	6,635



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Product liability, workers' compensation and insurance.....	8,030	5,046
Other.....	41,680	13,626
	-----	-----
Total accounts payable and accrued liabilities.....	\$206,069	84,081
	=====	=====

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

A reconciliation of the changes in the accrued product warranty liability for the years ended December 31, 2004, 2003 and 2002 is as follows:

	2004	2003	2002
	-----	-----	-----
Balance as of January 1.....	\$ 6,635	7,060	7,578
Product warranty accruals.....	7,476	5,420	5,281
Settlements.....	(7,611)	(6,171)	(6,126)
Other (primarily acquisitions and foreign currency translation).....	4,171	326	327
	-----	-----	-----
Balance as of December 31.....	\$10,671	6,635	7,060
	=====	=====	=====

NOTE 7: DEBT

	2004	2003
	-----	-----
SHORT-TERM DEBT:		
Revolving Loans, due 2005(1).....	\$ 10,898	--
Other.....	1,729	--
	-----	-----
Total short-term debt.....	\$ 12,627	--
	=====	=====
LONG-TERM DEBT:		
Credit Line, due 2009(2).....	\$113,635	114,000
Term Loan, due 2009(3).....	148,125	45,625
Secured Mortgages at 4.6%, due 2022(4).....	10,362	--
Unsecured Senior Note at 7.3%, due 2006.....	10,000	15,000
Variable Rate Industrial Revenue Bonds, due 2018(5).....	8,000	8,000
Term Loans, due 2007(6).....	6,001	--
Other.....	4,455	6
	-----	-----
Total long-term debt including current maturities.....	300,578	182,631
Current maturities of long-term debt.....	20,322	16,875
	-----	-----
Long-term debt, less current maturities.....	\$280,256	165,756
	=====	=====

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- (1) This amount consists of three loan agreements with similar terms assumed in the 2004 acquisition of Syltone. The loans are Euro denominated and had an outstanding balance of E8,046 at December 31, 2004. At December 31, 2004 the rate on this debt was 2.9% and averaged 3.0% for the year ended December 31, 2004.
- (2) The loans under this facility may be denominated in U.S. dollars or several foreign currencies. At December 31, 2004, the outstanding balance consisted of U.S. dollar borrowings of \$73,000 and Euro borrowings of E30,000. The interest rates under the facility are based on prime, federal funds and/or LIBOR for the applicable currency and were 4.2% and 4.0% as of December 31, 2004 for the U.S. dollar and Euro loans, respectively. The rates averaged 3.6% and 4.0% for the year ended December 31, 2004 for the U.S. dollar and Euro loans, respectively.
- (3) The interest rate varies with prime, federal funds and/or LIBOR. As of December 31, 2004, this rate was 4.1% and averaged 3.5% for the year ended December 31, 2004.
- (4) This amount consists of two commercial bank loans assumed in the 2004 acquisition of Nash Elmo with an outstanding balance of E7,650 at December 31, 2004. The loans are secured by the Company's facility in Bad Neustadt, Germany and are net of unamortized discount of E270.

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GARDNER DENVER, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

- (5) The interest rate varies with market rates for tax-exempt industrial revenue bonds. As of December 31, 2004, this rate was 2.1% and averaged 1.3% for the year ended December 31, 2004.
- (6) This amount consists of two loan agreements with similar terms assumed in the 2004 acquisition of Syltone. The loans are denominated in British pounds and had an outstanding balance of L3,133 at December 31, 2004. At December 31, 2004 the rate on this debt was 3.1% and averaged 3.1% for the year ended December 31, 2004.

On January 20, 1998, the Company entered into a Revolving Line of Credit Agreement (the "Credit Agreement") with an aggregate \$125,000 borrowing capacity and terminated a previous agreement. On March 6, 2002, the Company amended and restated its Credit Agreement, increasing the aggregate borrowing capacity to \$150,000 and extending the maturity date to March 6, 2005. On September 1, 2004, the Company amended and restated the Credit Agreement once again, increasing the borrowing capacity to \$375,000. This latter amended and restated Credit Agreement provided the Company with access to senior secured credit facilities including a \$150,000 five-year Term Loan and a \$225,000 five-year Revolving Line of Credit (the "Credit Line"). Proceeds from the Credit Agreement were used to fund the Nash Elmo acquisition and retire debt outstanding under its previously existing Credit Line and Term Loan.

The Credit Line has a borrowing capacity of \$225,000 and the total debt balance is due upon final maturity on September 1, 2009. On December 31, 2004, the Credit Line had an outstanding principal balance of \$113,635, leaving \$111,365 available for letters of credit or future use, subject to the terms of the Credit Line.

The \$150,000 Term Loan has a final maturity of September 1, 2009. The Term Loan requires principal payments totaling \$7,500, \$15,000, \$22,500, \$37,500 and \$67,500 in years one through five, respectively. Other terms and conditions of

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the Term Loan are similar to those of the Credit Line.

In September 1996, the Company obtained fixed rate financing by entering into an unsecured senior note agreement for \$35,000. This note has a ten-year final, seven-year average maturity, with principal payments that began in 2000.

On April 23, 1998, the Fayette County Development Authority issued \$9,500 in industrial revenue bonds, on behalf of the Company, to finance the cost of constructing and equipping a new manufacturing facility in Peachtree City, Georgia. On July 2, 2001, the Company prepaid \$1,500 of principal from unused funds. The remaining principal for these industrial revenue bonds is to be repaid in full on March 1, 2018. These industrial revenue bonds are secured by an \$8,100 letter of credit.

The Company's borrowing arrangements permit certain investments and dividend payments and are generally unsecured with the exception of the Credit Agreement, which requires the pledge of the stock of certain wholly-owned subsidiaries, and a security interest in the Company's manufacturing facility in Bad Neustadt, Germany. There are no material restrictions on the Company as a result of its credit arrangements, other than customary covenants regarding certain earnings, liquidity and capital ratios.

Debt maturities for the five years subsequent to December 31, 2004 and thereafter, are \$32,949, \$26,022, \$28,068, \$45,618, \$164,878 and \$16,036, respectively.

Cash paid for interest in 2004, 2003 and 2002 was \$7,817, \$4,498 and \$6,263, respectively.

The rentals for all operating leases were \$7,814, \$3,818, and \$3,357 in 2004, 2003 and 2002, respectively. Future minimum rental payments for operating leases for the five years subsequent to December 31, 2004 and thereafter are \$9,608, \$7,252, \$5,409, \$4,305, \$2,000 and \$9,659, respectively.

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

### NOTE 8: PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company sponsors retirement plans covering substantially all worldwide employees. Benefits are provided to employees under defined benefit pay-related and service-related plans, which are generally noncontributory in the U.S. and Germany and are generally contributory in the U.K. Annual Company contributions to U.S. retirement plans equal or exceed the minimum funding requirements of the Employee Retirement Income Security Act of 1974. The retirement plans covering the employees of the Company's operation in Schopfheim, Germany are unfunded and the full amount of the pension benefit obligation is included as an accrued benefit liability on the Consolidated Balance Sheets.

With regard to the 2001 Belliss & Morcom acquisition, the majority of the employees are based in the U.K. and are provided retirement benefits under a contributory defined benefit pay and service-related plan. Under the Company's purchase agreement, these employees were allowed to continue to participate in the seller's benefit plan for a period of up to one year from the acquisition date. Within this one-year timeframe, the Company established a similar retirement plan arrangement allowing employees the option of transferring their accumulated benefit. The purchase agreement also required the transfer from the seller's plan of plan assets in excess of the transferred accumulated benefit obligation. As of December 31, 2002, the Company had not received this transfer

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and thus an estimate of this receivable was included in the reconciliation of fair value of plan assets table presented below. During 2003, the Company settled this receivable resulting in adjustments to the benefit obligation and fair value of plan assets for non-U.S. pension plans. These adjustments are included on the "acquisitions" line in the reconciliation table below. Participation in this plan was frozen as of January 1, 2004. Employees hired after that date participate in a contributory defined contribution plan.

With regard to the 2004 Syltone acquisition, the majority of the employees are based in the U.K. and Germany. In the U.K., the majority of these employees are provided benefits under a contributory defined benefit pay and service-related plan. Participation in this plan was frozen as of July 1, 2003. Employees hired after that date participate in a contributory defined contribution plan. In Germany, with regard to employees of the Syltone acquisition, employees are provided benefits under either a non-contributory defined benefit pay and service-related plan or under a contributory defined contribution plan.

With regard to the Nash Elmo 2004 acquisition, the majority of the employees are based in the U.S. and Germany. In the U.S., employees are provided benefits under both a non-contributory defined contribution plan and under another defined contribution plan with no Company contributions. In Germany, certain employees are covered by a non-contributory defined benefit pay and service related plan. Employees hired after October 2000, are covered by a non-contributory defined contribution plan.

Due to the significant declines in the financial markets, the fair value of the plan assets of certain of the Company's funded defined benefit pension plans was less than their accumulated benefit obligation at December 31, 2002. As a result, the Company recorded a non-cash charge to stockholders' equity (accumulated other comprehensive loss) in the amount of \$8.5 million (net of income taxes of \$5.0 million) in the fourth quarter of 2002. During 2003, the financial markets and the assets of the Company's funded benefit pension plans experienced significant gains. As a result, the Company recorded a credit to accumulated other comprehensive income of \$3.3 million (net of income taxes of \$1.7 million) to reduce its additional minimum pension liability. During 2004, the Company's recorded an additional non-cash charge to accumulated other comprehensive income of \$0.4 million (net of income taxes of \$0.1 million) to increase the additional minimum pension liability.

The Company also sponsors defined contribution plans. Benefits are determined and funded annually based on terms of the plans or as stipulated in a collective bargaining agreement. Certain of the Company's full-time salaried and nonunion hourly employees in the U.S. are eligible to participate in Company-sponsored defined contribution savings plans, which are qualified plans under the requirements of

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Section 401(k) of the Internal Revenue Code. The Company's matching contributions to the savings plans are in the form of the Company's common stock.

The full-time salaried and hourly employees of the Company's operations in Finland have pension benefits, which are guaranteed by the Finnish government. Although the plans are similar to defined benefit plans, the guarantee feature of the government causes the substance of the plans to be defined contribution. Therefore, the discounted future liability of these plans is not included in the

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liability for defined benefit plans, but the expense for the Company's contribution is included in the pension benefit cost for defined contribution plans.

Certain salaried employees in the U.S. who retired prior to 1989, as well as certain other employees who were near retirement and elected to receive certain benefits and certain Nash Elmo employees, have retiree medical, prescription and life insurance benefits. In most cases, the Nash Elmo retirees pay the entire cost of their coverage. No other active salaried employees have postretirement medical benefits. The hourly employees have separate plans with varying benefit formulas. In all cases, however, no currently active hourly employee, except for certain employees who are near retirement, will receive healthcare benefits after retirement. All of the Company's postretirement medical plans are unfunded.

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following tables provide a reconciliation of the changes in both the pension and other postretirement plans benefit obligations and fair value of assets over the two-year period ended December 31, 2004, and a statement of the funded status as of December 31, 2004 and 2003:

	PENSION BENEFITS				OTHER POSTRETI BENEFITS
	U.S. PLANS		NON-U.S. PLANS		
	2004	2003	2004	2003	
RECONCILIATION OF BENEFIT OBLIGATION					
Obligation as of January 1.....	\$ 58,531	55,633	\$ 33,388	26,541	\$ 27,664
Service cost.....	2,119	1,988	4,187	1,528	16
Interest cost.....	3,356	3,430	6,413	1,416	1,649
Actuarial loss (gain).....	1,129	2,156	1,248	3,617	(1,804)
Employee contributions.....	--	--	1,065	415	--
Benefit payments.....	(4,466)	(4,676)	(2,464)	(920)	(2,617)
Acquisitions.....	--	--	98,652	(2,667)	585
Effect of foreign currency exchange rate changes.....	--	--	7,994	3,458	--
Obligation as of December 31.....	\$ 60,669	58,531	\$150,483	33,388	\$ 25,493
RECONCILIATION OF FAIR VALUE OF PLAN ASSETS					
Fair value of plan assets as of January 1.....	\$ 44,305	40,539	\$ 23,059	18,358	
Actual return on plan assets.....	4,733	7,304	8,270	3,891	
Acquisitions.....	--	--	76,015	(996)	
Employer contributions.....	3,201	1,138	3,394	102	
Employee contributions.....	--	--	1,065	415	
Benefit payments.....	(4,466)	(4,676)	(3,403)	(920)	
Effect of foreign currency exchange rate changes.....	--	--	5,994	2,209	
Fair value of plan assets as of December 31.....	\$ 47,773	44,305	\$114,394	23,059	

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	=====	=====	=====	=====	=====	=====
FUNDED STATUS						
Funded status as of December 31.....	\$ (12,896)	(14,226)	\$ (36,089)	(10,329)	\$ (25,493)	(2)
Unrecognized transition liability.....	4	9	--	--	742	
Unrecognized prior-service cost.....	(451)	(537)	--	--	(730)	
Unrecognized loss (gain).....	8,911	9,069	7,343	6,249	(7,723)	(
	-----	-----	-----	-----	-----	-----
Accrued benefit liability.....	\$ (4,432)	(5,685)	\$ (28,746)	(4,080)	\$ (33,204)	(3
	=====	=====	=====	=====	=====	=====

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The total pension and other postretirement accrued benefit liability is included in the balance sheets in the following captions:

	2004	2003
	-----	-----
Deferred income taxes.....	\$ 3,438	3,298
Accounts payable and accrued liabilities.....	(2,966)	(2,380)
Postretirement benefits other than pensions.....	(30,503)	(32,110)
Other liabilities.....	(41,926)	(18,218)
Accumulated other comprehensive income.....	5,575	5,155
	-----	-----
Total pension and other postretirement accrued benefit liability.....	\$ (66,382)	(44,255)
	=====	=====

The aggregate accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets at December 31, 2004 and 2003 are as follows:

	DECEMBER 31,			
	U.S. PLANS		NON-U.S. PLANS	
	2004	2003	2004	2003
	-----	-----	-----	-----
Accumulated benefit obligation.....	\$60,562	58,412	\$119,094	4,360
Fair value of plan assets.....	\$47,773	44,305	\$104,629	--

The following table provides the components of net periodic benefit expense (income) for the plans for the years ended December 31, 2004, 2003 and 2002:

PENSION BENEFITS

-----	-----	-----	-----
U.S. PLANS	NON-U.S. PLANS	OTHER POS	-----
-----	-----	-----	-----

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	2004	2003	2002	2004	2003	2002	2004
	-----	-----	-----	-----	-----	-----	-----
Service cost.....	\$ 2,119	1,988	2,200	\$ 4,187	1,529	1,288	\$ 16
Interest cost.....	3,356	3,430	3,658	6,413	1,416	1,302	1,649
Expected return on plan assets.....	(3,701)	(3,269)	(4,180)	(6,853)	(1,474)	(1,717)	--
Amortization of transition liability.....	5	5	8	--	--	--	25
Amortization of prior-service cost.....	(86)	(86)	(86)	--	--	--	(156)
Amortization of net loss (gain).....	255	439	2	211	211	2	(559)
	-----	-----	-----	-----	-----	-----	-----
Net periodic benefit expense (income).....	1,948	2,507	1,602	3,958	1,682	875	\$ 975
	-----	-----	-----	-----	-----	-----	=====
Defined contribution plans....	3,021	2,548	2,576	1,677	1,378	1,281	
	-----	-----	-----	-----	-----	-----	
Total retirement expense....	\$ 4,969	5,055	4,178	\$ 5,635	3,060	2,156	
	=====	=====	=====	=====	=====	=====	

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following weighted average assumptions were used to determine the benefit obligations and net periodic benefit expense (income) for pension and other postretirement plans:

	PENSION AND OTHER POSTRETIREMENT BENEFITS					
	U.S. PLANS			NON-U.S. PLANS		
	2004	2003	2002	2004	2003	2002
	-----	-----	-----	-----	-----	-----
Discount rate(1).....	6.0%	6.3	6.8	5.4%	5.5	5.6
Rate of increase in compensation levels(2).....	5.0%	5.0	5.0	3.4%	3.5	3.3
Expected long-term rate of return on assets(2).....	9.0%	9.0	9.0	7.6%	8.3	8.0

(1) Net periodic benefit expense (income) is determined by the previous year's discount rate

(2) Applies only to pension plans

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

For measurement purposes, the annual rate of increase in the per capita

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cost of covered healthcare benefits assumed for 2004 was 8.4% for all participants. The rates were assumed to decrease gradually each year to a rate of 5.0% for 2010 and remain at that level thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement medical plans. A one-percentage point change in assumed healthcare cost trend rates would have the following effects:

	ONE-PERCENTAGE POINT	
	INCREASE	DECREASE
Effect on total of service and interest cost components of net periodic other postretirement benefit cost -- increase (decrease).....	9.1%	(8.0)%
Effect on the postretirement benefit obligation -- increase (decrease).....	8.5%	(7.5)%

The primary objectives for the investment of pension plan assets is to secure participant retirement benefits and to minimize reliance on contributions as a source of benefit security. Plan assets are invested consistent with the provisions of prudence and diversification rules of ERISA and with a long-term investment horizon. The expected return on plan assets assumption is determined by reviewing the investment return of the plans since inception and evaluating those returns in relation to expectations of various investment organizations to determine whether long-term future returns are expected to differ significantly from the past. The Company's pension plan asset allocations at December 31, 2004 and 2003, and target weighted-average allocations are as follows:

	U.S. PLANS			NON-U.S. PLANS		
	2004	2003	CURRENT TARGET	2004	2003	CURRENT TARGET
Asset category:						
Equity securities.....	70%	69%	70%	65%	81%	73%
Debt securities.....	28%	29%	30%	26%	9%	25%
Other.....	2%	2%	--	9%	10%	2%
Total.....	100%	100%	100%	100%	100%	100%

The Company estimates that future benefit payments for the U.S. pension plans will be as follows: \$4,360 in 2005, \$5,154 in 2006, \$4,483 in 2007, \$4,778 in 2008, \$4,848 in 2009 and \$26,594 in total over the five years 2010 through 2014. Using foreign exchange rates as of December 31, 2004, the Company estimates that future benefit payments for the non-U.S. pension plans will be as follows: \$2,845 in 2005, \$3,103 in 2006, \$3,530 in 2007, \$3,578 in 2008, \$3,984 in 2009 and \$27,215 in total over the five years 2010 through 2014. In 2005, the Company expects to contribute \$2,436 to U.S. pension plans and \$5,050 to non-U.S. pension plans.

NOTE 9: STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE



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At December 31, 2004 and 2003, 50,000,000 shares of \$0.01 par value common stock and 10,000,000 shares of \$0.01 par value preferred stock were authorized. Shares of common stock outstanding at December 31, 2004 and 2003 were 19,947,570 and 16,117,026, respectively. No shares of preferred stock were issued or outstanding at December 31, 2004 or 2003. The shares of preferred stock, which may be issued without further stockholder approval (except as may be required by applicable law or stock exchange rules), may be issued in one or more series, with the number of shares of each series and the rights, preferences and limitations of each series to be determined by the Board of Directors. The Company has a Stockholder's Rights Plan, under which each share of Gardner Denver's outstanding common stock has an associated preferred share purchase right. The rights are exercisable only under certain circumstances and

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GARDNER DENVER, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

allow holders of such rights to purchase common stock of Gardner Denver or an acquiring company at a discounted price, which generally would be 50% of the respective stock's current fair market value.

The following table details the calculation of basic and diluted earnings per share for the year ended December 31, 2004, 2003 and 2002:

	2004			2003			2002
	NET INCOME	WTD. AVG. SHARES	AMT. PER SHARE	NET INCOME	WTD. AVG. SHARES	AMT. PER SHARE	AMT. PER SHARE
<b>BASIC EARNINGS PER SHARE:</b>							
Income available to common stockholders.....	\$37,123	18,954,841	\$1.96	\$20,643	16,060,979	\$1.29	\$1.96
<b>DILUTED EARNINGS PER SHARE:</b>							
Effect of dilutive securities:							
Stock options granted and outstanding.....		422,639			251,189		
Income available to common stockholders and assumed conversions.....	\$37,123	19,377,480	\$1.92	\$20,643	16,312,168	\$1.27	\$1.96
	=====	=====	=====	=====	=====	=====	=====

#### NOTE 10: INCOME TAXES

Income before income taxes consist of the following:

	2004	2003	2002
U.S.....	\$26,934	23,913	22,216
Non-U.S. ....	25,352	6,445	6,611
	-----	-----	-----

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Income before income taxes.....	\$52,286	30,358	28,827
	=====	=====	=====

The following table details the components of the provision for income taxes. A portion of these income taxes will be payable within one year and are therefore classified as current, while the remaining balance is deferred:

	2004	2003	2002
	-----	-----	-----
Current:			
U.S. federal.....	\$ 8,458	2,977	4,944
U.S. state and local.....	692	340	542
Non-U.S. ....	6,584	611	1,229
Deferred:			
U.S. federal.....	(513)	4,753	2,253
U.S. state and local.....	(44)	543	257
Non-U.S. ....	(14)	491	--
	-----	-----	-----
Provision for income taxes.....	\$15,163	9,715	9,225
	=====	=====	=====

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The U.S. federal corporate statutory rate is reconciled to the Company's effective income tax rate as follows:

	2004	2003	2002
	-----	-----	-----
U.S. federal corporate statutory rate.....	35.0%	35.0%	35.0%
State and local taxes, less federal tax benefit.....	1.2	2.6	2.5
Foreign income taxes.....	(4.4)	--	--
Export benefit.....	(2.5)	(3.0)	(2.8)
Other, net.....	(0.3)	(2.6)	(2.7)
	-----	-----	-----
Effective income tax rate.....	29.0%	32.0%	32.0%
	=====	=====	=====

The principal items that gave rise to deferred income tax assets and liabilities follow:

	2004	2003
	-----	-----
Deferred tax assets:		
Reserves and accruals.....	\$ 31,971	14,506
Postretirement benefits other than pensions.....	12,491	13,446
Tax loss carryforwards.....	7,123	--

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Foreign tax credit carryforwards.....	852	--
Other.....	4,729	3,014
	-----	-----
Total deferred tax assets.....	\$ 57,166	30,966
	-----	-----
Valuation allowance.....	\$ (4,705)	--
	-----	-----
Deferred tax liabilities:		
LIFO inventory.....	\$ (3,766)	(3,493)
Property, plant and equipment.....	(10,395)	(7,763)
Intangibles.....	(42,248)	(7,698)
Other.....	(7,911)	(2,986)
	-----	-----
Total deferred tax liabilities.....	\$ (64,320)	(21,940)
	-----	-----
Net deferred income tax (liability) asset.....	\$ (11,859)	9,026
	=====	=====

As of December 31, 2004, Gardner Denver has net operating loss carryforwards from various jurisdictions of \$24.7 million that result in a deferred tax asset of \$7.1 million. It is more likely than not that a portion of these tax loss carryforwards will not produce future benefits and a valuation allowance of \$4.7 million has been established with respect to these losses. The expected expiration dates of the tax loss carryforwards are as follows; <5 years, \$5.6 million, 5 to 10 years, \$0, 10 to 20 years, \$4.6 million and \$14.5 million have no expiration date. The reversal of the valuation allowance will reduce goodwill. In addition, the Company has a U.S. foreign tax credit carryforward of \$0.9 million that expires in 5 to 10 years.

U.S. deferred income taxes are not provided on certain undistributed earnings of non-U.S. subsidiaries (approximately \$54 million at December 31, 2004) because the Company intends to reinvest such earnings indefinitely or distribute them only when available foreign tax credits could significantly reduce the amount of U.S. taxes due on such distributions.

During the year, the Company recorded an income tax benefit related to favorable audit settlements in Finland and the U.S. of \$1.4 million and \$0.2 million, respectively.

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

On October 22, 2004, the American Jobs Creation Act (the "AJCA") was signed into law. The AJCA includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. The Company may elect to apply this provision to qualifying earnings repatriations made either after the date of enactment in calendar year 2004 or throughout calendar year 2005. During calendar 2004, the Company did not repatriate any qualified earnings pursuant to the AJCA. However, the Company determined that approximately \$16.6 million of existing foreign earnings will meet the requirements of the AJCA. The Company has determined that it will repatriate these earnings during calendar 2005, as soon as the AJCA's qualifying requirements are met. Since these earnings are no longer considered indefinitely reinvested, the Company accrued \$0.9 million of income tax expense in 2004. In addition, the Company is evaluating the potential to repatriate other foreign earnings pursuant to the AJCA. Whether the Company repatriates their foreign earnings is dependent upon the Company's ability to meet the requirements of the AJCA with respect to these earnings. Until that determination is made, the Company will make no change in its current intention

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to indefinitely reinvest accumulated earnings of its foreign subsidiaries except with respect to the \$16.6 million noted above. The range of additional amounts that the Company is considering for repatriation under the AJCA is between zero and \$40 million. The related potential range of income tax is between zero and \$2.1 million.

Cash paid for income taxes in 2004, 2003 and 2002 was \$8,031, \$5,220 and \$6,512, respectively.

### NOTE 11: STOCK-BASED COMPENSATION PLANS

Under the Company's Long-Term Incentive Plan (the "Incentive Plan"), designated employees are eligible to receive awards in the form of stock options, stock appreciation rights, restricted stock grants or performance shares, as determined by the Management Development and Compensation Committee of the Board of Directors. An aggregate of 4,250,000 shares of common stock has been authorized for issuance under the Incentive Plan. Through December 31, 2004, the Company has granted options on 3,622,909 shares. Under the Incentive Plan, the option exercise price equals the fair market value of the common stock on the date of grant. Under the terms of existing awards, one-third of employee options granted become vested and exercisable on each of the first three anniversaries of the date of grant. The options granted to employees in 2002 and 2003 expire ten years after the date of grant. The options granted to employees in 2004 expire seven years after the date of grant.

Pursuant to the Incentive Plan, each nonemployee director was granted an option to purchase 4,500 shares of common stock on the day after the 2004, 2003 and 2002 annual meeting of stockholders. These options were granted at the fair market value of the common stock on the date of grant, become exercisable on the first anniversary of the date of grant (or upon retirement, death or cessation of service due to disability, if earlier) and expire five years after the date of grant.

The Company also has an employee stock purchase plan (the "Stock Purchase Plan"), a qualified plan under the requirements of Section 423 of the Internal Revenue Code, and has reserved 1,150,000 shares for issuance under this plan. The Stock Purchase Plan requires participants to have the purchase price of their options withheld from their pay over a one-year period. In November 2000, the Stock Purchase Plan was amended to permit eligible employees to purchase shares at the lesser of 85% of the fair market price of the common stock on either the offering date or the exercise date. The exercise date for the 2000 offering was January 2, 2002, at which time employees elected to purchase 68,323 shares at an offering price of \$15.36 per share, 85% of the fair market price on the offering date.

In November 2001, the Stock Purchase Plan was offered to eligible employees under the same provisions as the 2000 offering. The exercise date for the 2001 offering was January 2, 2003, at which time employees elected to purchase 46,460 shares at an offering price of \$17.08 per share, 85% of the fair market price on the exercise date.

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GARDNER DENVER, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In November 2002, the Stock Purchase Plan was offered to eligible employees under the same provisions as the 2001 offering. The exercise date for the 2002 offering was January 2, 2004, at which time employees elected to purchase 94,965 shares at an offering price of \$12.72 per share, 85% of the fair market price on the offering date.

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In November 2003, the Stock Purchase Plan was offered to eligible employees under the same provisions as the 2002 offering. The exercise date for the 2003 offering is January 3, 2005, at which time employees elected to purchase 69,548 shares at an offering price of \$18.19 per share, 85% of the fair market price on the offering date.

No additional options were offered to employees under the Stock Purchase Plan in 2004.

A summary of the status of the Company's Incentive Plan at December 31, 2004, 2003 and 2002, and changes during the years then ended, is presented in the table and narrative below (underlying shares in thousands):

	2004		2003		2002	
	AVERAGE PRICE	SHARES	AVERAGE PRICE	SHARES	AVERAGE PRICE	SHARES
Options outstanding, beginning of year.....	\$17.54	1,367	\$17.56	1,144	\$17.26	1,106
Options granted.....	\$28.46	263	\$17.89	264	\$20.35	221
Options exercised.....	\$29.61	(217)	\$15.25	(13)	\$16.37	(85)
Options canceled.....	\$20.94	(10)	\$23.20	(28)	\$21.45	(98)
Options outstanding, end of year....	\$19.67	1,403	\$17.54	1,367	\$17.56	1,144
Options exercisable, end of year....	\$17.55	934	\$17.07	940	\$16.54	776

The following table summarizes information about fixed-price stock options outstanding at December 31, 2004 (underlying shares in thousands):

RANGE OF EXERCISE PRICES	OUTSTANDING			EXERCISABLE	
	SHARES	AVERAGE REMAINING CONTRACTUAL LIFE	AVERAGE PRICE	SHARES	AVERAGE PRICE
\$ 5.00 to \$10.00.....	161	1.4	\$ 8.71	161	\$ 8.71
\$10.01 to \$15.00.....	137	4.4	\$12.83	137	\$12.83
\$15.01 to \$20.00.....	665	6.5	\$18.50	456	\$18.64
\$20.01 to \$30.00.....	440	4.9	\$27.57	180	\$26.30
Total.....	1,403	5.2	\$19.67	934	\$17.55

The fair value of each option granted under the Incentive Plan and the Stock Purchase Plan is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used for grants in 2004, 2003 and 2002, respectively: risk-free interest rates of 3.1%, 2.4% and 3.0%; expected volatility of 34%, 35% and 35%; and expected lives of 4.5, 3.8 and 3.3 years. The valuations assume no dividends are paid. The

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weighted average fair values of options granted in 2004, 2003 and 2002 were \$9.45, \$5.77 and \$5.84, respectively.

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GARDNER DENVER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 12: OFF-BALANCE SHEET RISK, CONCENTRATIONS OF CREDIT RISK AND FAIR VALUE OF FINANCIAL INSTRUMENTS

OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

There were no off-balance sheet derivative financial instruments as of December 31, 2004 or 2003.

Concentrations of credit risk with respect to trade receivables are limited due to the wide variety of customers and industries to which the Company's products are sold, as well as their dispersion across many different geographic areas. As a result, the Company does not consider itself to have any significant concentrations of credit risk as of December 31, 2004.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist primarily of cash and equivalents, trade receivables, trade payables and debt instruments. The book values of these instruments are not materially different from their respective fair values.

The Company selectively uses derivative financial instruments to manage interest costs and currency exchange risks. The Company does not hold derivatives for trading purposes. No credit loss is anticipated, as the counterparties to these agreements are major financial institutions with high credit ratings.

To effectively manage interest costs, the Company utilizes interest rate swaps as cash flow hedges of variable rate debt. Also as part of its hedging strategy, the Company utilizes purchased option and forward exchange contracts as cash flow hedges to minimize the impact of currency fluctuations on transactions, cash flows and firm commitments. These contracts for the sale or purchase of European and other currencies generally mature within one year.

Notional transaction amounts and fair values for the Company's outstanding derivatives, by risk category and instrument type, as of December 31, 2004 and 2003, are summarized as follows. Fair values of the derivatives do not consider the offsetting underlying hedged item.

	2004		2003	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Foreign currency forwards.....	\$ 6,129	(479)	--	--
Interest rate swaps.....	\$125,317	304	--	--

NOTE 13: CONTINGENCIES

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The Company is a party to various legal proceedings, lawsuits and administrative actions, which are of an ordinary or routine nature. In addition, due to the bankruptcies of several asbestos manufacturers and other primary defendants, the Company has been named as a defendant in an increasing number of asbestos personal injury lawsuits. The Company has also been named as a defendant in an increasing number of silicosis personal injury lawsuits. The plaintiffs in these suits allege exposure to asbestos or silica from multiple sources and typically the Company is one of approximately 25 or more named defendants. In the Company's experience, the vast majority of the plaintiffs are not impaired with a disease for which the Company bears any responsibility.

Predecessors to the Company manufactured, distributed and sold products allegedly at issue in the pending asbestos and silicosis litigation lawsuits (the "Products"). The Company has potential responsibility for certain of these Products, namely: (a) air compressors which used asbestos containing components manufactured and supplied by third parties; and (b) portable air compressors used in sandblasting operations

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GARDNER DENVER, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

as a component of sandblasting equipment manufactured and sold by others. The sandblasting equipment is alleged to have caused the silicosis disease plaintiffs claim in these cases.

Neither the Company nor its predecessors ever mined, manufactured, mixed, produced or distributed asbestos fiber. The asbestos-containing components used in the Products were completely encapsulated in a protective non-asbestos binder and enclosed within the subject Products. Furthermore, the Company has never manufactured or distributed portable air compressors.

The Company has entered into a series of cost sharing agreements with multiple insurance companies to secure coverage for asbestos and silicosis lawsuits. The Company also believes some of the potential liabilities regarding these lawsuits are covered by indemnity agreements with other parties. The Company's uninsured settlement payments for past asbestos and silicosis lawsuits have been immaterial.

The Company believes that the pending and future asbestos and silicosis lawsuits will not, in the aggregate, have a material adverse effect on its consolidated financial position, results of operations or liquidity, based on: the Company's anticipated insurance and indemnification rights to address the risks of such matters; the limited potential asbestos exposure from the components described above; the Company's experience that the vast majority of plaintiffs are not impaired with a disease attributable to alleged exposure to asbestos or silica from or relating to the Products; various potential defenses available to the Company with respect to such matters; and the Company's prior disposition of comparable matters. However, due to inherent uncertainties of litigation and because future developments could cause a different outcome, there can be no assurance that the resolution of pending or future lawsuits, whether by judgment, settlement or dismissal, will not have a material adverse effect on its consolidated financial position, results of operations or liquidity.

The Company has also been identified as a potentially responsible party with respect to several sites designated for environmental cleanup under various state and federal laws. The Company does not own any of these sites. The Company does not believe that the future potential costs related to these sites will have a material adverse effect on its consolidated financial position, results

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of operations or liquidity.

### NOTE 14: SEGMENT INFORMATION

Subsequent to the acquisition of Nash Elmo and Syltone, the Company continues to be organized based upon the products and services it offers and has four operating divisions: Compressor, Blower, Liquid Ring Pump and Fluid Transfer. These divisions comprise two reportable segments, Compressor and Vacuum Products (formerly Compressed Air Products) and Fluid Transfer Products. The Compressor, Blower (which now includes the Syltone transportation-related activities and Nash Elmo's side channel blower business) and Liquid Ring Pump (consisting of Nash Elmo's liquid ring pump business) Divisions are aggregated into one reportable segment (Compressor and Vacuum Products) since the long-term financial performance of these businesses are affected by similar economic conditions, coupled with the similar nature of their products, manufacturing processes and other business characteristics. During the third quarter of 2004, the Company's former Pump and Fluid Transfer (which consisted of the Syltone fluid transfer-related activities) Divisions were combined into one division, Fluid Transfer. These two divisions were previously aggregated into one reportable segment (Fluid Transfer Products) primarily due to the same factors as noted above, and thus, there has been no change to the Fluid Transfer Products segment.

In the Compressor and Vacuum Products segment, the Company designs, manufactures, markets and services the following products and related aftermarket parts for industrial and commercial applications: rotary screw, reciprocating, sliding vane and centrifugal air compressors; positive displacement, centrifugal and side channel blowers; and liquid ring pumps and engineered systems. The markets served are primarily in the United States, Europe and Asia.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Fluid Transfer Products segment designs, manufactures, markets and services a diverse group of pumps, water jetting systems and related aftermarket products used in oil and natural gas production, well servicing and drilling and industrial cleaning and maintenance. This segment also designs, manufactures, markets and services other fluid transfer components and equipment for the chemical, petroleum and food industries. The markets served are primarily the United States, Europe, Canada and Asia.

The accounting policies of the segments are the same as those described in Note 1. The Company evaluates the performance of its segments based on income before interest expense, other income, net and income taxes. Certain assets attributable to corporate activity are not allocated to the segments. General corporate assets (unallocated assets) consist of cash and equivalents and deferred tax assets. Intersegment sales and transfers are not significant.

Summarized information about the Company's operations by busin-left: 15pt">January 2, 2016



Loss from continuing operations

(3,132  
)

Add: loss attributable to non-controlling interests

136

Loss from continuing operations available to common shareholders

(2,996  
)

(0.04  
)

Adjusted for:

Costs related to business acquisitions(o)

17,192

Plant expansion and start-up costs(p)

4,081

Inventory reserves and liquidation sales to de-risk positions(q)

2,367

Downtime, spoilage, and other costs due to equipment failure(r)

2,219

Demurrage, detention and other related expenses(s)

2,038

Litigation-related legal fees(d)

1,709

Reversal of stock-based compensation expense(t)

(579  
)

Other(u)

4,384

Net income tax effect of preceding adjustments(m)

(10,598  
)

Change in unrecognized tax benefits(n)

(855  
)

Adjusted earnings

18,962

0.26

- (a) Reflects costs related to business combinations, including an acquisition accounting adjustment related to Sunrise's inventory sold during the year of \$15.0 million, which is recorded in cost of goods sold; the non-cash amortization of debt issuance costs incurred in connection with the financing related to the Sunrise Acquisition of \$7.8 million, as well as \$2.6 million of additional debt issuance costs expensed, which are recorded in interest expense; and \$2.4 million of integration costs related to the closure and consolidation of our frozen fruit processing facilities following the Sunrise Acquisition, which are recorded in cost of goods sold and other expense.

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- (b) Reflects an impairment charge to write off the goodwill associated with the sunflower reporting unit (as described above under Recent Developments Recall of Certain Sunflower Kernel Products ).
- (c) Reflects an impairment of long-lived assets associated with the closure of the Heuvelton soy extraction facility and the San Bernardino juice facility (as described above under Recent Developments Rationalization of Soy and Juice Operations ).
- (d) Reflects the charge recorded in connection with the settlement of the Plum dispute (as described above under Recent Developments Settlement of Plum Dispute ), which is recorded in other expense. Also includes \$1.6 million (2015 - \$1.7 million) of litigation-related legal costs mainly associated with the Plum dispute, which are recorded in SG&A expenses.
- (e) Reflects voluntary product withdrawal or recall costs of \$5.7 million, net of expected insurance recoveries, related to the withdrawal of certain consumer-packaged products for quality-related issues and the recall of certain sunflower kernel products (as described above under Recent Developments Recall of Certain Sunflower Kernel Products ), of which \$1.2 million is recorded in cost of goods sold and \$2.8 million is recorded in other expense. Also includes a \$1.7 million adjustment for the estimated lost margin caused by the sunflower recall, which reflects a shortfall in revenues against anticipated volumes of approximately \$9.8 million, less associated cost of goods sold of approximately \$8.1 million.
- (f) Reflects legal and other professional advisory costs associated with the strategic review and execution of the Value Creation Plan, which are recorded in SG&A expenses.
- (g) Reflects contractual severance benefits of \$1.5 million and previously unrecognized stock-based compensation of \$0.2 million recognized in connection with the departure of Mr. Jacobs as President and CEO. Also includes employee severance costs of \$1.6 million incurred in connection with certain facility closures and workforce rationalization initiatives and employee retention costs of \$0.3 million, which are recorded in other expense.
- (h) Reflects aging reserves and low margin sales to reduce inventory exposures mainly related to certain grain varieties that we are exiting, which are recorded in cost of goods sold.
- (i) Plant start-up costs relate to the ramp-up of production at the Allentown facility following the completion of the addition of aseptic beverage processing and filling capabilities in the fourth quarter of 2015, which are recorded in cost of goods sold. These start-up costs reflect the negative gross profit reported by the facility as the facility ramped up to break-even production levels.
- (j) Reflects the write-off to interest expense of \$0.2 million of remaining unamortized debt issuance costs related to our North American credit facilities, which were replaced by the Global Credit Facility.
- (k) Other includes fair value adjustments related to contingent consideration arrangements and gain/loss on sale of assets, which are recorded in other expense.
- (l) Reflects the gain on settlement of the contingent consideration obligation related to Niagara Natural (as described above under Recent Development Niagara Natural), which is recorded in other income.
- (m) Reflects the tax effect of the preceding adjustments to earnings and reflects an overall estimated annual effective tax rate of approximately 30% on adjusted earnings before tax.
- (n) Reflects the realization of previously unrecognized tax benefits, due to the expiration of the statute of limitations.
- (o) Reflects costs related to business combinations, including an acquisition accounting adjustment related to Sunrise's inventory sold subsequent to the acquisition date of \$4.0 million, which was recorded in cost of goods sold; acquisition- and integration-related costs incurred in connection with the Sunrise Acquisition of \$7.8 million, which were recorded in other expense; and the non-cash amortization of debt issuance costs incurred in connection with the financing related to the Sunrise Acquisition of \$6.4 million, as well as \$2.0 million of loan commitment fees associated with bridge financing for the Sunrise Acquisition that was not utilized, which were recorded in interest expense.
- (p)

Reflects costs related to the retrofit of the San Bernardino juice facility and expansion of the Allentown facility to add aseptic beverage processing and filling capabilities, which were recorded in cost of goods sold.

- (q) Reflects inventory reserves and low margin sales incurred to reduce inventory exposures in certain organic raw materials, which were recorded in cost of goods sold.
- (r) Reflects downtime and spoilage caused by equipment failures at the Allentown pouch facility, which were recorded in cost of goods sold.
- (s) Reflects additional logistics costs stemming from capacity constraints on imports and exports within the Global Ingredients segment, which were recorded in cost of goods sold.
- (t) Reflects the reversal to SG&A expenses of previously recognized stock-based compensation related to performance share units granted to certain employees as the performance conditions were not achieved.
- (u) Other includes severance and costs of \$2.1 million for a former CEO; fair value adjustments related to contingent consideration arrangements; and gain/loss on disposal of assets, which were recorded in other expense.

We believe that investors' understanding of our financial performance is enhanced by disclosing the specific items that we exclude from earnings/loss attributable to SunOpta Inc. to compute adjusted earnings. However, adjusted earnings is not, and should not be viewed as, a substitute for earnings prepared under U.S. GAAP. Adjusted earnings is presented solely to allow investors to more fully understand how we assess our financial performance.

- (3) In order to evaluate our results of operations, we use certain non-GAAP measures that we believe enhance an investor's ability to derive meaningful year-over-year comparisons and trends from our results of operations. In particular, we evaluate our revenues on a basis that excludes the effects of fluctuations in commodity pricing and foreign exchange rates, as well as the impacts of recent business acquisitions and product rationalizations. In addition, we exclude specific items from our reported results that due to their nature or size, we do not expect to occur as part of our normal business on a regular basis. These items are identified above under footnote (2), and in the discussion of our results of operations below. These non-GAAP measures are presented solely to allow investors to more fully assess our results of operations and should not be considered in isolation of, or as substitutes for an analysis of our results as reported under U.S. GAAP.

Revenues for the year ended December 31, 2016 increased by 17.6% to \$1,346.7 million from \$1,145.1 million for the year ended January 2, 2016. Excluding the impact on revenues for the year ended December 31, 2016 of business acquisitions and associated product rationalizations (an increase in revenues of approximately \$231.0 million), changes in commodity-related pricing and foreign exchange rates (a decrease in revenues of approximately \$28.0 million), estimated impact of the recall of certain sunflower kernel products based on shortfall against anticipated volumes (a decrease in revenues of approximately \$10.0 million), and estimated impact on west coast pouch operations as a result of a fire at a third-party facility (a decrease in revenues of approximately \$5.0 million), revenues increased 1.0% in 2016, compared with 2015. This increase in revenues on an adjusted basis reflected higher demand for organic ingredients and growth in aseptic beverage volumes with the added output from the Allentown facility and new product launches. These positive factors were mostly offset by lower volumes of specialty raw materials driven by a reduction in contracted acres and lower retail market demand for frozen fruit in the fourth quarter of the 2016.

For the fourth quarter of 2016, revenues decreased by 6.0% to \$297.5 million from \$316.4 million for the fourth quarter of 2015. Excluding the impact on revenues for the fourth quarter of 2016 of changes in commodity-related pricing and foreign exchange rates (a decrease in revenues of approximately \$9.0 million), estimated impact of the recall of certain sunflower kernel products based on shortfall against anticipated volumes (a decrease in revenues of approximately \$3.0 million), estimated impact on west coast pouch operations as a result of a fire at a third-party facility (a decrease in revenues of approximately \$3.0 million), and business acquisitions and associated product rationalizations (a decrease in revenues of approximately \$1.0 million), revenues in the fourth quarter of 2016 decreased by 0.9%, compared with the fourth quarter of 2015. This decrease in revenues on an adjusted basis reflected lower volumes of specialty raw materials driven by a reduction in contracted acres, as well as a sharp decline in retail market demand for frozen fruit products. In addition, sales of aseptic beverage products and specialty bars were flat relative to the prior year due to customer turnover and the ramp-up of new product offerings.

Gross profit increased \$15.6 million, or 14.1%, to \$126.0 million for the year ended December 31, 2016, compared with \$110.4 million for the year ended January 2, 2016. As a percentage of revenues, gross profit for the year ended December 31, 2016 was 9.4% compared to 9.6% for the year ended January 2, 2016, a decrease of 0.2%. The gross profit percentage for 2016 would have been approximately 10.9%, excluding the impact of an acquisition accounting adjustment related to Sunrise's inventory sold in 2016 (\$15.0 million), aging reserves and low margin sales to reduce inventory exposures mainly on specialty grain varieties we are exiting (\$3.4 million), lost margin caused by the recall of certain sunflower kernel products (\$1.7 million), start-up costs related to the ramp-up of production at the Allentown aseptic beverage facility (\$1.6 million), and an inventory reserve for certain consumer-packaged products due to quality-related issues (\$1.2 million). For 2015, the gross profit percentage would also have been approximately 10.9%, excluding the impact of costs related to the retrofit of the San Bernardino juice facility and expansion of the Allentown facility to add aseptic beverage production capabilities (\$4.1 million), an acquisition accounting adjustment related to the Sunrise's inventory sold subsequent to the acquisition date (\$4.0 million), aging reserves and low margin sales to reduce inventory exposures on certain organic raw materials (\$2.4 million), downtime and spoilage caused by equipment failures at the Allentown pouch facility (\$2.2 million), and demurrage, detention and other related expenses (\$2.0 million). Excluding these items, the year-over-year gross profit percentage on an adjusted basis reflected increased efficiency and lower costs at our aseptic beverage operations and improved pricing spreads on organic ingredients. These positive factors were offset by increased raw material costs for frozen strawberries that could not be passed on immediately to customers, as well as production inefficiencies within our frozen fruit operations in the first half of 2016 caused by a late harvest and the resultant shortage of strawberries. In addition, we experienced lower pricing spreads on specialty corn and soy and reduced throughput in our sunflower roasting operations with the implementation of new food safety and quality processes.

For the fourth quarter of 2016, gross profit decreased \$8.2 million, or 32.4%, to \$17.0 million, compared with \$25.2 million for the fourth quarter of 2015. As a percentage of revenues, gross profit for the fourth quarter of 2016 was 5.7% compared to 8.0% for the fourth quarter of 2015, a decrease of 2.3%. The gross profit percentage for the fourth quarter of 2016 would have been approximately 7.9%, excluding the impact of costs related to aging reserves and low margin sales to reduce inventory exposures mainly on specialty grain varieties we are exiting (\$3.4 million), the acquisition accounting adjustment related to Sunrise's inventory sold in the fourth quarter of 2016 (\$1.6 million), an inventory reserve for certain consumer-packaged products due to quality-related issues (\$1.2 million), and lost margin caused by the recall of certain sunflower kernel products (\$0.7 million). For the fourth quarter of 2015, the gross profit percentage would have been 11.3%, excluding the impact of costs related to the acquisition accounting adjustment related to the Sunrise's inventory sold subsequent to the acquisition date (\$4.0 million), aging reserves and low margin sales to reduce inventory exposures on certain organic raw materials (\$2.4 million), downtime and spoilage caused by equipment failures at the Allentown pouch facility (\$2.2 million), the retrofit of the San Bernardino juice facility and expansion of the Allentown aseptic beverage facility (\$1.9 million), and demurrage, detention and other related expenses (\$0.2 million). Excluding these items, the gross profit percentage decreased 3.4% on an adjusted basis in fourth quarter of 2016, compared with the fourth quarter of 2015, which was driven mainly by lower production volumes across our consumer products platforms, as well as the reduced throughput in our sunflower roasting operations. In particular, frozen fruit production was impacted by the decline in retail market demand in the fourth

quarter of 2016, which also resulted in higher storage costs due to higher inventory carry over. These negative factors were partially offset by improved pricing spreads on organic ingredients.

Total segment operating income for the year ended December 31, 2016 decreased by \$6.6 million, or 30.8%, to \$14.7 million, compared with \$21.3 million for the year ended January 2, 2016. As a percentage of revenues, segment operating income was 1.1% for the year ended December 31, 2016, compared with 1.9% for the year ended January 2, 2016. The decrease in segment operating income mainly reflected increases in SG&A expenses and intangible asset amortization, which more than offset the higher overall gross profit as described above. The \$12.9 million increase in SG&A expenses, mainly reflected incremental expenses from acquired businesses and external advisory costs associated with the strategic review and Value Creation Plan (\$4.0 million), as well as higher litigation-related legal costs mainly related to the Plum dispute (\$1.9 million). As a percentage of revenues, SG&A expenses were 7.3% in 2016, compared with 7.5% in 2015, a decrease of 0.2%. Excluding the impact of costs related to the strategic review, Value Creation Plan and Plum dispute, SG&A expenses on an adjusted basis as a percentage of revenues would have been approximately 6.8% in 2016, compared with approximately 7.4% in 2015, which reflected efficiencies gained following the Sunrise Acquisition. The year-over-year increase in intangible asset amortization of \$6.3 million reflected the incremental amortization of identified intangible assets of acquired businesses. Also contributing to the decrease in segment operating income was a foreign exchange loss of \$1.2 million in 2016, compared with a foreign exchange gain of \$1.6 million in 2015, mainly reflecting the negative impact of a strengthening of the U.S. dollar relative to the peso on our Mexican frozen fruit operations in 2016, compared with the positive impact of a strengthening of the U.S. dollar relative to the euro in 2015.

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For the fourth quarter of 2016, total segment operating loss increased by \$8.2 million to \$10.0 million, compared with \$1.7 million for the fourth quarter of 2015. The increase in the segment operating loss reflected lower overall gross profit as described above, as well as a \$1.3 million increase in SG&A expenses, mainly reflecting external advisory costs associated with the strategic review and Value Creation Plan of \$3.6 million, partially offset by lower compensation and other administrative costs. As a percentage of revenues, SG&A expenses were 8.8% in the fourth quarter of 2016, or approximately 7.4% excluding the impact of costs related to the strategic review and Value Creation Plan, compared with 7.8% in the fourth quarter of 2015. Partially offsetting the increase in segment operating loss was a \$1.2 million increase in foreign exchange gains mainly due to the relative strengthening of the U.S. dollar against the euro in the fourth quarter of 2016, compared with the corresponding period of 2015.

Further details on revenue, gross profit and segment operating income variances are provided below under [Segmented Operations Information](#) .

Other expense for the year ended December 31, 2016 of \$28.3 million included charges related to the impairment of long-lived assets mainly associated with the closure of the San Bernardino juice facility and the Heuvelton soy facility (\$11.5 million), settlement of the Plum dispute (\$9.0 million), severance and rationalization costs related to the departure of Mr. Jacobs as President and CEO, certain facility closures, workforce rationalization initiatives and employee retention costs (\$3.7 million), costs related to the withdrawal of certain consumer-packaged products and the recall of certain sunflower kernel products (\$2.8 million), and the consolidation of our frozen fruit processing facilities following the Sunrise Acquisition (\$2.2 million). These charges were partially offset by the \$1.7 million gain on settlement of the contingent consideration obligation related to the acquisition of Niagara Natural. Other expense for the year ended January 2, 2016 of \$12.2 million included business development costs of \$7.8 million, primarily reflecting acquisition- and integration-related costs incurred in connection with the Sunrise Acquisition; as well as severance and other rationalization costs of \$2.9 million mainly related to a former CEO.

In the fourth quarter of 2016, we recognized a non-cash goodwill impairment charge of \$17.5 million related to our sunflower operations (as described above under [Recent Developments - Recall of Certain Roasted Sunflower Kernel Products](#) ).

The increase in interest expense of \$27.6 million to \$43.3 million for the year ended December 31, 2016, compared with \$15.7 million for the year ended January 2, 2016, primarily reflected increased costs associated with borrowings to finance the Sunrise Acquisition. Interest expense for 2016 included \$9.1 million of non-cash amortization of debt issuance costs and \$2.4 million of other costs incurred in connection with proposed alternative financing arrangements. Interest expense for 2015 included \$3.4 million of non-cash amortization of debt issuance costs and the write-off of \$2.0 million of loan commitment fees associated with bridge financing for the Sunrise Acquisition that was not utilized. For 2017, we estimate our cash interest costs will be in the range of \$29 million to \$32 million.

We recognized a recovery of income tax of \$23.8 million for the year ended December 31, 2016 (including the realization of \$1.3 million of previously unrecognized tax benefits), compared with a recovery of income tax of \$3.4 million for the year ended January 2, 2016. Excluding the impact of the change in unrecognized tax benefits, the effective tax rate for 2016 was 39.6% of the loss before income taxes (excluding the non-deductible goodwill impairment loss), compared with 52.0% of loss before income taxes for 2015. The effective tax rates reflected the impact of changes in the jurisdictional mix of earnings, mainly as the result of pre-tax losses in the U.S. in 2016 and 2015, which reflected the effect of higher cash interest and debt issuance costs related to the financing of the Sunrise Acquisition, costs related to business acquisitions, including the acquisition accounting adjustments to Sunrise inventory sold. In addition, for 2016, pre-tax losses in the U.S. reflected the impairment of assets related to facility closures, and the impact of other discrete items including costs associated with the Plum legal settlement and Value Creation Plan, as well as product withdrawal and recall costs.



Loss from continuing operations, net of non-controlling interests, for the year ended December 31, 2016 was \$50.6 million, compared with a loss of \$3.0 million for the year ended January 2, 2016, an increase of \$47.6 million. Diluted loss per share from continuing operations was \$0.61 for the year ended December 31, 2016, compared with diluted loss per share from continuing operations of \$0.04 for the year ended January 2, 2016.

Loss from discontinued operations of \$0.6 million for the year ended December 31, 2016 reflected the loss from operations of Opta Minerals of \$2.0 million, which included an asset impairment charge of \$1.2 million, partially offset by a \$0.6 million gain on classification as held for sale, net of recovery of income taxes and non-controlling interest of \$0.9 million. Loss from discontinued operations of \$19.5 million for the year ended January 2, 2016 primarily reflected the results of Opta Minerals, including an asset impairment charge of \$12.4 million and loss on classification as held for sale of \$10.5 million, net of non-controlling interest of \$8.8 million.

On a consolidated basis, we realized a loss of \$51.2 million (diluted loss per share of \$0.62) for the year ended December 31, 2016, compared with a loss of \$22.5 million (diluted loss per share of \$0.31) for the year ended January 2, 2016.

For the year ended December 31, 2016, adjusted earnings were \$5.8 million, or \$0.07 per diluted share, compared with adjusted earnings of \$19.0 million, or \$0.26 per diluted share for the year ended January 2, 2016. Adjusted earnings is a non-GAAP financial measure. See footnote (2) to the table above for a reconciliation of adjusted earnings from loss from continuing operations, which we consider to be the most directly comparable U.S. GAAP financial measure.

### Segmented Operations Information

Global Ingredients	December 31, 2016	January 2, 2016	Change	% Change
Revenue	574,295	610,890	(36,595)	-6.0%
Gross Profit	64,374	66,461	(2,087)	-3.1%
Gross Profit %	11.2%	10.9%		0.3%
Operating Income	26,787	28,184	(1,397)	-5.0%
Operating Income %	4.7%	4.6%		0.1%

Global Ingredients contributed \$574.3 million in revenues for the year ended December 31, 2016, compared to \$610.9 million for the year ended January 2, 2016, a decrease of \$36.6 million or 6.0%. Excluding the estimated impact on revenues of the recall of certain sunflower kernel products and the impact of changes including foreign exchange rates and commodity-related pricing, Global Ingredients revenues decreased approximately 0.2%. The table below explains the decrease in revenue:

<b>Global Ingredients Revenue Changes</b>	
Revenues for the year ended January 2, 2016	\$610,890
Lower volumes of specialty corn and soy driven by a reduction of contracted acres, as well as decreased volumes of organic feed, roasted and other ingredient products	(36,551)
Lower sunflower volumes attributed to downtime due to the impact of the recall of roasted kernels in the second quarter of 2016, and lower throughput after restarting our roasting operations, combined with lower export volumes of in-shell sunflower due primarily to a strong U.S. dollar	(17,301)
Decreased pricing of specialty corn, soy, sunflower and organic feed	(14,651)
Decreased pricing for organic seeds and nuts, coffee, oils, sugar and quinoa	(13,458)

Higher sales volumes of internationally sourced organic ingredients including cocoa, fruit and vegetables, coffee, and seeds and nuts	45,366
Revenues for the year ended December 31, 2016	<b>\$574,295</b>

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Gross profit in Global Ingredients decreased by \$2.1 million to \$64.4 million for the year ended December 31, 2016 compared to \$66.5 million for the year ended January 2, 2016, and the gross profit percentage increased by 0.3% to 11.2%. The increase in gross profit as a percentage of revenue was primarily due to a favorable sales mix driven by higher margin international organic raw materials and improved mix in domestic raw materials as a result of a decline in acres contracted of low margin seed and grain varieties, mark-to-market gains on commodity futures contracts, and improved transloading operating efficiencies from the prior year, partially offset by the impact of the sunflower recall on operations and lower pricing spreads on non-GMO soy, corn and organic feed. The table below explains the decrease in gross profit:

<b>Global Ingredients Gross Profit Changes</b>	
Gross profit for the year ended January 2, 2016	\$66,461
Margin loss from downtime associated with the sunflower roasted kernel recall, and as reduced throughput following the restart of our roasting operations at our Crookston facility as well as lower export volumes of in-shell sunflower due primarily to a strong U.S. dollar	(4,201)
Lower pricing spread on specialty corn and soy, as well as inventory reserves and low margin sales recorded against certain grain varieties that we are exiting, partially offset by improved recoveries over the prior year related to transloading costs in the third quarter of 2015	(2,881)
Favorable margin impact of mark-to-market gains related to commodity futures contracts	2,707
Favorable impact on gross margins due to improved pricing spreads on internationally sourced organic ingredients, partially offset by reduced yield and other operational inefficiencies at our European sunflower operations	2,288
Gross profit for the year ended December 31, 2016	<b>\$64,374</b>

Operating income in Global Ingredients decreased by \$1.4 million, or 5.0%, to \$26.8 million for the year ended December 31, 2016, compared to \$28.2 million for the year ended January 2, 2016. The table below explains the decrease in operating income:

<b>Global Ingredients Operating Income Changes</b>	
Operating income for the year ended January 2, 2016	\$28,184
Decrease in gross profit, as explained above	(2,087)
Decreased foreign exchange gains on forward derivative contracts	(2,590)
Decrease in corporate cost allocations	2,573
Decrease in SG&A expenses, primarily due to professional fees, other SG&A costs and lower compensation costs	707
Operating income for the year ended December 31, 2016	<b>\$26,787</b>

Looking forward, we believe Global Ingredients is well positioned in growing non-GMO and organic food categories. We intend to focus our efforts on (i) growing our organic sourcing and supply capabilities, making certified organic ingredients a larger proportion of our overall sales; (ii) leveraging our international sourcing and supply capabilities internally, and forward and backward integrating where opportunities exist; and (iii) initiating a global desk coordination program between our North American and International sourcing and supply operations to capitalize on global opportunities and drive incremental sales volume. The statements in this paragraph are forward-looking statements. See [Forward-Looking Statements](#) above. Increased supply pressure in the commodity-based markets in which we operate, increased competition, volume decreases or loss of customers, unexpected delays in our expansion or desk coordination plans, or our inability to secure quality inputs or achieve our product mix or cost reduction goals, along with the other factors described above under [Forward-Looking Statements](#), could adversely impact our ability to

meet these forward-looking expectations.

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Consumer Products	December 31, 2016	January 2, 2016	Change	% Change
Revenue	772,436	534,244	238,192	44.6%
Gross Profit	61,578	43,901	17,677	40.3%
Gross Profit %	8.0%	8.2%		-0.2%

Operating Income	1,206	3,208	(2,002)	-62.4%
Operating Income %	0.2%	0.6%		-0.4%

Consumer Products contributed \$772.4 million in revenues for the year ended December 31, 2016, compared to \$534.2 million for the year ended January 2, 2016, an increase of \$238.2 million or 44.6%. Excluding the impact of business acquisitions and associated product rationalizations, as well as the estimated impact on west coast pouch operations as a result of a fire at a third-party facility, Consumer Products revenues increased 1.6%. The table below explains the increase in revenue:

Consumer Products Revenue Changes	
Revenues for the year ended January 2, 2016	\$534,244
Acquired revenues as a result of the acquisition of Sunrise, partially offset by the impact of customer transition following the closure of the Buena Park processing facility in the first quarter of 2016, as well as lower volumes in the foodservice and retail customer markets in the latter half of the year	209,397
Higher sales of aseptic beverages including retail almond beverages and non-dairy into the foodservice channel, along with stronger sales of shelf-stable juice as a result of new product innovation	28,682
Acquired revenues as a result of the acquisition of Niagara Natural and increased volumes of resealable pouch offerings as a result of new business contracted, partially offset by lower volumes of specialty bars	4,303
Impact on revenues from closure of west coast pouch operations as a result of a fire at a third-party facility in the third quarter	(4,190)
Revenues for the year ended December 31, 2016	<b>\$772,436</b>

Gross profit in Consumer Products increased by \$17.7 million to \$61.6 million for the year ended December 31, 2016 compared to \$43.9 million for the year ended January 2, 2016, and the gross profit percentage decreased by 0.2% to 8.0%. For the year ended December 31, 2016, gross profit as a percentage of revenue was impacted by a \$15.0 million acquisition accounting adjustment related to Sunrise inventory sold, as well as costs associated with expansion activities at the Allentown aseptic beverage facility (\$1.6 million) and an inventory reserve for certain consumer-packaged products due to quality-related issues (\$1.2 million). Excluding these costs, the gross profit percentage in Consumer Products would have been 10.3% for the year ended December 31, 2016. The increase in gross profit percentage on an adjusted basis reflected the higher margin profile of 2015 business acquisitions, and increased facility utilization and operating costs within the beverage operations, partially offset by higher costs within healthy fruit operations due to a delayed 2016 fruit harvest that led to increased labor costs and higher raw material prices that were not immediately built into customer pricing. The table below explains the increase in gross profit:

<b>Consumer Products Gross Profit Changes</b>	
Gross profit for the year ended January 2, 2016	\$43,901
Margin impact of the Sunrise Acquisition and improved pricing for frozen fruit offerings and for fruit bases and toppings	26,551
Increased contribution from sales of aseptic and non-aseptic private label beverages, driven by increased production volumes and higher facility utilization	4,763
Margin impact from acquisition accounting adjustment related to Sunrise inventory sold	(11,000)
Lower volumes of fruit snacks and specialty bars, partially offset by increased volumes of resealable pouch offerings from our east coast pouch facility as a result of new business contracted	(2,637)
Gross profit for the year ended December 31, 2016	<b>\$61,578</b>

Operating income in Consumer Products decreased by \$2.0 million, or 62.4% to \$1.2 million for the year ended December 31, 2016, compared to \$3.2 million for the year ended January 2, 2016. The table below explains the decrease in operating income:

<b>Consumer Products Operating Income Changes</b>	
Operating income for the year ended January 2, 2016	\$3,208
Increase in gross profit, as explained above	17,677
Increased SG&A costs due primarily to the acquisitions of Sunrise and Niagara Natural, and increased foreign exchange losses on international operations, partially offset by lower compensation costs	(14,418)
Increase in corporate cost allocations	(5,261)
Operating income for the year ended December 31, 2016	<b>\$1,206</b>

Looking forward we believe our Consumer Products segment remains well-positioned in markets with attractive growth potential. We intend to focus our efforts on (i) investing in new sales and marketing resources creating greater channel specific focus on retail and foodservice to bolster our pipeline of opportunities to drive incremental sales volume; (ii) investing in our facilities to enhance quality, safety, and manufacturing efficiency to drive both incremental sales and cost reduction; (iii) initiating procurement and supply chain cost reduction initiatives focused on leveraging our buying power and creating increased network efficiency in our planning and logistics efforts; and (iv) leveraging our innovation capabilities to bring new value-added packaged products and processes to market and to increase our capacity utilization across the Consumer Products segment. The statements in this paragraph are forward-looking statements. See [Forward-Looking Statements](#) above. Unfavorable shifts in consumer preferences, increased competition, availability of raw material supply, volume decreases or loss of customers, unexpected delays in our expansion and integration plans, inefficiencies in our manufacturing processes, lack of consumer product acceptance, or our inability to successfully implement the particular goals and strategies indicated above, along with the other factors described above under [Forward-Looking Statements](#), could have an adverse impact on these forward-looking expectations.

<b>Corporate Services</b>	<b>December 31, 2016</b>	<b>January 2, 2016</b>	<b>Change</b>	<b>% Change</b>
Operating Loss	(13,247)	(10,094)	(3,153)	-31.2%

Operating loss at Corporate Services increased by \$3.2 million to \$13.2 million for the year ended December 31, 2016, from a loss of \$10.1 million for the year ended January 2, 2016. The table below explains the increase in operating loss:





<b>Corporate Services Operating Loss Changes</b>	
Operating loss for the year ended January 2, 2016	\$(10,094)
Increased costs associated with strategic review and Value Creation Plan	(3,788)
Higher compensation-related costs due to increased headcount, stock-based compensation and health benefits	(1,856)
Increased information technology consulting, professional fees and costs associated with litigation now resolved, partially offset by lower foreign exchange losses	(197)
Increase in corporate cost allocations, due in part to an increasing centralization of services	2,688
Operating loss for the year ended December 31, 2016	<b>\$(13,247)</b>

Management fees mainly consist of salaries of corporate personnel who perform back office functions for operating segments, as well as costs related to the enterprise resource management system. These expenses are allocated to the operating segments based on (1) specific identification of allocable costs that represent a service provided to each segment and (2) a proportionate distribution of costs based on a weighting of factors such as revenue contribution and number of people employed within each segment. The 2016 management fee allocations reflect the additional revenues and head count added as a result of the acquisitions of Sunrise, Citrusource, and Niagara Natural. These acquisitions added approximately \$350.0 million in annualized revenues all to the Consumer Products segment.

## Consolidated Results of Operations for Fiscal Years 2015 and 2014

	January 2, 2016 \$	January 3, 2015 \$	Change \$	Change %
<b>Revenues</b>				
Global Ingredients	610,890	619,066	(8,176)	-1.3%
Consumer Products	534,244	483,679	50,565	10.5%
<b>Total revenues</b>	<b>1,145,134</b>	<b>1,102,745</b>	<b>42,389</b>	<b>3.8%</b>
<b>Gross Profit</b>				
Global Ingredients	66,461	63,591	2,870	4.5%
Consumer Products	43,901	58,514	(14,613)	-25.0%
<b>Total gross profit</b>	<b>110,362</b>	<b>122,105</b>	<b>(11,743)</b>	<b>-9.6%</b>
<b>Segment operating income (loss)<sup>(1)</sup></b>				
Global Ingredients	28,184	26,274	1,910	7.3%
Consumer Products	3,208	27,872	(24,664)	-88.5%
Corporate Services	(10,094)	(12,449)	2,355	18.9%
<b>Total segment operating income</b>	<b>21,298</b>	<b>41,697</b>	<b>(20,399)</b>	<b>-48.9%</b>
Other expense (income), net	12,151	(2,220)	14,371	647.3%
<b>Earnings from continuing operations before the following</b>	<b>9,147</b>	<b>43,917</b>	<b>(34,770)</b>	<b>-79.2%</b>
Interest expense, net	15,669	3,943	11,726	297.4%
Impairment loss on investment	-	8,441	(8,441)	-100.0%
Provision for (recovery of) income taxes	(3,390)	12,043	(15,433)	-128.1%
Earnings (loss) from continuing operations	(3,132)	19,490	(22,622)	-116.1%
Earnings (loss) attributable to non-controlling interests	(136)	195	(331)	-169.7%
Loss from discontinued operations attributable to SunOpta Inc.	(19,475)	(6,194)	(13,281)	-214.4%
<b>Earnings (loss) attributable to SunOpta Inc.<sup>(2)</sup></b>	<b>(22,471)</b>	<b>13,101</b>	<b>(35,572)</b>	<b>-271.5%</b>

(1) The following table presents a reconciliation of segment operating income (loss) to earnings from continuing operations before the following, which we consider to be the most directly comparable U.S. GAAP financial measure (refer to footnote (1) to the Consolidated Results of Operations for Fiscal Years 2016 and 2015 table regarding the use of non-GAAP measures).

	Global Ingredients \$	Consumer Products \$	Corporate Services \$	Consolidated \$
<b>January 2, 2016</b>				
Segment operating income (loss)	28,184	3,208	(10,094)	21,298
Other expense, net	(1,317)	(939)	(9,895)	(12,151)
Earnings (loss) from continuing operations before the following	26,867	2,269	(19,989)	9,147
<b>January 3, 2015</b>				
Segment operating income (loss)	26,274	27,872	(12,449)	41,697
Other income (expense), net	1,052	1,294	(126)	2,220

Earnings (loss) from continuing operations before the following	27,326	29,166	(12,575)	43,917
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- (2) The following table presents a reconciliation of adjusted earnings from earnings/loss from continuing operations, which we consider to be the most directly comparable U.S. GAAP financial measure (refer to footnote (2) to the Consolidated Results of Operations for Fiscal Years 2016 and 2015 table regarding the use of non-GAAP measures).

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	\$	Per Diluted Share \$
<b>January 2, 2016</b>		
Loss from continuing operations	(3,132)	
Add: loss attributable to non-controlling interests	136	
Loss from continuing operations available to common shareholders	(2,996)	(0.04)
Adjusted for:		
Costs related to business acquisitions <sup>(a)</sup>	17,192	
Plant expansion and start-up costs <sup>(b)</sup>	4,081	
Inventory reserves and liquidation sales to de-risk positions <sup>(c)</sup>	2,367	
Downtime, spoilage, and other costs due to equipment failure <sup>(d)</sup>	2,219	
Demurrage, detention and other related expenses <sup>(e)</sup>	2,038	
Litigation-related legal fees <sup>(f)</sup>	1,709	
Reversal of stock-based compensation expense <sup>(g)</sup>	(579)	
Other <sup>(h)</sup>	4,384	
Net income tax effect of preceding adjustments <sup>(i)</sup>	(10,598)	
Change in unrecognized tax benefits <sup>(i)</sup>	(855)	
Adjusted earnings	18,962	0.26
<b>January 3, 2015</b>		
Earnings from continuing operations	19,490	0.19
Less: earnings attributable to non-controlling interests	(195)	(0.09)
Earnings from continuing operations available to common shareholders	19,295	0.28
Adjusted for:		
Impairment loss on investment <sup>(k)</sup>	8,441	
Other <sup>(l)</sup>	(2,220)	
Net income tax effect of preceding adjustments <sup>(i)</sup>	901	
Adjusted earnings	26,417	0.38

- (a) Reflects costs related to business combinations, including an acquisition accounting adjustment related to Sunrise's inventory sold subsequent to the acquisition date of \$4.0 million, which was recorded in cost of goods sold; acquisition- and integration-related costs incurred in connection with the Sunrise Acquisition of \$7.8 million, which was recorded in other expense; and the non-cash amortization of debt issuance costs incurred in connection with the financing related to the Sunrise Acquisition of \$6.4 million, as well as \$2.0 million of loan commitment fees associated with bridge financing for the Sunrise Acquisition that was not utilized, which were recorded in interest expense.
- (b) Reflects costs related to the retrofit of the San Bernardino juice facility and expansion of the Allentown facility to add aseptic beverage processing and filling capabilities, which were recorded in cost of goods sold.
- (c) Reflects inventory reserves and low margin sales incurred to reduce inventory exposures in certain organic raw materials, which were recorded in cost of goods sold.
- (d) Reflects downtime and spoilage caused by equipment failures at the Allentown pouch facility, which were recorded in cost of goods sold.
- (e) Reflects additional logistics costs stemming from capacity constraints on imports and exports within the Global Ingredients segment, which were recorded in cost of goods sold.
- (f)

- Reflects litigation-related legal costs mainly associated with the Plum dispute, which are recorded in SG&A expenses.
- (g) Reflects the reversal to SG&A expenses of previously recognized stock-based compensation related to performance share units granted to certain employees as the performance conditions were not achieved.
  - (h) Other includes severance costs of \$2.1 million for a former CEO; fair value adjustments related to contingent consideration arrangements; and gain/loss on disposal of assets, which were recorded in other expense.
  - (i) To tax effect the preceding adjustments to earnings and to reflect an overall estimated annual effective tax rate of approximately 30% on adjusted earnings before tax.
  - (j) Reflects the realization of previously unrecognized tax benefits, due to the expiration of the statute of limitations.
  - (k) Reflects an impairment loss recognized on our non-core investment in Enchi Corporation, ( Enchi ), which was recorded in impairment loss on investment.
  - (l) Other includes a net gain of \$1.4 million on the disposal of certain of our sunflower facilities, partially offset by severance costs for affected employees, and a gain of \$1.4 million on the settlement of a contingent consideration arrangement.

We believe that investors' understanding of our financial performance is enhanced by disclosing the specific items that we exclude from earnings/loss attributable to SunOpta Inc. to compute adjusted earnings. However, adjusted earnings is not, and should not be viewed as, a substitute for earnings prepared under U.S. GAAP. Adjusted earnings is presented solely to allow investors to more fully understand how we assess our financial performance.

- (3) In order to evaluate our results of operations, we use certain non-GAAP measures that we believe enhance an investor's ability to derive meaningful year-over-year comparisons and trends from our results of operations. In particular, we evaluate our revenues on a basis that excludes the effects of fluctuations in commodity pricing and foreign exchange rates, as well as the impacts of recent business acquisitions and product rationalizations. In addition, we exclude specific items from our reported results that due to their nature or size, we do not expect to occur as part of our normal business on a regular basis. These items are identified above under footnote (2), and in the discussion of our results of operations below. These non-GAAP measures are presented solely to allow investors to more fully assess our results of operations and should not be considered in isolation of, or as substitutes for an analysis of our results as reported under U.S. GAAP.

Revenues for the year ended January 2, 2016 increased by 3.8% to \$1,145.1 million from \$1,102.7 million for the year ended January 3, 2015. Excluding the impact on revenues of business acquisitions, product rationalizations and other changes (a net increase in revenues of approximately \$57.0 million), changes in foreign exchange rates and commodity-related pricing (decreases in revenues of approximately \$32.0 million and \$7.0 million, respectively), and the impact of the additional week of sales in fiscal 2014 (a decrease in revenues of approximately \$21.0 million), revenues increased 4.1% in 2015, compared with 2014. Revenues for the fourth quarter of 2015 were \$316.4 million, an increase of \$65.8 million, or 26.3%, compared with revenues of \$250.6 million for the fourth quarter of 2014. Excluding the impact on revenues for the fourth quarter of 2015 of business acquisitions, product rationalizations and other changes (an increase in revenues of approximately \$56.0 million), changes in foreign exchange rates (a decrease in revenues of approximately \$6.0 million), and changes in commodity-related pricing (an increase in revenues of approximately \$2.0 million), revenues in the fourth quarter of 2015 increased by 5.5%, compared with the fourth quarter of 2014. The increases in revenue on an adjusted basis for the full year and fourth quarter of 2015, compared with the corresponding periods of 2014, reflected stronger demand for organic ingredients in the U.S. and Europe, offset by lower sunflower and grain-based ingredient volumes and lower volumes for consumer-based aseptic beverage and frozen food retail products.

Gross profit decreased \$11.7 million, or 9.6%, to \$110.4 million for the year ended January 2, 2016, compared with \$122.1 million for the year ended January 3, 2015. As a percentage of revenues, gross profit for the year ended January 2, 2016 was 9.6% compared to 11.1% for the year ended January 3, 2015, a decrease of 1.4%. The gross profit percentage for 2015 would have been approximately 10.9%, excluding the impact of costs related to the retrofit of the San Bernardino juice facility and expansion of the Allentown facility to add aseptic beverage production capabilities (\$4.1 million), acquisition accounting adjustment related to the Sunrise's inventory sold subsequent to the acquisition date (\$4.0 million), aging reserves and low margin sales to reduce inventory exposures on certain organic raw materials (\$2.4 million), downtime and spoilage caused by equipment failures at the Allentown pouch facility (\$2.2 million), and demurrage, detention and other related expenses (\$2.0 million). The 0.2% decline in gross profit percentage year-over-year on an adjusted basis mainly reflected lower capacity utilization and a higher cost base within consumer-based product categories due to recent expansion activities, partially offset by improved performance in our rationalized sunflower operations and increased margin contribution from higher volumes of organic ingredients.

Total segment operating income for the year ended January 2, 2016 decreased by \$20.4 million, or 48.9%, to \$21.3 million, compared with \$41.7 million for the year ended January 3, 2015. As a percentage of revenue, segment operating income was 1.9% for the year ended January 2, 2016, compared with 3.8% for the year ended January 3, 2015. The decrease in segment operating income reflected lower overall gross profit as described above and a \$5.4 million increase in SG&A expenses, reflecting incremental expenses from acquired businesses and higher litigation-related legal costs mainly related to the Plum dispute. Those factors were partially offset by lower employee short-term and long-term incentives tied to operating performance, controlled discretionary spending, and the favorable impact of a stronger U.S. dollar on SG&A expenses denominated in Canadian dollars and euros. As a percentage of revenues, SG&A expenses were 7.5% in 2015 and, excluding the impact of higher litigation costs of \$2.0 million, and lower stock-based compensation expense of \$0.6 million, SG&A expenses would have been approximately 7.4% on an adjusted basis, which is in-line with our intention of maintaining SG&A below 8% of revenues.

Intangible asset amortization increased \$2.9 million year-over-year in 2015, related to the identified intangible assets of acquired businesses.

We recognized foreign exchange gains of \$1.6 million and \$2.0 million for the year ended January 2, 2016 and January 3, 2015, respectively, mainly related to the positive impact of a strengthening of the U.S. dollar relative to the euro on open foreign exchange contracts within our international sourcing and supply operations.

Further details on revenue, gross profit and segment operating income variances are provided below under Segmented Operations Information .

Other expense for the year ended January 2, 2016 of \$12.2 million included business development costs of \$7.8 million, primarily reflecting acquisition- and integration-related costs incurred in connection with the Sunrise Acquisition, as well as severance and other rationalization costs of \$2.9 million mainly related to a former CEO. Other income for the year ended January 3, 2015 of \$2.2 million included a net gain on sale of assets of \$1.4 million primarily related to the disposal of certain of our sunflower production and storage facilities in order to reduce the cost structure and improve the production capacity utilization within our North American sunflower operations, partially offset by severance costs for employees affected by the closure and sale of the sunflower facilities, and a gain of \$1.4 million on the settlement of a contingent consideration arrangement.

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The increase in interest expense of \$11.7 million to \$15.7 million for the year ended January 2, 2016, compared with \$3.9 million for the year ended January 3, 2015, primarily reflected increased costs associated with borrowings to finance the Sunrise Acquisition, which included \$3.4 million of non-cash amortization of debt issuance costs and the write-off of \$2.0 million of loan commitment fees associated with bridge financing for the Sunrise Acquisition that was not utilized.

In 2014, we recognized an impairment loss of \$8.4 million related to our non-core investment in Enchi, a developer of advanced bioconversion products for the renewable fuels industry.

The recovery of income tax for the year ended January 2, 2016 was \$3.4 million, or 52.0% of loss before taxes, compared with a provision for income taxes \$12.0 million, or 30.1% of earnings before taxes, for the year ended January 3, 2015 (excluding the non-deductible impairment loss on investment in 2014, for which the related deferred tax asset is considered more likely than not to be unrealized). The increase in the effective tax rate in 2015, compared with 2014, reflected the impact of pre-tax losses in the U.S., due to a combination of acquisition-related costs primarily related to the Sunrise Acquisition and lower pre-tax earnings within our U.S.-based consumer products operations, which more than offset taxable income in our European and Canadian operations.

Loss from continuing operations, net of non-controlling interests, for the year ended January 2, 2016 was \$3.0 million, compared with earnings of \$19.3 million for the year ended January 3, 2015, a decrease of \$22.3 million. Diluted loss per share from continuing operations was \$0.04 for the year ended January 2, 2016, compared with diluted earnings per share from continuing operations of \$0.28 for the year ended January 3, 2015.

Loss from discontinued operations of \$19.5 million for the year ended January 2, 2016 primarily reflected the results of Opta Minerals, including an asset impairment charge of \$12.4 million and loss on classification as held for sale of \$10.5 million, net of non-controlling interest of \$8.8 million. Loss from discontinued operations of \$8.1 million for the year ended January 3, 2015 primarily reflected the results of Opta Minerals, including asset impairment and plant closure costs of \$4.2 million and a goodwill impairment loss of \$11.0 million, net of non-controlling interest of \$5.2 million. In addition, we recognized a gain on the sale of the Fiber Business, net of income taxes, of \$1.9 million in the fourth quarter of 2014.

On a consolidated basis, we realized a loss of \$22.5 million (diluted loss per share of \$0.31) for the year ended January 2, 2016, compared with earnings of \$13.1 million (diluted earnings per share of \$0.19) for the year ended January 3, 2015.

For the year ended January 2, 2016, adjusted earnings were \$17.9 million or \$0.25 per diluted share, compared with adjusted earnings of \$26.4 million or \$0.38 per diluted share for the year ended January 3, 2015. Adjusted earnings is a non-GAAP financial measure. See footnote (2) to the table above for a reconciliation of adjusted earnings from earnings/loss from continuing operations, which we consider to be the most directly comparable U.S. GAAP financial measure.

### **Segmented Operations Information**

<b>Global Ingredients</b>	<b>January 2, 2016</b>	<b>January 3, 2015</b>	<b>Change</b>	<b>% Change</b>
Revenue	610,890	619,066	(8,176)	-1.3%
Gross Profit	66,461	63,591	2,870	4.5%
Gross Profit %	10.9%	10.3%		0.6%
Operating Income	28,184	26,274	1,910	7.3%
Operating Income %	4.6%	4.2%		0.4%

Global Ingredients contributed \$610.9 million in revenues for the year ended January 2, 2016, compared to \$619.1 million for the year ended January 3, 2015, a decrease of \$8.2 million or 1.3% . Excluding the impact of changes including foreign exchange rates, commodity-related pricing and the additional week of sales in the first quarter of 2014, Global Ingredients revenues increased approximately 8.8% . The table below explains the decrease in revenue:

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<b>Global Ingredients Revenue Changes</b>	
Revenues for the year ended January 3, 2015	\$619,066
Unfavorable foreign exchange impact on euro denominated sales due to the stronger U.S. dollar	(31,897)
Lower volumes of sunflower and grain ingredient products, partially offset by higher volumes for non-GMO corn and soy	(31,038)
Impact on revenues of the additional week in fiscal 2014	(11,673)
Decreased pricing of non-GMO corn, soy, organic feed and sunflower, partially offset by increased pricing of organic feed and agronomy products	(10,792)
Higher international sales volumes of organic fruits and vegetables, seeds, nuts, cocoa, and oils, partially offset by lower volumes of sugar, sweeteners, and organic feed	44,884
Higher U.S. domestic sales volumes on oils, organic fruits and vegetables, and nuts, offset partially by lower pricing for organic oranges, chia seeds, sugar, rice and cocoa	32,340
Revenues for the year ended January 2, 2016	<b>\$610,890</b>

Gross profit in Global Ingredients increased by \$2.9 million to \$66.5 million for the year ended January 2, 2016 compared to \$63.6 million for the year ended January 3, 2015, and the gross profit percentage increased by 0.6% to 10.9% . The increase in gross profit as a percentage of revenue was primarily due to favorable sales mix of organic raw materials and improved sunflower processing yields, partially offset by lower pricing spreads on non-GMO and specialty soy and corn. The table below explains the increase in gross profit:

<b>Global Ingredients Gross Profit Changes</b>	
Gross profit for the year ended January 3, 2015	\$63,591
Margin impact of increased volumes and favorable product mix of organic raw ingredients, as well as improved plant efficiencies at our cocoa processing facility	10,220
Improved sunflower processing yields and operating efficiencies offset by lower volumes	1,051
Demurrage, detention and other related costs resulting from transloading capacity constraints experienced primarily in the third quarter as well as costs associated with inventory reserves and liquidation sales made to decrease inventory exposures in certain organic commodities	(4,405)
Unfavorable impact on gross margins due to weaker euro relative to U.S. dollar, as well as mark to market losses related to commodity futures contracts for cocoa and other commodities	(3,352)
Margin impact of lower pricing spread on non-GMO soy and grain ingredients, partially offset by higher prices on grain snacks	(644)
Gross profit for the year ended January 2, 2016	<b>\$66,461</b>

Operating income in Global Ingredients increased by \$1.9 million, or 7.3%, to \$28.2 million for the year ended January 2, 2016, compared to \$26.3 million for the year ended January 3, 2015. The table below explains the increase in operating income:

<b>Global Ingredients Operating Income Changes</b>	
Operating income for the year ended January 3, 2015	\$26,274
Increase in gross profit, as explained above	2,870
Favorable impact on expenses due to the stronger U.S. dollar relative to the euro	2,176
Increased foreign exchange gains on forward derivative contracts and decreased SG&A expenses due to lower discretionary spending and lower short-term incentive accruals	402
Increase in corporate cost allocations, due in part to centralization of services	(3,538)
Operating income for the year ended January 2, 2016	<b>\$28,184</b>

<b>Consumer Products</b>	<b>January 2, 2016</b>	<b>January 3, 2015</b>	<b>Change</b>	<b>% Change</b>
Revenue	534,244	483,679	50,565	10.5%
Gross Profit	43,901	58,514	(14,613)	-25.0%
Gross Profit %	8.2%	12.1%		-3.9%

Operating Income	3,208	27,872	(24,664)	-88.5%
Operating Income %	0.6%	5.8%		-5.2%

Consumer Products contributed \$534.2 million in revenues for the year ended January 2, 2016, compared to \$483.7 million for the year ended January 3, 2015, an increase of \$50.6 million or 10.5% . Excluding the impact of changes including accretive acquisitions in the year, and the additional week of sales in the first quarter of 2014, Consumer Products revenues decreased approximately 1.5% . The table below explains the increase in revenue:

<b>Consumer Products Revenue Changes</b>	
Revenues for the year ended January 3, 2015	\$483,679
Incremental revenues as a result of the Sunrise Acquisition on October 9, 2015	52,848
Incremental revenues as a result of the acquisitions of Citrusource on March 2, 2015, and Niagara Natural on August 12, 2015	30,797
Lower volumes of aseptic beverages due to a change in mix and lower sales to the retail channel, in particular almond-based beverage sales, as well as lower volumes of contract manufactured shelf stable and refrigerated fruit-based beverages, partially offset by increased sales of coconut based aseptic non-dairy into the food service channel	(15,141)
Impact on revenues of additional week in fiscal 2014	(9,608)
Decreased volumes of private label retail frozen food offerings, partially offset by increased revenues of fruit toppings and bases	(4,592)
Decreased volumes of protein based snacks and fruit snacks, partially offset by increased sales of re-sealable pouch products	(3,739)
Revenues for the year ended January 2, 2016	<b>\$534,244</b>

Gross profit in Consumer Products decreased by \$14.6 million to \$43.9 million for the year ended January 2, 2016 compared to \$58.5 million for the year ended January 3, 2015, and the gross profit percentage decreased by 3.9% to 8.2% . The decrease in gross profit as a percentage of revenue was due to lower production volumes leading to lower plant efficiency, as well as increased costs associated with the retrofit of our premium juice facility and expansion activities at our Allentown facility. The table below explains the decrease in gross profit:



**Consumer Products Gross Profit Changes**

Gross profit for the year ended January 3, 2015	\$58,514
Decreased contribution from sales of aseptic and non-aseptic private label beverages, as fixed costs have increased from capacity expansion projects, leading to decreased operational efficiencies in advance of volume build	(8,648)
Increased raw material costs and delayed price increases which were not fully implemented until the second half of 2015, as well as lower volumes for frozen food offerings as well as fruit bases and toppings	(6,948)
Costs associated with the expansion of the Allentown facility for aseptic beverage production and costs associated with ramp-up activities at our premium juice facility in anticipation of increased extraction and bottling volume	(4,081)
Costs associated with equipment failures and other mechanical issues at the Allentown pouch and Alexandria, Minnesota, aseptic beverage facilities in the fourth quarter which led to downtime, yield loss, spoilage, and price concessions to customers	(2,219)
Incremental margin as a result of the Sunrise acquisition, including the effect of acquisition accounting adjustments related to the fair value of inventory sold subsequent to the acquisition date	4,737
Incremental margin as a result of Citrusource acquisition, partially offset by increased costs associated with the retrofit of our premium juice facility	2,109
Higher volumes of fruit-based snacks, incremental margin from the acquisition of Niagara Natural, partially offset by decreased contribution from sales of protein-based snacks, as well as lower plant efficiencies due to decreased production volumes	437
Gross profit for the year ended January 2, 2016	<b>\$43,901</b>

Operating income in Consumer Products decreased by \$24.7 million, or 88.5%, to \$3.2 million for the year ended January 2, 2016, compared to \$27.9 million for the year ended January 3, 2015. The table below explains the decrease in operating income:

<b>Consumer Products Operating Income Changes</b>	
Operating income for the year ended January 3, 2015	\$27,872
Decrease in gross profit, as explained above	(14,613)
Increase in corporate cost allocations, due in part to centralization of services	(6,939)
Increase in SG&A costs associated with the acquisitions of Sunrise, Niagara Natural and Citrusource including amortization of intangible assets	(5,260)
Lower compensation costs and professional fees driven by the benefit of centralization of services and lower short-term incentive accruals	2,148
Operating income for the year ended January 2, 2016	<b>\$3,208</b>

<b>Corporate Services</b>	<b>January 2, 2016</b>	<b>January 3, 2015</b>	<b>Change</b>	<b>% Change</b>
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Operating Loss	(10,094)	(12,449)	2,355	18.9%
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Operating loss at Corporate Services decreased by \$2.4 million to \$10.1 million for the year ended January 2, 2016, from a loss of \$12.4 million for the year ended January 3, 2015. The table below explains the decrease in operating loss:



<b>Corporate Services Operating Loss Changes</b>	
Operating loss for the year ended January 3, 2015	\$(12,449)
Increase in corporate cost allocations, due in part to the centralization of services	10,477
Higher compensation-related costs due to increased headcount, health and workers compensation benefits, partially offset by lower short-term incentives	(3,410)
Increased information technology consulting, professional fees and other general office spending, partially offset by favorable impact on expenses due to the stronger U.S. dollar relative to the Canadian dollar	(2,503)
Increased professional fees associated with ongoing litigation	(1,959)
Increase in foreign exchange losses	(250)
Operating loss for the year ended January 2, 2016	<b>\$(10,094)</b>

### **Liquidity and Capital Resources**

We have the following sources from which we can fund our operating cash requirements:

- Existing cash and cash equivalents;
- Available operating lines of credit;
- Cash flows generated from operating activities, including working capital reduction efforts;
- Cash flows generated from the exercise, if any, of stock options during the year;
- Potential additional long-term financing, including the offer and sale of debt and/or equity securities; and
- Potential sales of non-core divisions, or assets.

On February 11, 2016, we entered into a five-year, \$350.0 million Global Credit Facility, which replaced our previous North American credit facilities, which were comprised of a \$165.0 million facility and a C\$10.0 million facility, that were set to expire January 27, 2017, and our €92.5 million multipurpose European credit facilities that were due on demand with no set maturity date. The Global Credit Facility will be used to support the working capital and general corporate needs of our global operations, in addition to funding future strategic initiatives. In addition, subject to customary borrowing conditions and the agreement of any such lenders to provide such increased commitments, we may request to increase the total lending commitments under this facility to a maximum aggregate principal amount not to exceed \$450.0 million. The applicable margin in the Global Credit Facility ranges from 1.25% to 1.75% for loans bearing interest based on LIBOR and from 0.25% to 0.75% for loans bearing interest based on the prime rate and, in each case, is set quarterly based on average borrowing availability for the preceding fiscal quarter. As at December 31, 2016, we had outstanding borrowings of \$199.3 million and approximately \$100.0 million of available borrowing capacity under the Global Credit Facility. For more information on the Global Credit Facility, see note 11 to the consolidated financial statements in Item 15 of this Form 10-K.

On October 9, 2015, SunOpta Foods and certain of our other subsidiaries entered into the Second Lien Loan Agreement with a group of lenders, pursuant to which we borrowed an aggregate principal amount of \$330.0 million of term loans (the *Initial Loans*). The net proceeds of the Second Lien Loan Agreement were used to partially fund the Sunrise Acquisition. As at October 1, 2016, we had repaid \$20.0 million of the outstanding principal of the Initial Loans. On October 7, 2016, we used the net proceeds from the issuance of the Preferred Stock to repay an additional \$79.0 million principal amount of the Initial Loans. The remaining \$231.0 million aggregate principal amount of Initial Loans matured on October 9, 2016 and automatically converted into a like principal amount of term loans (such converted loans, the *Term Loans*), with a maturity date of October 9, 2022. The Term Loans bore interest at 9.5% per annum. On October 20, 2016, all of the outstanding Term Loans were exchanged for a corresponding amount of 9.5% Senior Secured Second Lien Notes due October 9, 2022 (the *Notes*) issued by SunOpta Foods. For more information



on the Notes, see note 11 to the consolidated financial statements in Item 15 of this Form 10-K. The Second Lien Loan Agreement was terminated in connection with the issuance of the Notes.

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We have an effective registration statement on file with the U.S. Securities and Exchange Commission, pursuant to which we may offer up to \$200.0 million of debt, equity and other securities. We also have a prospectus on file with Canadian securities regulators covering the offer and sale of up to \$200.0 million of debt, equity and other securities. On September 30, 2015, we issued 16.7 million of our common shares for gross proceeds of \$100.0 million under the U.S. registration statement and the Canadian prospectus. The net proceeds from this issuance were used to partially fund the Sunrise Acquisition. The remaining amount of \$100.0 million available under U.S. registration statement and the Canadian prospectus could be used by us for a public offering of debt, equity or other securities to raise additional capital. Our ability to conduct any such future offerings will be subject to market conditions. The U.S. registration statement will expire in August 2017.

In order to finance significant acquisitions, if any, that may arise in the future, we may need additional sources of cash that we could attempt to obtain through a combination of additional bank or subordinated financing, a private or public offering of debt or equity securities, or the issuance of common stock as consideration in an acquisition. There can be no assurance that these types of financing would be available at all or, if so, on terms that are acceptable to us.

In the event that we require additional liquidity due to market conditions, unexpected actions by our lenders, changes to our growth strategy, or other factors, our ability to obtain any additional financing on favourable terms, if at all, could be limited.

## **Cash Flows**

### ***Fiscal 2016 Compared to Fiscal 2015***

Net cash and cash equivalents related to continuing operations decreased \$1.0 million to \$1.3 million as at December 31, 2016, compared with \$2.3 million at January 2, 2016, which primarily reflected the following uses of cash:

- repayment of borrowings of \$320.0 million under the Second Lien Loan Agreement;
- capital expenditures of \$22.6 million, mainly related to the automation of frozen fruit processing and to food safety and quality initiatives in connection with the Value Creation Plan; and
- payment of \$13.0 million of debt issuance costs related to the Notes and Global Credit Facility.

These uses of cash were mostly offset by the following sources of cash:

- gross proceeds of \$231.0 million on the issuance of the Notes;
- net proceeds of \$79.0 million on the issuance of the Preferred Stock; and
- net borrowings of \$44.3 million under our line of credit facilities.

Cash provided by operating activities of continuing operations was \$0.7 million for the year ended December 31, 2016, compared with \$26.4 million for the year ended January 2, 2016, a decrease in cash provided of \$25.7 million, which reflected lower year-over-year operating performance in the fourth quarter of 2016, resulting in reduced inventory turnover, partially offset by the receipt of income tax refunds during 2016 related to 2015.

Cash used in investing activities of continuing operations was \$21.6 million for the year ended December 31, 2016, compared with \$521.6 million for the year ended January 2, 2016, a decrease in cash used of \$500.0 million, which mainly reflected total cash paid of \$490.7 million in connection with the Sunrise Acquisition, as well as upfront payments for Niagara Natural and Citrusource in 2015. In addition, capital expenditures declined year-over-year by \$8.6 million, reflecting higher spending in 2015 related to a retrofit of the San Bernardino juice facility and the expansion of the Allentown aseptic beverage facility. Cash provided by investing activities of discontinued operations in 2016 reflected cash proceeds from the sale of Opta Minerals of \$3.2 million, net of cash sold.

Cash provided by financing activities of continuing operations was \$16.8 million for the year ended December 31, 2016, compared with cash provided of \$490.0 million for the year ended January 2, 2016, a decrease in cash provided of \$473.2 million, which mainly reflected debt and equity issuances in connection with the Sunrise Acquisition in 2015 for proceeds of \$408.1 million in the aggregate, net of issuance costs. In addition, net borrowings under our line of credit facilities decreased \$41.7 million in 2016, compared with 2015, reflecting borrowings of \$79.2 million to finance a portion of the Sunrise Acquisition and upfront payments for Niagara Natural and Citrusource in 2015, partially offset by the payment of \$13.0 million of debt issuance costs incurred in connection with the Notes and Global Credit Facility, and repayment of \$10.0 million of borrowings under the Second Lien Loan Agreement and in 2016. In addition, we repaid the remaining \$310.0 million outstanding under the Second Lien Loan Agreement with gross proceeds of \$231.0 million from the issuance of the Notes and net proceeds of \$79.0 million from the issuance of the Preferred Stock. In 2016, we also repaid in full outstanding borrowings of \$192.7 million under our North American and European credit facilities with new borrowings under the Global Credit Facility.

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***Fiscal 2015 Compared to Fiscal 2014***

Net cash and cash equivalents related to continuing operations decreased \$5.5 million to \$2.3 million as at January 2, 2016, compared with \$7.8 million at January 3, 2015, which primarily reflected the following uses of cash:

- cash paid in connection with business acquisitions of \$490.7 million in the aggregate;
- capital expenditures of \$31.2 million, which included \$11.5 million of maintenance capital expenditures, as well as strategic spending related to the retrofit of the San Bernardino juice facility and expansion of the Allentown facility;
- financing costs incurred primarily in connection with the Second Lien Loan Agreement of \$16.0 million; and
- repayments of long-term debt of \$11.0 million, primarily related to the repayment of \$10.0 million of borrowings under the Second Lien Loan Agreement.

These uses of cash were mostly offset by the following sources of cash:

- borrowings of \$330.0 million under the Second Lien Loan Agreement in connection with the Sunrise Acquisition;
- net proceeds from the issuance of common shares of \$94.1 million in connection with the Sunrise Acquisition;
- net borrowings under our credit facilities of \$86.0 million, mainly in connection with business acquisitions;
- cash provided by continuing operating activities of \$26.4 million; and
- proceeds from the exercise of stock options and warrants of \$7.8 million in the aggregate.

Cash provided by operating activities of continuing operations was \$26.4 million for the year ended January 2, 2016, compared with \$17.5 million for the year ended January 3, 2015, an increase of \$8.9 million, reflecting strong working capital cash inflows and incremental cash flows from acquired businesses, partially offset by a decline in the year-over-year operating performance within our existing consumer products operations. Cash provided by operating activities of discontinued operations of \$4.8 million and \$7.3 million in 2015 and 2014, respectively, reflected the operations of Opta Minerals and the Fiber Business.

Cash used in investing activities of continuing operations increased by \$509.9 million to \$521.6 million for the year ended January 2, 2016, compared with \$11.7 million for the year ended January 3, 2015, mainly due to the total cash paid of \$490.7 million in connection with the Sunrise Acquisition, as well as the upfront payments for Niagara Natural and Citrusource. In addition, capital expenditures increased \$13.5 million year-over-year, primarily reflecting the addition of aseptic processing and packaging capabilities at the Allentown facility. In 2014, we received cash proceeds of \$5.8 million from the sale of the sunflower facilities. Cash provided by investing activities of discontinued operations of \$34.5 million in 2014 primarily reflected the net proceeds from the sale of the Fiber Business of \$36.9 million.

Cash provided by financing activities of continuing operations was \$490.0 million for the year ended January 2, 2016, compared with cash used of \$39.4 million for the year ended January 3, 2015, an increase in cash provided of \$529.4 million, which mainly reflected the debt and equity issuances in connection with the Sunrise Acquisition for proceeds of \$408.1 million in the aggregate, net of issuance costs. In addition, borrowings under our credit facilities increased \$126.9 million year-over-year, including \$59.2 million to finance a portion of the Sunrise Acquisition and \$20.0 million to fund the Niagara Natural and Citrusource upfront payments. In addition, the year-over-year increase in credit facility borrowings reflected the higher capital spending in 2015, compared with 2014; repayment of \$10.0 million of borrowings under the Second Lien Loan Agreement; and proceeds from the sale of the Fiber Business in 2014, which did not similarly occur in 2015, partially offset by increased operating cash flows and higher proceeds from the exercise of options and warrants in 2015, compared with 2014.



**Off Balance Sheet Arrangements**

There are currently no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition.

**Contractual Obligations**

The table below sets out our contractual obligations as at December 31, 2016:

	Total	2017	Payments due by Period		Thereafter
			2018-2019	2020-2021	
	\$	\$	\$	\$	\$
Bank indebtedness	201,494	201,494	-	-	-
Long-term debt	239,922	2,079	4,731	946	232,166
Interest on bank indebtedness and long-term debt <sup>(1)</sup>	138,652	27,811	44,475	44,222	22,144
Purchase commitments	218,690	218,690	-	-	-
Operating leases	107,143	26,959	43,817	23,890	12,477
Long-term liabilities	21,137	5,500	15,637	-	-
Commodity and foreign exchange contracts	(421)	(429)	8	-	-
	926,617	482,104	108,668	69,058	266,787

- (1) Interest on bank indebtedness is calculated based on scheduled repayments over the periods as indicated, using existing interest rates at December 31, 2016, as disclosed in note 11 to the consolidated financial statements included in Item 15 of this Form 10-K.

The preceding table excludes a liability for uncertain tax benefits totalling \$0.5 million, as we cannot currently make a reliable estimate of the period in which the liability will be payable, if ever.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk****Interest rate risk**

Variable and fixed rate borrowings carry different types of interest rate risk. Variable rate debt gives less predictability to earnings and cash flows as interest rates change, while the fair value of fixed rate debt is affected by changes in interest rates. As at December 31, 2016, we had \$201.5 million and \$239.9 million principal amount of variable and fixed rate debt, respectively, with weighted-average interest rates of 2.7% and 9.3%, respectively. A 100 basis-point change in interest rates would have an after-tax effect of \$1.2 million on our earnings and cash flows, based on current outstanding borrowings and effective interest rates on our variable rate debt. While our variable-rate debt may impact earnings and cash flows as interest rates change, it is not subject to changes in fair value.

As at December 31, 2016, most of our fixed rate debt was comprised of the Notes. If interest rates were to increase or decrease by 100 basis-points, the fair value of the Notes was would increase or decrease by approximately \$10.0 million.

**Foreign currency risk**

All of our U.S. subsidiaries use the U.S. dollar as their functional currency, and the U.S. dollar is also our reporting currency. In addition, the functional currency of our Canadian and Mexican operations is the U.S. dollar. The functional currency of our operations located in Europe are principally the euro. For these operations, gains (losses) on translation of net assets to U.S. dollars on consolidation are recorded in accumulated other comprehensive income

within shareholders' equity. We are exposed to foreign exchange rate fluctuations as the financial results of our European subsidiaries are translated into U.S. dollars on consolidation. A 10% change in the exchange rates for the euro would affect the carrying value of our net assets by approximately \$5.7 million, with a corresponding impact to accumulated other comprehensive income.

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The euro depreciated against the U.S. dollar during 2016, with closing rates moving from \$1.0859 at January 2, 2016 to \$1.0553 at December 31, 2016. The Canadian dollar appreciated relative to the U.S. dollar in 2016, with closing rates moving from \$0.7225 at January 2, 2016 to \$0.7448 at December 31, 2016 for each U.S. dollar.

Our operations based in the U.S. have limited exposure to other currencies since almost all sales and purchases are made in U.S. dollars. The European operations are exposed to various currencies as they purchase product from a wide variety of countries in several currencies and primarily sell into the European market. It is our intention to hold excess funds in the currency in which the funds are likely to be used, which will from time to time potentially expose us to exchange rate fluctuations when converted into U.S. dollars. In addition, we enter into forward foreign exchange contracts to reduce exposure to fluctuations in foreign currency exchange rates. Open forward foreign exchange contracts were marked-to-market at December 31, 2016, resulting in a gain of \$1.0 million (January 2, 2016 - loss of \$0.7 million), which is included in foreign exchange on the consolidated statements of operations.

### **Commodity risk**

We enter into exchange-traded commodity futures and options contracts to hedge its exposure to price fluctuations on grain and certain other commodity transactions to the extent considered practicable for minimizing risk from market price fluctuations. Futures contracts used for hedging purposes are purchased and sold through regulated commodity exchanges. Inventories, however, may not be completely hedged, due in part to our assessment of our exposure from expected price fluctuations. Exchange purchase and sales contracts may expose us to risk in the event that the counterparty to a transaction is unable to fulfill its contractual obligation. We manage our risk by entering into purchase contracts with pre-approved growers.

We have a risk of loss from hedging activities if a grower does not deliver as scheduled. Sales contracts are entered into with organizations of acceptable creditworthiness, as internally evaluated. All futures transactions are marked to market. Gains and losses on futures transactions related to grain inventories are included in cost of goods sold. As at December 31, 2016, we owned 354,699 (January 2, 2016 216,180) bushels of corn with a weighted-average price of \$3.17 (January 2, 2016 \$3.39) and 569,943 (January 2, 2016 399,985) bushels of soybeans with a weighted-average price of \$10.74 (January 2, 2016 \$9.93). As at December 31, 2016, we had a net short position on corn of 10,937 (January 2, 2016 net short position of 12,357) bushels and a net short position on soybeans of 43,866 (January 2, 2016 net short position of 30,760). An increase or decrease in commodity prices of either soy or corn of 10% would not result in a material change in the carrying value of these commodities.

In addition, we enter into forward contracts to hedge our cocoa and coffee positions in an effort to minimize price fluctuations. As at December 31, 2016, we had net open forward contracts to sell 142 lots of cocoa (January 2, 2016 144 lots) and 21 lots of coffee (January 2, 2016 13 lots). A 10% change in the commodity price of cocoa and coffee would impact the fair value of these derivative instruments by \$0.2 million (January 2, 2016 \$0.4 million) and \$0.1 million (January 2, 2016 \$0.1 million), respectively.

### **Item 8. Financial Statements and Supplementary Data**

The consolidated financial statements required by this item are set forth immediately following the signature page to this Form 10-K beginning on page F-1 and are incorporated herein by reference.

### **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.



## **Item 9A - Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Our management has established disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within time periods specified in the Securities and Exchange Commission's rules and forms. Such disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to its management to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures (as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act) as of the end of the period covered by this annual report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2016.

### **Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

Our internal control framework and processes are designed to provide reasonable assurance to management and our board of directors regarding the reliability of financial reporting and the preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee on Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013).

Based on its assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2016, based on those criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by Deloitte LLP, Independent Registered Public Accounting Firm that also audited our consolidated financial statements for the year ended December 31, 2016, as stated in their reports which appear herein.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of SunOpta Inc.:

We have audited the internal control over financial reporting of SunOpta Inc. and subsidiaries (the Company) as of December 31, 2016, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as at and for the year ended December 31, 2016 of the Company and our report dated March 2, 2017 expressed an unqualified opinion on those financial statements.

*/s/ Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada

March 2, 2017

**Item 9B. Other Information**

None.

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**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required under this item is incorporated herein by reference to our Definitive Proxy Statement for the Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2016 (the 2017 Proxy Statement ).

**Item 11. Executive Compensation**

The information required under this item is incorporated herein by reference from the 2017 Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required under this item is incorporated herein by reference from the 2017 Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required under this item is incorporated herein by reference from the 2017 Proxy Statement.

**Item 14. Principal Accounting Fees and Services**

The information required under this item is incorporated herein by reference from the 2017 Proxy Statement.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

The following documents are being filed as part of this annual report.

1. Financial Statements. See Index to Consolidated Financial Statements set forth on page F1.
2. Financial Statement Schedules. All schedules for which provision is made in the applicable accounting requirements of the Securities and Exchange Commission are not required or the required information has been included within the financial statements or the notes thereto.
3. Exhibits. The list of exhibits in the Exhibit Index included in this annual report is incorporated herein by reference.

**EXHIBIT INDEX**

<b><u>Exhibits</u></b>	<b><u>Description</u></b>
2.1+	Asset Purchase Agreement, dated August 11, 2015, among SunOpta Inc., Niagara Natural Fruit Snack Company Inc., John Boot and Guy Armstrong (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on August 17, 2015).
3.1	Amalgamation of Stake Technology Ltd. and 3754481 Canada Ltd. (formerly George F. Pettinos (Canada) Limited) (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000).
3.2	

Certificate of Amendment, dated October 31, 2003, to change the Company's name from Stake Technology Ltd. to SunOpta Inc. (incorporated by reference to Exhibit 3i(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).

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<b><u>Exhibits</u></b>	<b><u>Description</u></b>
3.3	Articles of Amalgamation of SunOpta Inc. and Sunrich Valley Inc., Integrated Drying Systems Inc., Kettle Valley Dried Fruits Ltd., Pro Organics Marketing Inc., Pro Organics Marketing (East) Inc., 4157648 Canada Inc. and 4198000 Canada Ltd., dated January 1, 2004 (incorporated by reference to Exhibit 3i(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
3.4	Articles of Amalgamation of SunOpta Inc. and 6319734 Canada Inc., 4157656 Canada Inc. Kofman-Barenholtz Foods Limited, dated January 1, 2005 (incorporated by reference to Exhibit 3i(d) to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
3.5	Articles of Amalgamation of SunOpta Inc. and 4307623 Canada Inc., dated January 1, 2006 (incorporated by reference to Exhibit 3i(e) to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).
3.6	Articles of Amalgamation of SunOpta Inc., 4208862 SunOpta Food Ingredients Canada Ltd., 4406150 Canada Inc. and 4406168 Canada Inc., dated January 1, 2007 (incorporated by reference to Exhibit 3i(f) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007).
3.7	Articles of Amalgamation of SunOpta Inc. and 4460596 Canada Inc., dated January 1, 2008 (incorporated by reference to Exhibit 3i(g) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007).
3.8	Amended and Restated By-law No. 14, dated May 27, 2010 (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-3 filed on July 3, 2014).
3.9	Certificate of Amendment, dated July 10, 2013, to authorize the directors to fix the number of directors to be elected by the shareholders and to appoint one or more directors (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3 filed on July 3, 2014).
3.10	By-Law Number 15 of SunOpta Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 13, 2015).
4.1	Form of Certificate representing Common Shares, no par value (incorporated by reference to Exhibit 4.9 to the Company's Registration Statement on Form S-8 filed on September 2, 2011).
4.2	Shareholder Rights Plan Agreement, dated November 10, 2015, between SunOpta Inc. and American Stock Transfer & Trust Company LLC, as rights agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 13, 2015).
4.3	Amended and Restated Shareholder Rights Plan Agreement, dated November 10, 2015, amended and restated as of April 18, 2016, between SunOpta Inc. and American Stock Transfer & Trust Company LLC, as rights agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 20, 2016).
4.4	Amended and Restated Certificate of Incorporation of SunOpta Foods Inc., setting forth the terms of its Series A Preferred Stock, which is exchangeable for Common Shares of SunOpta Inc. (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 12, 2016).
4.5	

Articles of Amendment of SunOpta Inc., setting forth the terms of its Special Shares, Series 1 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on October 12, 2016).

**SUNOPTA INC.**

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<b><u>Exhibits</u></b>	<b><u>Description</u></b>
4.6	Indenture, dated as of October 20, 2016, among SunOpta Foods, the guarantors named therein and U.S. Bank National Association, as trustee and notes collateral agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 26, 2016).
4.7	Form of 9.5% Senior Secured Second Lien Notes due 2022 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on October 26, 2016).
4.8	Second Lien U.S. Security Agreement, dated as of October 20, 2016, among the grantors referred therein and the Notes Collateral Agent (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on October 26, 2016).
4.9	Second Lien Canadian Security Agreement, dated as of October 20, 2016, among the grantors referred therein and the Notes Collateral Agent (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed on October 26, 2016).
4.10	Amended and Restated Intercreditor Agreement, dated as of October 20, 2016, among Bank of America, N.A. as first lien collateral agent, the Notes Collateral Agent and the grantors referred therein (incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K filed on October 26, 2016).
10.1	Employee Stock Purchase Plan amended March 4, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 29, 2012).
10.2	Retiring Allowance Agreement, dated March 8, 2011, between the Company and Jeremy Kendall which terminates and supercedes the Employment Agreement dated October 1, 2001 between the Company and Mr. Jeremy Kendall, as amended (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010).
10.3	SunOpta Inc. 2002 Stock Option Plan, Amended and Restated May 2011 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 24, 2011).
10.4	Letter Agreement, dated October 10, 2011, by and between SunOpta Inc. and Robert McKeracher (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2011).
10.5	Amendment to Employment Agreement, dated May 6, 2012, between SunOpta Inc. and Steven R. Bromley (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 11, 2012).
10.6	Retirement and Consulting Agreement, dated January 10, 2014, between SunOpta Grains and Foods, Inc. and Allan G. Routh (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 13, 2014).
10.7	Stock Deferral Plan for Non-Employee Directors dated August 12, 2014 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 5, 2014).
10.8	Letter Agreement re Terms of Employment, dated October 10, 2011, by and between SunOpta Inc. and John Ruelle (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K



for the year ended January 3, 2015).

10.9 Letter Agreement re Amendment of Terms of Employment, dated April 5, 2013, by and between SunOpta Inc. and John Ruelle (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended January 3, 2015).

**SUNOPTA INC.**

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<b><u>Exhibits</u></b>	<b><u>Description</u></b>
10.10	Letter Agreement re Amendment of Terms of Employment, dated December 30, 2014, by and between SunOpta Inc. and John Ruelle (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended January 3, 2015).
10.11	Employment Agreement, dated April 2012, by and between The Organic Corporation B.V. and G.J.M. Versteegh (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended January 3, 2015).
10.12	Employment Agreement, dated July 6, 2015, between SunOpta Inc. and Hendrik Jacobs (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 7, 2015).
10.13	Separation Agreement, dated July 6, 2015, between SunOpta Inc. and Steven Bromley (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 7, 2015).
10.14	Commitment Letter dated July 30, 2015, among SunOpta Inc., SunOpta Foods Inc., Bank of Montreal and BMO Capital Corp. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 3, 2015).
10.15+	Second Lien Loan Agreement, dated October 9, 2015, among SunOpta Inc., as Holdings, SunOpta Foods Inc., as the Borrower, Certain Subsidiaries of SunOpta Inc., as Subsidiary Guarantors and Loan Parties, the Several Lenders from Time to Time Parties Hereto, Bank of Montreal, as Administrative Agent and Collateral Agent, BMO Capital Markets Corp. and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., Rabobank Nederland, New York Branch, as Joint Lead Arrangers and Joint Bookrunners (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 3, 2015).
10.16+	Credit Agreement, dated as of February 11, 2016, among SunOpta Inc., SunOpta Foods Inc., The Organic Corporation B.V., the other borrowers and guarantors party thereto, the lenders party thereto, Bank of America, N.A., as U.S. Administrative Agent, Bank of America, N.A. (acting through its Canada Branch), as Canadian Administrative Agent, Bank of America, N.A. (acting through its London Branch), as Dutch Administrative Agent, and Bank of America, N.A., as Collateral Agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 17, 2016).
10.17	Support Agreement dated February 12, 2016, among SunOpta Inc., Wedge Acquisition Inc. and Wedge Acquisition Holdings Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 18, 2016).
10.18	Second Amending Agreement, dated October 9, 2015, amending the Seventh Amended and Restated Credit Agreement, among SunOpta Inc. and SunOpta Foods, as Borrowers, Each of the Financial Institutions and Other Entities from Time to Time Parties Thereto, as Lenders, Certain Affiliates of the Borrowers, as Obligors, and Bank of Montreal, as Agent (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended January 2, 2016).
10.19	Employment Agreement, dated July 6, 2015, between SunOpta Inc. and Edward Haft (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended January 2, 2016).
10.20	

Amended 2013 Stock Incentive Plan (incorporated by reference to Exhibit C to the Company's  
Definitive Proxy Statement on Schedule 14A filed on March 31, 2016).

**SUNOPTA INC.**

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<b><u>Exhibits</u></b>	<b><u>Description</u></b>
10.21	Form of Incentive Stock Option Award Agreement under Amended 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 2, 2016).
10.22	Form of Restricted Stock Unit Award Agreement (Non-Employee Directors) under Amended 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 2, 2016).
10.23	Form of 2016 Performance Share Unit Award Agreement under 2013 Amended Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 2, 2016).
10.24	Employment Agreement, dated March 17, 2013, by and between SunOpta Inc. and Michelle Coleman (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2016).
10.25	Employment Agreement, dated August 18, 2016, by and between SunOpta Inc. and Jill E. Barnett (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2016).
10.26	Employment Agreement, dated August 18, 2016, by and between SunOpta Inc. and James P. Gratzek (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2016).
10.27	Employment Agreement Amendment, dated August 18, 2016, by and between SunOpta Inc. and Edward Haft (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2016).
10.28	Employment Agreement Amendment, dated August 19, 2016, by and between The Organic Corporation B.V. and G.J.M. Versteegh (incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2016).
10.29	Separation Agreement, dated August 22, 2016, by and between SunOpta Inc. and Daniel Turney (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2016).
10.30	First Amendment, dated as of October 7, 2016, to the Credit Agreement, dated as of February 11, 2016, among SunOpta Inc., SunOpta Foods Inc., The Organic Corporation B.V., each of the other borrowers and guarantors party thereto from time to time, the lenders party thereto from time to time, Bank of America, N.A., as U.S. Administrative Agent, Bank of America, N.A. (acting through its Canada Branch), as Canadian Administrative Agent, Bank of America, N.A. (acting through its London Branch), as Dutch Administrative Agent under the Dutch, and Bank of America, N.A. as Collateral Agent (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2016).
10.31	First Amendment, dated as of October 7, 2016, to the Second Lien Loan Agreement, dated as of October 9, 2015, among SunOpta Inc., SunOpta Foods Inc., certain subsidiaries of SunOpta Inc., the several banks and other financial institutions or entities from time to time party thereto, and Bank of

Montreal, as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2016).

**SUNOPTA INC.**

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<b><u>Exhibits</u></b>	<b><u>Description</u></b>
10.32	Subscription Agreement, dated October 7, 2016, between SunOpta Inc., SunOpta Foods Inc. and Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 12, 2016).
10.33	Investor Rights Agreement, dated October 7, 2016, between SunOpta Inc., SunOpta Foods Inc. and Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 12, 2016).
10.34	Exchange and Support Agreement, dated October 7, 2016, between SunOpta Inc., SunOpta Foods Inc., Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. and any person that becomes a Holder of Preferred Stock, from time to time (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 12, 2016).
10.35	Voting Trust Agreement, dated October 7, 2016, between SunOpta Inc., SunOpta Foods Inc., the trustee named therein, Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. and any other Holder of Preferred Stock, from time to time (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on October 12, 2016).
10.36	Letter Agreement, dated November 8, 2016, between Hendrik Jacobs and SunOpta Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 15, 2016).
10.37	Letter Agreement, dated November 8, 2016, between Robert McKeracher and SunOpta Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 15, 2016).
10.38	Letter Agreement, dated November 8, 2016, between John Ruelle and SunOpta Inc. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on November 15, 2016).
10.39	Letter Agreement, dated November 8, 2016, between Gerard Versteegh and SunOpta Inc. (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on November 15, 2016).
10.40	Employment Agreement, effective February 6, 2017, between SunOpta Inc. and David J. Colo (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 7, 2017).
10.41	Restricted Stock Award Agreement, dated effective February 6, 2017, between SunOpta Inc. and David J. Colo (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 7, 2017).
10.42	Stock Option Award Agreement, dated effective February 6, 2017, between SunOpta Inc. and David J. Colo (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 7, 2017).
10.43	Performance Share Unit Award Agreement, dated effective February 6, 2017, between SunOpta Inc. and David J. Colo (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 7, 2017).

21\*      List of subsidiaries.

23.1\*      Consent of Deloitte LLP, Independent Registered Public Accounting Firm.

**SUNOPTA INC.**

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<b><u>Exhibits</u></b>	<b><u>Description</u></b>
<u>31.1*</u>	<u>Certification by David Colo, President and Chief Executive Officer, pursuant to Rule 13a 14(a) under the Securities Exchange Act of 1934, as amended.</u>
<u>31.2*</u>	<u>Certification by Robert McKeracher, Vice President and Chief Financial Officer, pursuant to Rule 13a 14(a) under the Securities Exchange Act of 1934, as amended.</u>
<u>32*</u>	<u>Certifications by David Colo, President and Chief Executive Officer, and Robert McKeracher, Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.</u>
<u>101.INS*</u>	<u>XBRL Instance Document</u>
<u>101.SCH*</u>	<u>XBRL Taxonomy Extension Schema Document</u>
<u>101.CAL*</u>	<u>XBRL Taxonomy Extension Calculation Linkbase Document</u>
<u>101.DEF*</u>	<u>XBRL Taxonomy Extension Definition Linkbase Document</u>
<u>101.LAB*</u>	<u>XBRL Taxonomy Extension Label Linkbase Document</u>
<u>101.PRE*</u>	<u>XBRL Taxonomy Extension Presentation Linkbase Document</u>

+ Exhibits and schedules to this exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. SunOpta will furnish copies of the omitted exhibits and schedules to the Securities and Exchange Commission upon its request.

Indicates management contract or compensatory plan or arrangement.

\* Filed herewith.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

**SUNOPTA INC.**

/s/ Robert McKeracher

Robert McKeracher

Vice President and Chief Financial Officer

Date: March 2, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ David Colo</u> David Colo	President, Chief Executive Officer and Director (Principal Executive Officer)	March 2, 2017
<u>/s/ Robert McKeracher</u> Robert McKeracher	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 2, 2017
<u>/s/ Dean Hollis</u> Dean Hollis	Chair of the Board and Director	March 2, 2017
<u>/s/ Margaret Shan Atkins</u> Margaret Shan Atkins	Director	March 2, 2017
<u>/s/ Al Bolles</u> Al Bolles	Director	March 2, 2017
<u>/s/ Michael Detlefsen</u> Michael Detlefsen	Director	March 2, 2017
<u>/s/ Katrina Houde</u> Katrina Houde	Director	March 2, 2017
<u>/s/ Brendan Springstubb</u> Brendan Springstubb	Director	March 2, 2017
<u>/s/ Gregg Tanner</u> Gregg Tanner	Director	March 2, 2017

**SUNOPTA INC.**

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**SunOpta Inc.****Index to Consolidated Financial Statements**

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**SUNOPTA INC.**

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of SunOpta Inc.:

We have audited the accompanying consolidated balance sheets of SunOpta Inc. and subsidiaries (the Company) as at December 31, 2016 and January 2, 2016, and the related consolidated statements of operations, comprehensive earnings (loss), shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of SunOpta Inc. and subsidiaries as at December 31, 2016 and January 2, 2016, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

*/s/ Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
Toronto, Canada  
March 2, 2017

**SUNOPTA INC.**

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**SunOpta Inc.**

## Consolidated Statements of Operations

For the years ended December 31, 2016, January 2, 2016 and January 3, 2015

(All dollar amounts expressed in thousands of U.S. dollars, except per share amounts)

	December 31, 2016 \$	January 2, 2016 \$	January 3, 2015 \$
<b>Revenues</b>	1,346,731	1,145,134	1,102,745
<b>Cost of goods sold</b>	1,220,779	1,034,772	980,640
<b>Gross profit</b>	125,952	110,362	122,105
Selling, general and administrative expenses	98,681	85,754	80,365
Intangible asset amortization	11,282	4,951	2,036
Other expense (income), net (note 15)	28,292	12,151	(2,220)
Goodwill impairment (note 9)	17,540	-	-
Foreign exchange loss (gain)	1,243	(1,641)	(1,993)
<b>Earnings (loss) from continuing operations before the following</b>	(31,086)	9,147	43,917
Interest expense, net (note 11)	43,275	15,669	3,943
Impairment loss on investment (note 16)	-	-	8,441
<b>Earnings (loss) from continuing operations before income taxes</b>	(74,361)	(6,522)	31,533
Provision for (recovery of) income taxes (note 17)	(23,797)	(3,390)	12,043
<b>Earnings (loss) from continuing operations</b>	(50,564)	(3,132)	19,490
<b>Discontinued operations</b> (note 3)			
Loss from discontinued operations	(1,993)	(17,377)	(15,993)
Gain (loss) on classification as held for sale	560	(10,515)	-
Gain on sale of discontinued operation	-	-	2,888
Recovery of (provision for) income taxes	599	(402)	2,000
Loss from discontinued operations attributable to non-controlling interests	264	8,819	4,911
Loss from discontinued operations attributable to SunOpta Inc.	(570)	(19,475)	(6,194)
<b>Earnings (loss)</b>	(51,134)	(22,607)	13,296
Earnings (loss) attributable to non-controlling interests	54	(136)	195
<b>Earnings (loss) attributable to SunOpta Inc.</b>	(51,188)	(22,471)	13,101
<b>Earnings (loss) per share basic</b> (note 18)			

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-from continuing operations	(0.61)	(0.04)	0.29
-from discontinued operations	(0.01)	(0.27)	(0.09)
	(0.62)	(0.31)	0.20

**Earnings (loss) per share diluted** (note 18)

-from continuing operations	(0.61)	(0.04)	0.28
-from discontinued operations	(0.01)	(0.27)	(0.09)
	(0.62)	(0.31)	0.19

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

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**SunOpta Inc.**

## Consolidated Statements of Comprehensive Earnings (Loss)

For the years ended December 31, 2016, January 2, 2016 and January 3, 2015

(All dollar amounts expressed in thousands of U.S. dollars)

	December 31, 2016 \$	January 2, 2016 \$	January 3, 2015 \$
<b>Earnings (loss) from continuing operations</b>	(50,564)	(3,132)	19,490
Loss from discontinued operations attributable to SunOpta Inc.	(570)	(19,475)	(6,194)
<b>Earnings (loss)</b>	(51,134)	(22,607)	13,296
Change in fair value of interest rate swaps, net of income taxes	-	(129)	20
Reclassification adjustment for loss included in earnings	-	339	-
Unrealized gain on interest rate swap, net	-	210	20
Currency translation adjustment	(2,042)	(5,155)	(5,148)
<b>Other comprehensive loss, net of income taxes</b>	(2,042)	(4,945)	(5,128)
<b>Comprehensive earnings (loss)</b>	(53,176)	(27,552)	8,168
Comprehensive loss attributable to non-controlling interests	(355)	(9,565)	(4,669)
<b>Comprehensive earnings (loss) attributable to SunOpta Inc.</b>	(52,821)	(17,987)	12,837

(See accompanying notes to consolidated financial statements)

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**SunOpta Inc.**

Consolidated Balance Sheets

As at December 31, 2016 and January 2, 2016

(All dollar amounts expressed in thousands of U.S. dollars)

	December 31, 2016	January 2, 2016
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,251	2,274
Accounts receivable (note 6)	157,369	117,412
Inventories (note 7)	368,482	371,223
Prepaid expenses and other current assets	19,794	20,088
Current income taxes recoverable	2,801	21,728
Current assets held for sale (note 3)	-	64,330
<b>Total current assets</b>	<b>549,697</b>	<b>597,055</b>
<b>Property, plant and equipment</b> (note 8)	<b>162,239</b>	<b>176,513</b>
<b>Goodwill</b> (note 9)	<b>223,611</b>	<b>241,690</b>
<b>Intangible assets</b> (note 9)	<b>183,524</b>	<b>195,008</b>
<b>Deferred income taxes</b> (note 17)	<b>1,045</b>	<b>958</b>
<b>Other assets</b>	<b>9,442</b>	<b>7,979</b>
<b>Total assets</b>	<b>1,129,558</b>	<b>1,219,203</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 11)	201,494	159,773
Accounts payable and accrued liabilities (note 10)	173,745	151,831
Customer and other deposits	2,543	5,322
Income taxes payable	5,661	1,720
Other current liabilities	1,016	1,521
Current portion of long-term debt (note 11)	2,079	1,773
Current portion of long-term liabilities	5,500	5,243
Current liabilities held for sale (note 3)	-	52,486
<b>Total current liabilities</b>	<b>392,038</b>	<b>379,669</b>
<b>Long-term debt</b> (note 11)	<b>229,008</b>	<b>321,222</b>
<b>Long-term liabilities</b>	<b>15,354</b>	<b>17,809</b>
<b>Deferred income taxes</b> (note 17)	<b>44,561</b>	<b>74,324</b>
<b>Total liabilities</b>	<b>680,961</b>	<b>793,024</b>
<b>Series A Preferred Stock</b> (note 12)	<b>79,184</b>	<b>-</b>
<b>EQUITY</b>		
<b>SunOpta Inc. shareholders equity</b>		
Common shares, no par value, unlimited shares authorized, 85,743,958 shares issued (January 2, 2016 - 85,417,849) (note 13)	300,426	297,987
Additional paid-in capital	25,522	22,327
Retained earnings	53,838	106,838

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Accumulated other comprehensive loss	(13,104)	(6,113)
	366,682	421,039
<b>Non-controlling interests</b>	2,731	5,140
<b>Total equity</b>	369,413	426,179
<b>Total equity and liabilities</b>	1,129,558	1,219,203

**Commitments and contingencies** (note 21)

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

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**SunOpta Inc.**

## Consolidated Statements of Shareholders' Equity

As at and for the years ended December 31, 2016, January 2, 2016 and January 3, 2015

(All dollar amounts expressed in thousands of U.S. dollars)

	000s	Common shares \$	Additional paid-in capital \$	Retained earnings \$	Accumulated other com- prehensive income (loss) \$	Non- controlling interests \$	Total \$
<b>Balance at December 28, 2013</b>	66,528	186,376	19,323	116,208	3,397	17,308	342,612
Employee share purchase plan	52	627	-	-	-	-	627
Stock incentive plan	494	3,665	(1,234)	-	-	-	2,431
Stock-based compensation	-	-	4,401	-	-	-	4,401
Earnings from continuing operations	-	-	-	19,295	-	195	19,490
Loss from discontinued operations, net of income taxes	-	-	-	(6,194)	-	(4,911)	(11,105)
Currency translation adjustment	-	-	-	-	(5,188)	40	(5,148)
Change in fair value of interest rate swaps, net of income taxes	-	-	-	-	13	7	20
<b>Balance at January 3, 2015</b>	67,074	190,668	22,490	129,309	(1,778)	12,639	353,328
Issuance of common shares, net	16,670	95,654	-	-	-	-	95,654
Employee share purchase plan	55	590	-	-	-	-	590
Stock incentive plan	769	5,033	(1,739)	-	-	-	3,294
Warrants	850	6,042	(2,163)	-	-	-	3,879
Stock-based compensation	-	-	4,757	-	-	-	4,757
	-	-	-	(2,996)	-	(136)	(3,132)

Loss from continuing operations							
Loss from discontinued operations, net of income taxes	-	-	-	(19,475)	-	(8,819)	(28,294)
Currency translation adjustment	-	-	-	-	(4,474)	(681)	(5,155)
Change in fair value of interest rate swaps, net of income taxes	-	-	-	-	139	71	210
Non-controlling interest from acquisition of business	-	-	-	-	-	1,781	1,781
Acquisition of non-controlling interest	-	-	(1,018)	-	-	285	(733)
<b>Balance at January 2, 2016</b>	85,418	297,987	22,327	106,838	(6,113)	5,140	426,179
Employee share purchase plan	83	391	-	-	-	-	391
Stock incentive plan	243	2,048	(953)	-	-	-	1,095
Stock-based compensation	-	-	4,148	-	-	-	4,148
Dividends and accretion on Series A Preferred Stock (note 12)	-	-	-	(1,812)	-	-	(1,812)
Loss from continuing operations	-	-	-	(50,618)	-	54	(50,564)
Loss from discontinued operations, net of income taxes (note 3)	-	-	-	(570)	-	(264)	(834)
Disposition of discontinued operation (note 3)	-	-	-	-	(5,094)	(2,054)	(7,148)
Currency translation	-	-	-	-	(1,897)	(145)	(2,042)

adjustment

**Balance at  
December 31,  
2016**

85,744	300,426	25,522	53,838	(13,104)	2,731	369,413
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(See accompanying notes to consolidated financial statements)

**SUNOPTA INC.**

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**SunOpta Inc.**

## Consolidated Statements of Cash Flows

For the years ended December 31, 2016, January 2, 2016 and January 3, 2015

(All dollar amounts expressed in thousands of U.S. dollars)

	December 31, 2016	January 2, 2016	January 3, 2015
	\$	\$	\$
<b>CASH PROVIDED BY (USED IN)</b>			
<b>Operating activities</b>			
Earnings (loss)	(51,134)	(22,607)	13,296
Loss from discontinued operations attributable to SunOpta Inc.	(570)	(19,475)	(6,194)
Earnings (loss) from continuing operations	(50,564)	(3,132)	19,490
Items not affecting cash:			
Depreciation and amortization	34,150	21,007	15,641
Acquisition accounting adjustment on inventory sold (note 2)	15,000	4,000	-
Amortization and write-off of debt issuance costs (note 11)	11,301	5,895	375
Deferred income taxes	(29,850)	(4,038)	(3,489)
Stock-based compensation	4,148	4,366	3,906
Unrealized loss (gain) on derivative instruments (note 5)	(547)	143	176
Fair value of contingent consideration (note 15)	(1,158)	884	(1,373)
Impairment of long-lived assets (note 15)	13,257	-	-
Goodwill impairment (note 9)	17,540	-	-
Impairment loss on investment (note 16)	-	-	8,441
Loss (gain) on disposal of assets (note 15)	145	251	(1,386)
Other	190	739	27
Changes in non-cash working capital, net of businesses acquired (note 19)	(12,891)	(3,685)	(24,318)
Net cash flows from operating activities - continuing operations	721	26,430	17,490
Net cash flows from operating activities - discontinued operations	758	4,814	7,325
	1,479	31,244	24,815
<b>Investing activities</b>			
Purchases of property, plant and equipment	(22,560)	(31,186)	(17,671)
Acquisition of businesses, net of cash acquired (note 2)	-	(490,715)	-
Proceeds from sale of assets	254	1,138	5,833
Other	700	(822)	188
Net cash flows from investing activities - continuing operations	(21,606)	(521,585)	(11,650)
Net cash flows from investing activities - discontinued operations	1,754	(1,235)	34,538
	(19,852)	(522,820)	22,888
<b>Financing activities</b>			

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Increase (decrease) under line of credit facilities (note 11)	236,976	85,968	(40,953)
Repayment of line of credit facilities (note 11)	(192,677)	-	-
Borrowings under long-term debt (note 11)	231,430	330,135	-
Repayment of long-term debt (note 11)	(322,004)	(11,018)	(910)
Issuance of Series A Preferred Stock, net (note 12)	78,963	-	-
Payment of debt issuance costs	(13,017)	(15,966)	(34)
Payment of contingent consideration (notes 1 and 5)	(4,554)	(204)	(800)
Proceeds from the exercise of stock options and employee share purchases	1,486	3,884	3,058
Proceeds from the issuance of common shares, net	-	94,080	-
Proceeds from the exercise of warrants	-	3,879	-
Other	168	(781)	244
Net cash flows from financing activities - continuing operations	16,771	489,977	(39,395)
Net cash flows from financing activities - discontinued operations	(1,180)	(4,304)	(7,066)
	15,591	485,673	(46,461)
Foreign exchange gain (loss) on cash held in a foreign currency	52	(54)	159
Increase (decrease) in cash and cash equivalents during the year	(2,730)	(5,957)	1,401
Discontinued operations cash activity included above:			
Add: Balance included at beginning of year	1,707	2,170	4,084
Less: Balance included at end of year	-	(1,707)	(2,170)
Cash and cash equivalents - beginning of the year	2,274	7,768	4,453
Cash and cash equivalents - end of the year	1,251	2,274	7,768

SUNOPTA INC.

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**SunOpta Inc.**

Consolidated Statements of Cash Flows (continued)

For the years ended December 31, 2016, January 2, 2016 and January 3, 2015

(All dollar amounts expressed in thousands of U.S. dollars)

	December 31, 2016 \$	January 2, 2016 \$	January 3, 2015 \$
<b>Non-cash investing and financing activities</b>			
Accrued cash dividends on Class A Preferred Stock (note 12)	(1,590)	-	-
Proceeds on disposition of discontinued operation, note receivable (note 3)	1,537	-	-
Acquisition of business, working capital adjustment (note 2)	-	82	-
Acquisition of business, settlement of pre-existing relationship (note 2)	-	(749)	-
Acquisition of business, contingent consideration at fair value (note 2)	-	(20,330)	-

(See accompanying notes to consolidated financial statements)

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## **SunOpta Inc.**

Notes to Consolidated Financial Statements

For the years ended December 31, 2016, January 2, 2016 and January 3, 2015

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

### **1. Description of Business and Significant Accounting Policies**

SunOpta Inc. (the Company or SunOpta ) was incorporated under the laws of Canada on November 13, 1973. The Company operates businesses focused on a healthy products portfolio that promotes sustainable well-being. The Company's two reportable segments, Global Ingredients and Consumer Products, operate in the natural, organic and specialty food sectors and utilize an integrated business model to bring cost-effective and quality products to market.

#### ***Basis of Presentation***

These consolidated financial statements have been prepared by the Company in United States ( U.S. ) dollars and in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). The consolidated financial statements include the accounts of the Company and those of its wholly-owned and majority-owned subsidiaries. All intercompany accounts and transactions have been eliminated on consolidation.

#### ***Comparative Balances***

The Company has reclassified contingent consideration payments of \$0.2 million and \$0.8 million for the years ended January 2, 2016 and January 3, 2015, respectively, from investing activities to financing activities on the consolidated statements of cash flows to conform with the presentation adopted by the Company in the current fiscal year in accordance with Accounting Standard Update ( ASU ) 2016-15, as described below under Recent Accounting Pronouncements .

#### ***Fiscal Year***

The fiscal year of the Company consists of a 52- or 53-week period ending on the Saturday closest to December 31. Fiscal years 2016 and 2015 were each 52-week periods ending on December 31, 2016 and January 2, 2016, respectively, whereas fiscal year 2014 was a 53-week period ending on January 3, 2015. Fiscal year 2017 will be a 52-week period ending on December 30, 2017, with quarterly periods ending on April 1, July 1 and September 30, 2017.

#### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Areas involving significant estimates and assumptions include: allocation of the purchase price of acquired businesses; inventory valuation reserves; income tax liabilities and assets, and related valuation allowances; provisions for loss contingencies related to claims and litigation; fair value of contingent consideration liabilities; useful lives of property, plant and equipment and intangible assets; expected future cash flows used in evaluating long-lived assets for impairment; fair value of investments; and reporting unit fair values in testing goodwill for impairment. The estimates and assumptions made require judgment on the part of management and are based on the Company's historical experience and various other factors that are believed to be reasonable in the circumstances. Management continually evaluates the information that forms the basis of its estimates and assumptions as the business of the Company and the general business environment changes.

#### ***Business Acquisitions***

Acquired businesses are accounted for using the acquisition method of accounting, which requires that assets acquired and liabilities assumed be recorded at fair value, with limited exceptions. Any excess of the purchase price over the fair value of the net assets acquired is recorded as goodwill. Acquisition-related transaction costs are accounted for as an expense in the period in which the costs are incurred. Contingent consideration is measured at fair value and recognized as part of the consideration transferred in exchange for the acquired businesses. Contingent consideration liabilities are remeasured to fair value at each reporting date with the changes in fair value recognized in other expense/income on the consolidated statements of operations.

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## **SunOpta Inc.**

Notes to Consolidated Financial Statements

For the years ended December 31, 2016, January 2, 2016 and January 3, 2015

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

### ***Financial Instruments***

The Company's financial instruments recognized in the consolidated balance sheets and included in working capital consist of cash and cash equivalents, accounts receivable, derivative instruments, accounts payable and accrued liabilities, and customer and other deposits. Cash and cash equivalents, inventories carried at market and derivative instruments are measured at fair value each reporting period. The fair values of the remaining financial instruments approximate their carrying values due to their short-term maturities.

The Company's financial instruments exposed to credit risk include cash equivalents and accounts receivable. The Company places its cash and cash equivalents with institutions of high creditworthiness. The Company's trade accounts receivable are not subject to a high concentration of credit risk. The Company routinely assesses the financial strength of its customers and believes that its accounts receivable credit risk exposure is limited. The Company maintains an allowance for losses based on the expected collectability of the accounts receivable.

### ***Fair Value Measurements***

The Company has various financial assets and liabilities that are measured at fair value on a recurring basis, including certain inventories and derivatives, as well as contingent consideration. The Company also applies the provisions of fair value measurement to various non-recurring measurements for financial and non-financial assets and liabilities measured at fair value on a non-recurring basis.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). Fair value measurements are estimated based on inputs categorized as follows:

- Level 1 inputs include quoted prices (unadjusted) for identical assets or liabilities in active markets that are observable.
- Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 includes unobservable inputs that reflect the Company's own assumptions about what factors market participants would use in pricing the asset or liability.

When measuring fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs.

### ***Foreign Currency Translation***

The assets and liabilities of the Company's operations having a functional currency other than the U.S. dollar are translated into U.S. dollars at the exchange rate prevailing at the balance sheet date, and at the average rate for the reporting period for revenue and expense items. The cumulative currency translation adjustment is recorded as a component of accumulated other comprehensive income in shareholders' equity. Foreign currency gains and losses related to the remeasurement of the Company's Mexican operation into its U.S. dollar functional currency are recognized in earnings.

Exchange gains and losses on transactions occurring in a currency other than an operation's functional currency are recognized in earnings.

*Cash and Cash Equivalents*

Cash and cash equivalents consist of cash and short-term deposits with an original maturity of 90 days or less.

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**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the years ended December 31, 2016, January 2, 2016 and January 3, 2015

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

***Accounts Receivable***

Accounts receivable includes trade receivables that are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is an estimate of the amount of probable credit losses in existing accounts receivable. Account balances are charged off against the allowance when the Company determines the receivable will not be recovered. As at December 31, 2016 and January 2, 2016, no customer's balance represented 10% or more of the Company's consolidated trade receivables balance.

***Inventories***

Inventories (excluding commodity grains) are valued at the lower of cost and market. Cost is principally determined on a weighted-average cost basis. Shipping and handling costs are included in cost of goods sold on the consolidated statements of operations.

Inventories of commodity grains, which include amounts acquired under deferred pricing contracts traded on the Chicago Board of Trade (CBoT), are valued at market. Grain inventory quantities at year-end are multiplied by the quoted price on the CBoT to reflect the market value of the inventory. This market value is then adjusted for a basis factor that represents differences in local markets, and broker and dealer quotes to arrive at market. Changes in CBoT prices or the basis factor are included in cost of goods sold on the consolidated statements of operations.

SunOpta economically hedges its commodity grain positions to protect gains and minimize losses due to market fluctuations. Futures contracts and purchase and sale contracts are adjusted to market price and resulting gains and losses from these transactions are included in cost of goods sold. As the Company has a risk of loss from hedge activity if the grower does not deliver the grain as scheduled, these transactions do not qualify as hedges under U.S. GAAP and, therefore, changes in market value are recorded in cost of goods sold on the consolidated statements of operations.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line basis at rates reflecting the estimated useful lives of the assets.

Buildings	20 - 40 years
Machinery and equipment	5 - 20 years
Enterprise software	3 - 5 years
Office furniture and equipment	3 - 7 years
Vehicles	3 - 7 years

***Goodwill***

Goodwill represents the excess in a business combination of the purchase price over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized but is instead tested for impairment at least annually, or whenever events or circumstances change between the annual impairment tests that would indicate the carrying amount of goodwill may be impaired. The Company performs its annual test for goodwill impairment in the fourth quarter of each fiscal year. The Company performs a quantitative test for goodwill impairment by comparing the carrying amount of each reporting unit to its estimated fair value (Step 1). If the carrying amount exceeds the

reporting unit's fair value, there is a potential impairment of goodwill. Any impairment of goodwill is measured by comparing the implied fair value of goodwill with its carrying amount (Step 2). The implied fair value of goodwill is determined by deducting the fair value of all the assets and liabilities of the reporting unit from the reporting unit's fair value as determined in Step 1.

***Intangible Assets***

The Company's finite-lived intangible assets consist of customer and other relationships, patents and trademarks, and other intangible assets. These intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

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**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the years ended December 31, 2016, January 2, 2016 and January 3, 2015

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

Customer and other relationships	10 - 25 years
Patents and trademarks	15 years
Other	5 - 15 years

***Impairment of Long-Lived Assets***

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If impairment exists based on expected future undiscounted cash flows, a loss is recognized in earnings. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset, typically determined using a discounted cash flow analysis (income approach).

***Derivative Instruments***

The Company is exposed to fluctuations in commodity prices and foreign currency exchange. The Company utilizes certain derivative financial instruments to enhance its ability to manage these risks, including exchange-traded commodity futures, commodity forward purchase and sale contracts and forward foreign exchange contracts. Derivative instruments are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into contracts for speculative purposes.

All derivative instruments are recognized on the consolidated balance sheets at fair value. Changes in the fair value of derivative instruments are recorded in earnings or other comprehensive earnings, based on whether the instrument is designated as part of a hedge transaction. Gains or losses on derivative instruments reported in accumulated other comprehensive income are reclassified to earnings in the period in which earnings are affected by the underlying hedged item. The ineffective portion of all hedges is recognized in earnings in the current period. As at December 31, 2016, the Company utilized the following derivative instruments to manage commodity and foreign currency risks:

- Exchange-traded commodity futures contracts to economically hedge its exposure to price fluctuations on grain and cocoa transactions to the extent considered practicable for minimizing risk from market price fluctuations. Futures contracts used for economical hedging purposes are purchased and sold through regulated commodity exchanges in the U.S. However, inventories may not be completely hedged, due in part to the Company's assessment of its exposure from expected price fluctuations. Forward purchase and sale contracts may expose the Company to risk in the event that a counterparty to a transaction is unable to fulfill its contractual obligation or if a grower does not deliver grain as scheduled. The Company manages its risk by entering into purchase contracts with pre-approved growers and sale contracts are entered into with organizations of acceptable creditworthiness, as internally evaluated. All futures and forward purchase and sale contracts are marked-to-market. Gains and losses on these transactions are included in cost of goods sold on the consolidated statements of operations.
- Forward foreign exchange contracts to minimize exchange rate fluctuations relating to foreign currency denominated purchase and sale contracts and accounts payable and receivable. Forward foreign exchange contracts designated as hedges are marked-to-market with the effective portion of the gain or loss recognized in other comprehensive earnings and subsequently recognized in earnings in the same period the hedged item affects earnings. Gains and losses on forward exchange contracts not specifically designated as hedging instruments are included in foreign exchange gain/loss on the consolidated statements of operations.

***Debt Issuance Costs***

Costs incurred in connection with obtaining debt financing are deferred and amortized over the term of the financing arrangement using the effective interest method. Costs incurred to secure revolving lines of credit are recorded in other long-term assets. All other debt issuance costs are recorded as a direct deduction from the related debt liability.

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## **SunOpta Inc.**

Notes to Consolidated Financial Statements

For the years ended December 31, 2016, January 2, 2016 and January 3, 2015

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

### ***Customer and Other Deposits***

Customer and other deposits include prepayments by customers for merchandise inventory to be purchased at a future date.

### ***Income Taxes***

The Company follows the asset and liability method of accounting for income taxes whereby deferred income tax assets are recognized for deductible temporary differences and operating loss carry-forwards, and deferred income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes.

Deferred income tax assets are recognized only to the extent that management determines that it is more likely than not that the deferred income tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The income tax expense or benefit is the income tax payable or recoverable for the year plus or minus the change in deferred income tax assets and liabilities during the year.

The Company is subject to ongoing tax exposures, examinations and assessments in various jurisdictions. Accordingly, the Company may incur additional income tax expense based upon the outcomes of such matters. In addition, when applicable, the Company adjusts income tax expense to reflect the Company's ongoing assessments of such matters, which requires judgment and can materially increase or decrease its effective rate as well as impact operating results. The evaluation of tax positions taken or expected to be taken in a tax return is a two-step process, whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position, and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the related tax authority.

### ***Stock Incentive Plan***

The Company maintains a stock incentive plan under which stock options and other stock-based awards may be granted to selected employees and directors. The Company measures stock-based awards at fair value as of the date of grant. Compensation expense is recognized on a straight-line basis over vesting period of the entire stock-based award based on the estimated number of awards that are expected to vest. When exercised, stock-based awards are settled through the issuance of common shares and are therefore treated as equity awards.

### ***Revenue Recognition***

Revenue is realized or realizable and earned when persuasive evidence of an arrangement exists, delivery has occurred, the price to the customer is fixed or determinable, and collection is reasonably assured. Revenue is recognized when title and possession of the product has transferred to the customer. Possession is transferred to the customer at the time of shipment from the Company's facility or at the time of delivery to a specified destination depending on the contractual terms of the sale. Consideration given to customers such as value incentives, rebates, early payment discounts and other discounts are recorded as reductions to revenues at the time of sale. These reductions are estimated based on contractual sales terms with customers and historical payment experience.

***Earnings Per Share***

Basic earnings per share is computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding during the year. Earnings available to common shareholders is computed by deducting dividends and accretion on convertible preferred stock from earnings attributable to SunOpta Inc. The potential diluted effect of stock options and other stock-based awards is computed using the treasury stock method whereby the weighted-average number of common shares used in the basic earnings per share calculation is increased to include the number of additional common shares that would have been outstanding if the potential dilutive common shares had been issued at the beginning of the year. The potential dilutive effect of convertible preferred stock is computed using the if-converted method whereby dividends and accretion on the convertible preferred stock are added back to the numerator, and the common shares resulting from the assumed conversion of the convertible preferred stock are included in the denominator of the diluted earnings per share calculation.

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**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the years ended December 31, 2016, January 2, 2016 and January 3, 2015

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

***Contingencies***

In the normal course of business, the Company is subject to loss contingencies, such as accrued but unpaid bonuses; tax-related matters; and claims or litigation. Accruals for loss contingencies are recorded when the Company determines that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. If the estimate of the amount of the loss is a range and some amount within the range appears to be a better estimate than any other amount within the range, that amount is accrued as a liability. If no amount within the range is a better estimate than any other amount, the minimum amount of the range is accrued as a liability.

The Company recognizes an asset for insurance recoveries when a loss event has occurred and recovery is considered probable, to the extent that the potential recovery does not exceed the loss recognized.

***Recent Accounting Pronouncements***

In February 2017, the Financial Accounting Standards Board ( FASB ) issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* , which simplifies the accounting for goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill (that is, Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, companies will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (that is, measure the charge based on Step 1 of the current goodwill impairment model). The guidance is effective on a prospective basis for interim and annual goodwill impairment testing dates after January 1, 2020; however, early adoption is permitted for testing dates after January 1, 2017. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments* , which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flow, including contingent consideration payments made after a business combination. As permitted, the Company elected to early adopt the guidance as at December 31, 2016 on a retrospective basis. Accordingly, the Company has classified contingent consideration payments of \$4.6 million, \$0.2 million and \$0.8 million for the years ended December 31, 2016, January 2, 2016 and January 3, 2015, respectively, as financing activities on the consolidated statements of cash flows. Prior to the adoption of ASU 2016-15, contingent consideration payments were presented by the Company as investing activities on the consolidated statements of cash flows.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* , which requires measurement and recognition of expected versus incurred credit losses for most financial assets. ASU 2016-13 is effective for interim and annual periods beginning after December 15, 2019. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* , which is intended to simplify the accounting for share-based payment transactions, including income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. Under the new guidance, companies will record excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than in additional paid-in capital. In addition, the guidance permits companies to elect to recognize forfeitures of share-based payments as they occur, rather than estimating the number of awards expected to be forfeited as is currently required. This guidance is

effective for annual and interim periods beginning after December 15, 2016. The Company has adopted ASU 2016-09 effective January 1, 2017, and has elected upon adoption to recognize forfeitures of stock-based awards as they occur versus estimating at the time of grant. This election will be applied on modified retrospective basis, with the cumulative effect of the transition recognized as adjustment to retained earnings as at January 1, 2017. The adoption of other amendments to the accounting for share-based payments upon the adoption of ASU 2016-09 are not expected to result in a significant cumulative effect adjustment to retained earnings as at January 1, 2017. Commencing January 1, 2017, the Company will recognize excess tax benefits and deficiencies in the provision for income taxes on its consolidated statements of operations and as an operating activity on the consolidated statements of cash flows.

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**SunOpta Inc.**

Notes to Consolidated Financial Statements

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(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

In February 2016, the FASB issued ASU 2016-02, *Leases*, a comprehensive new standard that amends various aspects of existing accounting guidance for leases, including the recognition of a right of use asset and a lease liability for leases with a duration of greater than one year. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements; however, the Company anticipates that upon adoption of the standard it will recognize additional assets and corresponding liabilities related to leases on its balance sheet.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 will require equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The guidance provides a new measurement alternative for equity investments that do not have readily determinable fair values and do not qualify for the net asset practical expedient. Under this alternative, these investments can be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment with the same issuer. Additionally, ASU 2016-01 also changes certain disclosure requirements and other aspects of current U.S. GAAP. ASU 2016-01 is effective for interim and annual reporting periods beginning on or after December 15, 2017. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which will supersede existing revenue recognition guidance under U.S. GAAP. Under the new standard, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process to achieve this principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14, which defers by one year the effective date of ASU 2014-09. During 2016, the FASB issued ASU 2016-08, ASU 2016-10, 2016-11, 2016-12, and 2016-20 all of which clarify certain implementation guidance within ASU 2014-09. ASU 2014-09, as amended, will be effective for annual and interim periods beginning on or after December 15, 2017, and is to be applied on either a full retrospective or modified retrospective basis. Early adoption is permitted only as of annual and interim reporting periods beginning on or after December 15, 2016; however, the Company has elected not to early adopt the standard.

The Company currently expects to adopt the standard using the modified retrospective approach; however, that expectation is subject to change once the Company completes its evaluation and quantification of the impact of the guidance. With the assistance of a third party, the Company has begun a preliminary assessment of ASU 2014-09 and has started to analyze its significant customer relationships to determine the effects of the new guidance. Once this analysis is completed, the Company will work towards establishing policies, updating its processes, and implementing necessary changes to be able to comply with the new requirements.

The Company is continuing to assess the impact that the adoption of ASU 2014-09 will have on its consolidated financial statements. In particular, the Company is assessing under the new guidance whether its existing contracts with customers to produce private label consumer products would permit the Company to recognize revenue over time

versus at a point in time, based on whether a given product has an alternative use or not and whether there is an enforceable right to payment under the contract for product produced to date. The Company has not completed its assessment or determined whether a change to recognizing revenue over time, if required, would have a significant impact on the Company's reported revenues and earnings.

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**2. Business Acquisitions*****Sunrise Holdings (Delaware), Inc.***

On October 9, 2015, the Company completed the acquisition of 100% of the issued and outstanding common shares of Sunrise Holdings (Delaware), Inc. ( Sunrise ), pursuant to a Purchase and Sale Agreement dated July 30, 2015 (the Sunrise Acquisition ). Sunrise is a processor of conventional and organic individually quick frozen ( IQF ) fruit in the U.S. and Mexico. The acquisition of Sunrise has been accounted for as a business combination under the acquisition method of accounting. The results of Sunrise have been included in the Company's consolidated financial statements since the date of acquisition and are reported in the Consumer Products operating segment. The acquisition of Sunrise is aligned with the Company's strategic focus on healthy and organic foods.

Total consideration for the Sunrise Acquisition was \$472.7 million in cash paid at the acquisition date, which included the repayment of all outstanding obligations under Sunrise's senior credit facility in the amount of \$171.5 million. In addition, the total consideration included \$23.0 million paid by the Company to the holders of Sunrise stock options. As all outstanding Sunrise stock options vested upon the consummation of the Sunrise Acquisition, pursuant to the terms of Sunrise's pre-existing stock option agreements, the cash consideration paid to the option holders was attributed to services prior to the Sunrise Acquisition and included as a component of the purchase price. The total consideration also included \$20.9 million paid by the Company to settle acquisition-related transaction costs incurred by Sunrise in connection with the Sunrise Acquisition. As none of these costs were incurred by Sunrise on behalf of the Company, the cash consideration paid to settle these costs was included as a component of the purchase price.

The following table summarizes the fair values of the assets acquired and liabilities assumed as at the acquisition date:

	\$
Cash and cash equivalents	1,728
Accounts receivable <sup>(1)</sup>	26,090
Inventories <sup>(2)</sup>	124,829
Income taxes recoverable	12,025
Other current assets	3,982
Property, plant and equipment <sup>(3)</sup>	46,068
Intangible assets <sup>(4)</sup>	170,000
Accounts payable and accrued liabilities	(24,169)
Long-term debt, including current portion	(7,620)
Deferred income taxes, net	(75,193)
Net identifiable assets acquired	277,740
Goodwill <sup>(5)</sup>	196,709
Non-controlling interest <sup>(6)</sup>	(1,781)
Net assets acquired	472,668

(1) The gross amount of accounts receivable acquired was \$26.2 million, of which the Company expected \$0.2 million to be uncollectible.

(2) Includes an estimated fair value adjustment to inventory of \$19.0 million, of which \$15.0 million and \$4.0 million was recognized in costs of goods sold for inventory sold during 2016 and in the fourth quarter of 2015,

respectively.

- (3) Includes an estimated fair value adjustment to property, plant and equipment of \$3.7 million.
- (4) The identified intangible assets relate to customer relationships in existence at the acquisition date between Sunrise and major U.S. retail and foodservice customers. The customer relationships intangible assets will be amortized over an estimated weighted-average useful life of approximately 23 years. The estimated fair value of the intangible asset was determined using a discounted cash flow analysis (income approach), which applied a risk-adjusted discount rate of approximately 12.0% ..

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- (5) Goodwill is calculated as the difference between the acquisition-date fair values of the total consideration and the net assets acquired. The total amount of goodwill has been assigned to the Consumer Products operating segment and is not expected to be deductible for tax purposes. The goodwill recognized is attributable to: (i) cost savings, operating synergies, and other benefits expected to result from combining the operations of Sunrise with those of the Company; (ii) the value of longer-term growth prospects in the private label frozen fruit market; (iii) the value of acquiring the current capabilities and low-cost position of the existing Sunrise business (i.e., the higher rate of return on the assembled net assets versus acquiring all of the net assets separately); and (iv) the value of Sunrise's assembled workforce.
- (6) Represents the estimated fair value of the non-controlling interest in Sunrise's 75%-owned Mexican subsidiary, *Niagara Natural Fruit Snack Company Inc.*

On August 11, 2015, the Company acquired the net operating assets of Niagara Natural Fruit Snack Company Inc. (Niagara Natural). Niagara Natural is a manufacturer of all-natural fruit snacks located in the Niagara Region of Ontario. The acquisition of the net operating assets of Niagara Natural has been accounted for as a business combination under the acquisition method of accounting. The results of Niagara Natural have been included in the Company's consolidated financial statements since the date of acquisition and are reported in the Consumer Products operating segment.

The following table summarizes the fair value of the consideration transferred as at the acquisition date:

	Provisional Amounts Recognized as at the Acquisition Date \$	Measurement Period Adjustment <sup>(1)</sup> \$	Final Amounts Recognized as at the Acquisition Date \$
Cash	6,475	-	6,475
Preliminary working capital adjustment	237	(292)	(55)
Contingent consideration <sup>(2)</sup>	2,330	-	2,330
Total consideration transferred	9,042	(292)	8,750

- (1) The measurement period adjustment reflects the final determination of net working capital as at the acquisition date. This adjustment did not have a significant impact on the Company's consolidated results of operations.
- (2) The Company agreed to pay the owners of Niagara Natural an additional amount of up to approximately \$2.8 million over a period of two years subject to adjustment based on certain performance targets. The fair value of the contingent consideration was determined to be \$2.3 million as of the acquisition date. On May 5, 2016, the Company and the owners of Niagara Natural entered into an agreement to settle the contingent consideration obligation in exchange for a one-time cash payment of \$0.6 million. In the second quarter of 2016, the Company recognized a gain of \$1.7 million in connection with this settlement, based on the difference between the fair value of the contingent consideration obligation and the cash payment, which is recorded in other expense on the consolidated statement of operations for the year ended December 31, 2016.





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The following table summarizes the fair values of the assets acquired and liabilities assumed as at the acquisition date:

	Provisional Amounts Recognized as at the Acquisition Date \$	Measurement Period Adjustment <sup>(1)</sup> \$	Final Amounts Recognized as at the Acquisition Date \$
Current assets	2,220	(292)	1,928
Machinery and equipment	3,414	-	3,414
Intangible assets <sup>(2)</sup>	2,459	-	2,459
Current liabilities	(687)	-	(687)
Net identifiable assets acquired	7,406	(292)	7,114
Goodwill <sup>(3)</sup>	1,636	-	1,636
Net assets acquired	9,042	(292)	8,750

- (1) The measurement period adjustment reflects the final determination of net working capital as at the acquisition date.
- (2) Intangible assets comprise customer relationships and non-competition arrangements, which will be amortized over an estimated weighted-average useful life of approximately 19 years.
- (3) The total amount of goodwill has been assigned to the Consumer Products operating segment.

**Citrusource, LLC**

On March 2, 2015, the Company acquired 100% of the issued and outstanding units of Citrusource, LLC ( Citrusource ), a producer of premium not-from-concentrate private label organic and conventional orange juice and citrus products in the U.S. The acquisition of Citrusource has been accounted for as a business combination under the acquisition method of accounting. The results of Citrusource have been included in the Company's consolidated financial statements since the date of acquisition and are reported in the Consumer Products operating segment. The acquisition of Citrusource aligned with the Company's strategy of growing its value-added consumer products portfolio and leveraging its integrated operating platform.

The following table summarizes the fair value of the consideration transferred as at the acquisition date:

	\$
Cash	13,300
Working capital adjustment	(319)
Settlement of pre-existing relationship	749
Contingent consideration <sup>(1)</sup>	18,000
Total consideration transferred	31,730

- (1) The contingent consideration arrangement with the former unitholders of Citrusource comprises two components: (i) deferred consideration calculated based on a seven-times multiple of the incremental growth in Citrusource's earnings before interest, taxes, depreciation and amortization ( EBITDA ) in fiscal year 2015 versus

EBITDA for fiscal year 2014; and (ii) an earn-out calculated based on 25% of the incremental growth in the sum of Citrusource's EBITDA and the EBITDA of the Company's San Bernardino, California, juice facility (the Combined EBITDA) in each of fiscal years 2016, 2017 and 2018 versus the Combined EBITDA for fiscal year 2015. There are no upper limits to the amount of each of the components. The fair value measurement of the contingent consideration arrangement was determined to be approximately \$18.0 million as at the acquisition date, based on a probability-weighted present value analysis, of which approximately \$15.0 million was related to the deferred consideration and approximately \$3.0 million is related to the earn-out. The deferred consideration is payable in four equal annual installments commencing in 2016. In the second quarter of 2016, the Company paid the first installment in the amount of \$3.9 million. Of the remaining deferred consideration obligation, approximately \$4.0 million is included in current portion of long-term liabilities and approximately \$7.0 million is included in long-term liabilities on the consolidated balance sheets as at December 31, 2016. The earn-out obligation is also included in long-term liabilities on the consolidated balance sheet as at December 31, 2016. The fair value of the contingent consideration arrangement is based on significant level 3 unobservable inputs, including the following factors: (i) estimated range of EBITDA values in each of the earn-out periods; and (ii) the probability-weighting applied to each of the EBITDA values within the estimated range for each earn-out period. The resultant probability-weighted EBITDA values for each earn-out period were discounted at a credit risk-adjusted discount rate of approximately 3.5% .

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The terms of the earn-out component of the contingent consideration arrangement will be amended by the Company and former unitholders of Citrusource as a consequence of the closure of the San Bernardino juice facility (see note 15). The fair value of the amended earn-out is expected to be commensurate with the fair value measured as at December 31, 2016.

The following table summarizes the fair values of the assets acquired and liabilities assumed as at the acquisition date:

	\$
Accounts receivable	2,351
Inventories	1,745
Machinery and equipment	164
Customer relationships intangible asset <sup>(1)</sup>	14,000
Accounts payable and accrued liabilities	(1,666)
Net identifiable assets acquired	16,594
Goodwill <sup>(2)</sup>	15,136
Net assets acquired	31,730

- (1) The customer relationships intangible asset was recognized based on contracts in existence at the acquisition date between Citrusource and major U.S. retail customers. This intangible asset will be amortized over an estimated useful life of approximately 12 years.
- (2) Goodwill is calculated as the difference between the acquisition-date fair values of the consideration transferred and net assets acquired. The total amount of goodwill has been assigned to the Consumer Products operating segment and is expected to be fully deductible for tax purposes. The goodwill recognized is attributable to: (i) operating synergies expected to result from combining the operations of Citrusource with those of the Company; and (ii) opportunities to leverage the business experience of Citrusource's management team to grow the Company's existing citrus beverage program.

**3. Discontinued Operations*****Opta Minerals Inc.***

On February 11, 2016, Opta Minerals entered into a definitive acquisition agreement, pursuant to which Speyside Equity Fund I LP ( Speyside ) agreed to acquire substantially all of the issued and outstanding shares of Opta Minerals, of which the Company owned approximately 66%. The acquisition agreement was approved by Opta Minerals' Boards of Directors, which recommended that Opta Minerals' shareholders approve the transaction. Also on February 11, 2016, the Company entered into a support agreement pursuant to which it irrevocably agreed to vote all of its Opta Minerals' shares in favor of the transaction. The acquisition of Opta Minerals by Speyside was completed on April 6, 2016, following a vote of the shareholders of Opta Minerals in favor of the transaction on March 31, 2016.

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Upon closing of the transaction, the Company received aggregate gross proceeds of \$4.8 million (C\$6.2 million), of which \$3.2 million (C\$4.2 million) was received in cash, and \$1.5 million (C\$2.0 million) was received in the form of a subordinated promissory note bearing interest at 2.0% per annum that will mature on October 6, 2018. In the first quarter of 2016, the Company recognized direct costs related to the sale of Opta Minerals of \$0.8 million. The sale of Company's equity interest in Opta Minerals was consistent with its objective of divesting its non-core assets in order to become a pure-play healthy and organic foods company. The Company has no significant continuing involvement with Opta Minerals.

In the fourth quarter of 2015, the Company recognized a loss on the classification of Opta Minerals as a discontinued operation held for sale of \$10.5 million, or \$7.7 million net of non-controlling interest, to write down the carrying value of Opta Minerals' net assets to fair value less cost to sell based on estimated net proceeds on sale of approximately \$4.5 million as at January 2, 2016. In the first quarter of 2016, the Company recognized a \$0.6 million gain on classification as held for sale, which reflected a \$1.1 million decline in the carrying value of Opta Minerals' net assets, partially offset by a \$0.5 million reduction in the estimated net proceeds on sale. The Company has not recognized the results of operations or cash flows of Opta Minerals for the period from April 1, 2016 to the closing of the transaction on April 6, 2016, as these amounts were insignificant to the Company's consolidated results of operations and cash flows.

As at January 2, 2016, the net assets and liabilities of Opta Minerals were reported as held for sale on the consolidated balance sheet. The following table reconciles the major classes of assets and liabilities of Opta Minerals to the amounts reported as held for sale:

	\$
Cash and cash equivalents	1,707
Accounts receivable	14,676
Inventories	25,869
Property, plant and equipment	16,019
Intangible assets	13,194
Other assets	3,380
Loss recognized on classification as held for sale	(10,515)
Total assets held for sale	64,330
Bank indebtedness	12,107
Accounts payable and accrued liabilities	9,634
Long-term debt	25,858
Other liabilities	4,887
Total liabilities held for sale	52,486

***Fiber and Starch Business***

On December 22, 2014, the Company completed the sale of its fiber and starch business (the "Fiber Business") for \$37.5 million, subject to certain closing adjustments. The Fiber Business included five facilities located in Louisville, Kentucky, Cedar Rapids, Iowa, Cambridge, Minnesota, Fosston, Minnesota, and Galesburg, Illinois. The Fiber Business was formerly part of the former Value Added Ingredients operating segment. The Company continues to operate both its integrated grain- and fruit-based ingredient businesses, which were not part of the sale, and which previously formed the remainder of the former Value Added Ingredients operating segment.



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For the year ended January 3, 2015, the Company recognized the following gain on sale of the Fiber Business in discontinued operations:

	\$
Cash consideration	37,500
Transaction and related costs	(637)
Net proceeds	36,863
Current assets	12,139
Property, plant and equipment	13,045
Goodwill	12,030
Current liabilities	(3,239)
Net assets sold	33,975
Pre-tax gain on sale	2,888
Provision for income taxes	(990)
Gain on sale of discontinued operations, net of income taxes	1,898

**Major Components of Operating Results Reported in Discontinued Operations**

The following table reconciles the major components of the results of discontinued operations to the amounts reported in the consolidated statements of operations:

	December 31,		
	2016 <sup>(1)</sup>	January 2, 2016	January 3, 2015
	\$	\$	\$
Revenues	24,896	113,805	180,793
Cost of goods sold <sup>(2)</sup>	(22,133)	(99,256)	(154,629)
Selling, general and administrative expenses	(3,024)	(11,170)	(19,108)
Intangible asset amortization	-	(1,987)	(2,236)
Goodwill impairment	-	-	(10,975)
Other expense, net <sup>(3)</sup>	(794)	(15,097)	(4,801)
Foreign exchange gain (loss)	(454)	717	(1,216)
Interest expense	(484)	(4,389)	(3,821)
Loss before income taxes	(1,993)	(17,377)	(15,993)
Gain (loss) on classification as held for sale before income taxes	560	(10,515)	-
Gain on sale before income taxes	-	-	2,888
Total pre-tax loss from discontinued operations	(1,433)	(27,892)	(13,105)
Recovery of (provision for) income taxes	599	(402)	2,000
Loss from discontinued operations	(834)	(28,294)	(11,105)
Loss from discontinued operations attributable to non-controlling interest	264	8,819	4,911
Loss from discontinued operations attributable to SunOpta Inc.	(570)	(19,475)	(6,194)

- (1) For the year ended December 31, 2016, no depreciation or amortization was recorded on Opta Minerals long-lived assets as these assets were classified as held for sale.
- (2) For the year ended December 31, 2016, cost of goods sold includes a charge related to the write-down of inventory of Opta Minerals of \$0.8 million.
- (3) For the years ended December 31, 2016, January 2, 2016 and January 3, 2015, other expense, net includes charges related to the impairment of long-lived assets of Opta Minerals of \$0.4 million, \$12.4 million and \$3.8 million, respectively.

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### **4. Product Recall**

During the second quarter of 2016, the Company announced a voluntary recall of certain roasted sunflower kernel products produced at its Crookston, Minnesota facility due to potential contamination with *Listeria monocytogenes* bacteria. The affected sunflower products originated from the Crookston facility between May 31, 2015 and April 21, 2016. For the year ended December 31, 2016, the Company recognized estimated losses of \$40.0 million related to this recall, reflecting the estimated cost of the affected sunflower kernel products expected to be returned to or replaced by the Company and the estimated cost to reimburse customers for costs incurred by them related to the recall of their retail products that contain the affected sunflower kernels as an ingredient or component. However, these losses do not reflect costs associated with the interruption of production at the Crookston facility for the period from April 21, 2016 to the time regular production resumed on or about May 15, 2016, subject to a positive release protocol, or the costs to put into place corrective and preventive actions at the Company's roasting facilities. The Company's remediation efforts are ongoing, and it expects to continue to incur related costs, which may be material.

The Company's estimates of the losses related to the recall are provisional and were determined based on an assessment of the information available up to the date of filing of this report, including a review of customer claims received as of that date and consideration of the extent of potential additional claims that have yet to be received. The Company's estimates reflect the amount of losses that it determined as at December 31, 2016 to be both probable and reasonably estimable. The Company may need to revise its estimates in subsequent periods as the Company continues to work with its customers and insurance providers to substantiate the claims received to date and any additional claims that may be received. These revisions may occur at any time and may be material.

Based on an assessment of the effect on future cash flows of lower anticipated sales demand and higher expected production and capital costs as a result of the recall, the Company determined that the impact of the recall on the fair value of the sunflower reporting unit reflected an impairment of the associated goodwill, resulting in a \$17.5 million charge recorded in the fourth quarter of 2016 (see note 9). The Company's assessment, however, determined that the carrying values of the property, plant and equipment and intangible assets of the sunflower reporting unit were recoverable as at December 31, 2016.

The Company has general liability and product recall insurance policies with aggregate limits of \$47.0 million under which it is expecting to recover recall-related costs, less applicable deductibles. The Company recognizes expected insurance recoveries in the period in which the recoveries are determined to be probable of realization. Accordingly, for the year ended December 31, 2016, the Company recorded estimated insurance recoveries of \$39.4 million for the losses recognized to-date related to the recall. However, the Company may not recover amounts equal to the amount of the losses that have been or may be recognized if those losses exceed the coverage available or are excluded under the insurance policies, in which case these excess or excluded losses would be paid by the Company and recognized as a charge to future earnings.

As at December 31, 2016, \$39.8 million of the estimated recall-related costs were unsettled and were recorded in accounts payable and accrued liabilities on the consolidated balance sheet (see note 10). These costs were offset by the corresponding estimated insurance recoveries of \$37.4 million included in accounts receivable on the consolidated balance sheet as at December 31, 2016 (see note 6), which is net of a \$2.0 million advance the Company received from its insurance providers prior to December 31, 2016. Subsequent to December 31, 2016, the Company settled an individual customer claim for an amount of \$6.5 million, which settlement was fully funded under the Company's general liability and product recall insurance policies.





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**5. Derivative Financial Instruments and Fair Value Measurements**

The following table presents for each of the fair value hierarchies, the assets and liabilities that are measured at fair value on a recurring basis as at December 31, 2016 and January 2, 2016:

		December 31, 2016			
		Fair value asset (liability)	Level 1	Level 2	Level 3
		\$	\$	\$	\$
(a)	Commodity futures and forward contracts <sup>(1)</sup>				
	Unrealized short-term derivative asset	787	43	744	-
	Unrealized short-term derivative liability	(916)	-	(916)	-
	Unrealized long-term derivative liability	(8)	-	(8)	-
(b)	Inventories carried at market <sup>(2)</sup>	8,231	-	8,231	-
(c)	Forward foreign currency contracts <sup>(3)</sup>	1,345	-	1,345	-
(d)	Contingent consideration <sup>(4)</sup>	(15,279)	-	-	(15,279)
(e)	Embedded derivative <sup>(5)</sup>	2,944	-	-	2,944
		January 2, 2016			
		Fair value asset (liability)	Level 1	Level 2	Level 3
		\$	\$	\$	\$
(a)	Commodity futures and forward contracts <sup>(1)</sup>				
	Unrealized short-term derivative asset	748	-	748	-
	Unrealized long-term derivative asset	21	-	21	-
	Unrealized short-term derivative liability	(1,417)	(10)	(1,407)	-
	Unrealized long-term derivative liability	(36)	-	(36)	-
(b)	Inventories carried at market <sup>(2)</sup>	5,945	-	5,945	-
(c)	Forward foreign currency contracts <sup>(3)</sup>	311	-	311	-
(d)	Contingent consideration <sup>(4)</sup>	(21,010)	-	-	(21,010)
(e)	Embedded derivative <sup>(5)</sup>	3,409	-	-	3,409

- (1) Unrealized short-term derivative asset is included in prepaid expenses and other current assets, unrealized long-term derivative asset is included in other assets, unrealized short-term derivative liability is included in other current liabilities and unrealized long-term derivative liability is included in long-term liabilities on the consolidated balance sheets.
- (2) Inventories carried at market are included in inventories on the consolidated balance sheets.
- (3) The forward foreign currency contracts are included in accounts receivable or accounts payable and accrued liabilities on the consolidated balance sheets.
- (4) Contingent consideration obligations are included in long-term liabilities (including the current portion thereof) on the consolidated balance sheets.
- (5) The embedded derivative is included in other assets (long-term) on the consolidated balance sheets.

(a) Commodity futures and forward contracts

The Company's derivative contracts that are measured at fair value include exchange-traded commodity futures and forward commodity purchase and sale contracts. Exchange-traded futures are valued based on unadjusted quotes for identical assets priced in active markets and are classified as level 1. Fair values for forward commodity purchase and sale contracts are estimated based on exchange-quoted prices adjusted for differences in local markets. Local market adjustments use observable inputs or market transactions for similar assets or liabilities, and, as a result, are classified as level 2. Based on historical experience with the Company's suppliers and customers, the Company's own credit risk, and the Company's knowledge of current market conditions, the Company does not view non-performance risk to be a significant input to fair value for the majority of its forward commodity purchase and sale contracts.

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These exchange-traded commodity futures and forward commodity purchase and sale contracts are used as part of the Company's risk management strategy, and represent economic hedges to limit risk related to fluctuations in the price of certain commodity grains, as well as the prices of cocoa and coffee. These derivative instruments are not designated as hedges for accounting purposes. Gains and losses on changes in fair value of these derivative instruments are included in cost of goods sold on the consolidated statement of operations. For the year ended December 31, 2016, the Company recognized a gain of \$0.5 million (January 2, 2016 loss of \$0.1 million; January 3, 2015 loss of \$0.2 million) related to changes in the fair value of these derivatives.

As at December 31, 2016, the notional amounts of open commodity futures and forward purchase and sale contracts were as follows (in thousands of bushels):

	Number of bushels purchased (sold)	
	Corn	Soybeans
Forward commodity purchase contracts	312	526
Forward commodity sale contracts	(317)	(1,095)
Commodity futures contracts	(360)	(45)

In addition, as at December 31, 2016, the Company had open forward contracts to sell 142 lots of cocoa and 21 lots of coffee.

**(b) Inventories carried at market**

Grains inventory carried at fair value is determined using quoted market prices from the CBoT. Estimated fair market values for grains inventory quantities at period end are valued using the quoted price on the CBoT adjusted for differences in local markets, and broker or dealer quotes. These assets are placed in level 2 of the fair value hierarchy, as there are observable quoted prices for similar assets in active markets. Gains and losses on commodity grains inventory are included in cost of goods sold on the consolidated statements of operations. As at December 31, 2016, the Company had 354,699 bushels of commodity corn and 569,943 bushels of commodity soybeans in inventories carried at market.

**(c) Foreign forward currency contracts**

As part of its risk management strategy, the Company enters into forward foreign exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates. For any open forward foreign exchange contracts at period end, the contract rate is compared to the forward rate, and a gain or loss is recorded. These contracts are placed in level 2 of the fair value hierarchy, as the inputs used in making the fair value determination are derived from and are corroborated by observable market data. While these forward foreign exchange contracts typically represent economic hedges that are not designated as hedging instruments, certain of these contracts may be designated as hedges. As at December 31, 2016 the Company had open forward foreign exchange contracts with a notional value of €35.4 million (\$38.8 million). Gains and losses on changes in the fair value of these derivative instruments are included in foreign exchange loss or gain on the consolidated statement of operations. For the year ended December 31, 2016, the Company recognized a gain of \$1.0 million (January 2, 2016 loss of \$0.7 million; January 3, 2015 gain of \$1.4 million) related to changes in the fair value of these derivatives.

**(d) Contingent consideration**

The fair value measurement of contingent consideration arising from business acquisitions is determined using unobservable (level 3) inputs. These inputs include: (i) the estimated amount and timing of the projected cash flows on which the contingency is based; and (ii) the risk-adjusted discount rate used to present value those cash flows.



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The following table presents a reconciliation of contingent consideration obligations for the years ended December 31, 2016 and January 2, 2016:

	December 31, 2016	January 2, 2016
	\$	\$
Balance, beginning of year	(21,010)	-
Issuances <sup>(1)</sup>	-	(20,330)
Fair value adjustment <sup>(2)</sup>	1,158	(884)
Payments <sup>(3)</sup>	4,554	204
Foreign exchange	19	-
Balance, end of year	(15,279)	(21,010)

- (1) For the year ended January 2, 2016, reflects the fair value of the Citrusource and Niagara Natural contingent consideration arrangements as measured at the respective acquisition dates (see note 2).
- (2) For the year ended December 31, 2016, reflects the gain on settlement of the contingent consideration obligation related to the acquisition of Niagara Natural (see note 2) and an adjustment to the contractual amount owing to a former shareholder of, as well as the accretion for the time value of money related to the Citrusource and Niagara Natural obligations. For the year ended January 2, 2016, reflects accretion for the time value of money related to the Citrusource and Niagara Natural obligations. In addition, includes contractual amount owing to former shareholders of Organic Land Corporation OOD ( OLC ), which was acquired by the Company on December 31, 2012, for their share of a government subsidy obtained in 2015. Fair value adjustments are included in other income/expense (see note 15).
- (3) For the year ended December 31, 2016, reflects the first installment payment of deferred consideration to the former unitholders of Citrusource and cash settlement of the contingent consideration obligation related to the acquisition of Niagara Natural (see note 2). For the year ended January 2, 2016, reflects payment to one of the former shareholders of OLC.

## (e) Embedded derivative

On August 5, 2011 and August 29, 2014, the Company invested \$0.5 million and \$0.9 million, respectively, in convertible subordinated notes issued by Enchi Corporation ( Enchi ), a developer of advanced bioconversion products for the renewable fuels industry, of which \$0.2 million principal amount remained outstanding as at January 2, 2016. The Company's investment in subordinated convertible notes of Enchi includes the value of an accelerated payment option embedded in the notes, which may result in a maximum payout to the Company of \$5.1 million. Due to a lack of level 1 or level 2 observable market quotes for the notes, the Company used a discounted cash flow analysis (income approach) to estimate the original fair value of the embedded derivative based on unobservable level 3 inputs. The Company assesses changes in the fair value of the embedded derivative based on the performance of actual cash flows derived from certain royalty rights owned by Enchi, which are expected to be the primary source of funds available to settle the embedded derivative, relative to the financial forecasts used in the valuation analysis. On April 15, 2016, the Company received a distribution from Enchi of \$0.7 million, which was applied to repay the remaining \$0.2 million principal amount of the convertible subordinated notes, with the balance of \$0.5 million applied against the carrying value of the embedded derivative. As at December 31, 2016 and January 2, 2016, the Company determined that the fair value of the embedded derivative was \$2.9 million and \$3.4 million, respectively, based on expectations related to the remaining royalty rights.



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**6. Accounts Receivable**

	December 31, 2016	January 2, 2016
	\$	\$
Trade receivables	122,916	119,904
Recall-related insurance recoveries (see note 4)	37,400	-
Allowance for doubtful accounts	(2,947)	(2,492)
	157,369	117,412

The change in the allowance for doubtful accounts provision for the years ended December 31, 2016 and January 2, 2016 is comprised as follows:

	December 31, 2016	January 2, 2016
	\$	\$
Balance, beginning of year	2,492	1,230
Net additions to provision	1,013	2,008
Reserves from acquired businesses	-	226
Accounts receivable written off, net of recoveries	(536)	(947)
Effects of foreign exchange rate differences	(22)	(25)
Balance, end of year	2,947	2,492

**7. Inventories**

	December 31, 2016	January 2, 2016
	\$	\$
Raw materials and work-in-process	266,072	276,434
Finished goods	101,585	87,215
Company-owned grain	15,027	14,348
Inventory reserve	(14,202)	(6,774)
	368,482	371,223

The change in the inventory reserve for the years ended December 31, 2016 and January 2, 2016 is comprised as follows:

	December 31, 2016	January 2, 2016
	\$	\$
Balance, beginning of year	6,774	6,144
Additions to reserve during the year	14,029	7,186
Reserves applied and inventories written off during the year	(6,532)	(6,461)
Effect of foreign exchange rate differences	(69)	(95)
Balance, end of year	14,202	6,774

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**8. Property, Plant and Equipment**

The major components of property, plant and equipment as at December 31, 2016 and January 2, 2016 were as follows:

	December 31, 2016		
	Cost	Accumulated depreciation	Net book value
	\$	\$	\$
Land	7,165	-	7,165
Buildings	68,014	19,432	48,582
Machinery and equipment	168,120	73,914	94,206
Enterprise software	10,845	4,179	6,666
Office furniture and equipment	10,191	5,930	4,261
Vehicles	3,515	2,156	1,359
	267,850	105,611	162,239

	January 2, 2016		
	Cost	Accumulated depreciation	Net book value
	\$	\$	\$
Land	7,249	-	7,249
Buildings	72,031	17,078	54,953
Machinery and equipment	167,556	65,413	102,143
Enterprise software	8,084	2,225	5,859
Office furniture and equipment	10,427	5,603	4,824
Vehicles	3,316	1,831	1,485
	268,663	92,150	176,513

As at December 31, 2016, property, plant and equipment included construction in process assets of \$13.7 million (January 2, 2016 \$12.1 million), which were not being depreciated as they had not yet reached the stage of commercial viability. In addition, as at December 31, 2016, machinery and equipment included equipment under capital leases with a cost of \$11.9 million (January 2, 2016 \$12.2 million) and a net book value of \$10.7 million (January 2, 2016 \$10.5 million), as well as \$6.1 million (January 2, 2016 \$5.1 million) of spare parts inventory.

Total depreciation expense included in cost of goods sold and selling, general and administrative expense on the consolidated statements of operations related to property, plant and equipment for the year ended December 31, 2016 was \$22.9 million (January 2, 2016 \$16.1 million; January 3, 2015 \$13.6 million).

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**9. Goodwill and Intangible Assets**

	December 31, 2016	January 2, 2016
	\$	\$
Goodwill	223,611	241,690
Intangible assets with a finite life at cost, less accumulated amortization of \$30,989 (January 2, 2016 - \$20,156)	183,524	195,008

The following is a summary of changes in goodwill:

	Global Ingredients	Consumer Products	Total
	\$	\$	\$
Balance at January 3, 2015	26,721	2,361	29,082
Acquisitions (see note 2)	-	213,481	213,481
Foreign exchange	(731)	(142)	(873)
Balance at January 2, 2016	25,990	215,700	241,690
Goodwill impairment <sup>(1)</sup>	(17,540)	-	(17,540)
Foreign exchange	(195)	(344)	(539)
Balance at December 31, 2016	8,255	215,356	223,611

- (1) Based on the results of the annual quantitative test for goodwill impairment performed for the year ended December 31, 2016, the Company determined that the carrying value of the goodwill associated with its sunflower reporting unit exceeded its implied fair value, reflecting the negative impact on future cash flows related to the recall of certain roasted sunflower kernel products in 2016 (see note 4). As a result, the Company recognized a goodwill impairment charge of \$17.5 million in the fourth quarter of 2016. Fair value was determined using a discounted cash flow analysis (income approach).

Based on the results of the quantitative tests performed for the years ended January 2, 2016 and January 3, 2015, the Company determined that none of the goodwill associated with any of its reporting units was impaired in either of those fiscal years.

The major components of intangible assets as at December 31, 2016 and January 2, 2016 were as follows:

	December 31, 2016		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Customer relationships	212,172	28,914	183,258
Patents, trademarks and other	2,341	2,075	266
	214,513	30,989	183,524

	January 2, 2016		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Customer relationships	212,810	18,177	194,633

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Patents, trademarks and other	2,354	1,979	375
	215,164	20,156	195,008

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The following is a summary of changes in intangible assets:

	Customer relationships \$	Patents, trademarks and other \$	Total \$
Balance at January 3, 2015	13,504	251	13,755
Acquisitions (see note 2)	186,251	208	186,459
Amortization	(4,867)	(84)	(4,951)
Foreign exchange	(255)	-	(255)
Balance at January 2, 2016	194,633	375	195,008
Amortization	(11,166)	(116)	(11,282)
Foreign exchange	(209)	7	(202)
Balance at December 31, 2016	183,258	266	183,524

The Company estimates that the aggregate future amortization expense associated with finite-life intangible assets in each of the next five fiscal years and thereafter will be as follows:

	\$
2017	11,401
2018	11,322
2019	11,033
2020	10,515
2021	10,345
Thereafter	128,908
	183,524

**10. Accounts Payable and Accrued Liabilities**

	December 31, 2016 \$	January 2, 2016 \$
Accounts payable	89,034	110,847
Accrued recall-related costs (see note 4)	39,750	-
Accrued grain liabilities	15,254	17,122
Payroll and commissions	14,262	12,302
Dividends payable on Series A Preferred Stock (see note 12)	1,590	-
Other accruals	13,855	11,560
	173,745	151,831

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**11. Bank Indebtedness and Long-Term Debt**

	December 31, 2016	January 2, 2016
	\$	\$
<b>Bank indebtedness:</b>		
Global Credit Facility <sup>(1)</sup>	199,281	-
North American credit facilities <sup>(1)</sup>	-	70,563
European credit facilities <sup>(1)</sup>	-	87,419
Bulgarian credit facility <sup>(2)</sup>	2,213	1,791
	201,494	159,773
<b>Long-term debt:</b>		
Senior Secured Second Lien Notes, net of unamortized debt issuance costs of \$8,835 <sup>(3)</sup>	222,163	-
Second Lien Loans, net of unamortized debt issuance costs of nil (January 2, 2016 - \$7,757) <sup>(3)</sup>	-	312,243
Capital lease obligations <sup>(4)</sup>	7,454	9,245
Other	1,470	1,507
	231,087	322,995
Less: current portion	2,079	1,773
	229,008	321,222

**(1) Global Credit Facility**

On February 11, 2016, the Company entered into a five-year credit agreement for a senior secured asset-based revolving credit facility with a syndicate of banks in the maximum aggregate principal amount of \$350.0 million, subject to borrowing base capacity (the Global Credit Facility). The Global Credit Facility replaced the Company's previous North American credit facilities that were set to expire January 27, 2017, and its European credit facilities that were due on demand with no set maturity date. The Global Credit Facility is used to support the working capital and general corporate needs of the Company's global operations, in addition to funding future strategic initiatives. The Global Credit Facility also includes borrowing capacity available for letters of credit and provides for borrowings on same-day notice, including in the form of swingline loans. Subject to customary borrowing conditions and the agreement of any such lenders to provide such increased commitments, the Company may request to increase the total lending commitments under the Global Credit Facility to a maximum aggregate principal amount not to exceed \$450.0 million. Outstanding principal amounts under the Global Credit Facility are repayable in full on the maturity date of February 10, 2021.

Individual borrowings under the Global Credit Facility have terms of six months or less and bear interest based on various reference rates, including prime rate and LIBOR plus an applicable margin. The applicable margin in the Global Credit Facility ranges from 1.25% to 1.75% for loans bearing interest based on LIBOR and from 0.25% to 0.75% for loans bearing interest based on the prime rate and, in each case, is set quarterly based on average borrowing availability for the preceding fiscal quarter. The initial margin for the Global Credit Facility was 0.50% with respect to prime rate borrowings and 1.50% with respect to LIBOR borrowings. As at December 31, 2016, the weighted-average interest rate on the facilities was 2.74%. The obligations under the Global Credit Facility are guaranteed by substantially all of the Company's subsidiaries and, subject to certain exceptions, such obligations are secured by first

priority liens on substantially all of the assets of the Company.

The Global Credit Facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, the Company's ability to create liens on assets; sell assets and enter into sale and leaseback transactions; pay dividends, prepay junior lien and unsecured indebtedness and make other restricted payments; incur additional indebtedness and make guarantees; make investments, loans or advances, including acquisitions; and engage in mergers or consolidations.

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### (2) Bulgarian credit facility

On April 19, 2016, a subsidiary of The Organic Corporation ( TOC ), a wholly-owned subsidiary of the Company, amended its revolving credit facility agreement dated May 22, 2013, to provide up to €4.5 million to cover the working capital needs of TOC's Bulgarian operations. The facility is secured by the accounts receivable and inventories of the Bulgarian operations and is fully guaranteed by TOC. Interest accrues under the facility based on EURIBOR plus a margin of 2.75%, and borrowings under the facility are repayable in full on April 30, 2017. As at December 31, 2016, the weighted-average interest rate on the Bulgarian credit facility was 2.75% .

### (3) Second Lien Borrowings

On October 9, 2015, SunOpta Foods Inc. ( SunOpta Foods ), a wholly-owned subsidiary of the Company, the Company and certain subsidiaries of the Company, as guarantors (together with the Company, the Guarantors ), entered into a second lien loan agreement (the Second Lien Loan Agreement ) with a group of lenders, pursuant to which the Company borrowed an aggregate principal amount of \$330.0 million of term loans. In connection with the Second Lien Loan Agreement, the Company incurred \$10.8 million of debt issuance costs, which were recorded as a reduction against the principal amount of the borrowings and amortized over the one-year term of the Initial Loans (as defined below). The net proceeds of the Second Lien Loan Agreement were used to partially fund the Sunrise Acquisition (see note 2). The Second Lien Loan Agreement was guaranteed by the Company and the Company's subsidiaries that guarantee the Global Credit Facility, subject to certain exceptions, and was secured on a second-priority basis by security interests on all of SunOpta Foods' and Guarantors' assets that secured the Global Credit Facility, subject to certain exceptions and permitted liens.

Interest on the term loans made under the Second Lien Loan Agreement on October 9, 2015 (the Initial Loans ) was determined by reference to LIBOR (subject to a 1.0% per annum floor) plus an applicable margin of 6.0% per annum. The applicable margin increased by 0.50% at the end of each three-month period after October 9, 2015 and before October 9, 2016. In each case, the Initial Loans carried a maximum interest rate of 9.5% per annum. Giving effect to the amortization of the debt issuance costs, the effective interest rate on the Initial Loans was approximately 11.2% per annum.

The Initial Loans could be repaid at par at any time prior to October 9, 2016. As at October 1, 2016, and January 2, 2016, the Company had repaid \$20.0 million and \$10.0 million principal amount, respectively, of the Initial Loans.

On October 7, 2016, SunOpta Foods issued an aggregate of 85,000 shares of Series A Preferred Stock (the Preferred Stock ) for consideration in the amount of \$85.0 million (see note 12). The Company used the net proceeds from the issuance of the Preferred Stock to repay an additional \$79.0 million principal amount of the Initial Loans. The remaining \$231.0 million aggregate principal amount of Initial Loans matured on October 9, 2016 and automatically converted into a like principal amount of term loans (such converted loans, the Term Loans ), with a maturity date of October 9, 2022. The Term Loans bore interest at a rate of 9.5% per annum.

On October 20, 2016, all of the outstanding Term Loans were exchanged for a corresponding amount of 9.5% Senior Secured Second Lien Notes due 2022 (the Notes ) issued by SunOpta Foods. The Second Lien Loan Agreement was terminated in connection with the issuance of the Notes. The Company incurred \$9.1 million of debt issuance costs related to the Notes, which are recorded as a reduction against the principal amount of the Notes and are being amortized over the six-year term of the Notes.

Interest on the Notes is payable semi-annually in arrears on April 15 and October 15 at a rate of 9.5% per annum, commencing on April 15, 2017. The Notes will mature on October 9, 2022.

At any time prior to October 9, 2018, SunOpta Foods may redeem some or all of the Notes at any time and from time to time at a make-whole redemption price set forth in the indenture governing the Notes. On or after October 9, 2018, SunOpta Foods may redeem the Notes, in whole or in part, at any time at the redemption prices equal to 107.125% through October 8, 2019, 104.750% from October 9, 2019 through October 8, 2020, 102.375% from October 9, 2020 through October 8, 2021 and at par thereafter, plus accrued and unpaid interest, if any, to but excluding the date of redemption. In addition, prior to October 9, 2018, SunOpta Foods may, on one or more occasions, redeem up to 35% of the aggregate principal amount of the Notes with the proceeds of certain equity offerings at a redemption price equal to 109.500% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to but excluding the date of redemption. At any time prior to October 9, 2018, SunOpta Foods may also redeem, during each twelve-month period beginning on October 20, 2016, up to 10% of the aggregate principal amount of the Notes at a price equal to 103% of the aggregate principal amount of the Notes being redeemed, plus accrued and unpaid interest, if any, to but excluding the date of redemption. In the event of a change of control, SunOpta Foods will be required to make an offer to repurchase the Notes at 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase.

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The Notes are secured by second-priority liens on substantially all of the assets that secure the credit facilities provided under the Global Credit Facility, subject to certain exceptions and permitted liens. The Notes are senior secured obligations and rank equally in right of payment with SunOpta Foods' existing and future senior debt and senior in right of payment to any future subordinated debt. The Notes are effectively subordinated to debt under the Global Credit Facility and any future indebtedness secured on a first priority basis. The Notes are initially guaranteed on a senior secured second-priority basis by the Company and each of its subsidiaries (other than SunOpta Foods) that guarantees indebtedness under the Global Credit Facility, subject to certain exceptions.

The Notes are subject to covenants that, among other things, limit the Company's ability to (i) incur additional debt or issue preferred stock; (ii) pay dividends and make certain types of investments and other restricted payments; (iii) create liens; (iv) enter into transactions with affiliates; (v) sell assets; and (vi) create restrictions on the ability of restricted subsidiaries to pay dividends, make loans or advances or transfer assets to the Company, SunOpta Foods or any Guarantor. The indenture provides for customary events of default (subject in certain cases to customary grace and cure periods), which include nonpayment, breach of covenants in the indenture, certain payment defaults or acceleration of other indebtedness, a failure to pay certain judgments and certain events of bankruptcy and insolvency. If an event of default occurs and is continuing, the trustee or holders of at least 25% in principal amount of the outstanding Notes may declare the principal of and accrued and unpaid interest on, if any, all the Notes to be due and payable.

## (4) Capital lease obligations

The Company leases certain equipment under capital lease agreements. The cost and accumulated depreciation of assets under capital lease are included in machinery and equipment.

Principal repayments of long-term debt are as follows:

	\$
2017	2,079
2018	1,770
2019	2,961
2020	637
2021	309
Thereafter	232,166
Total gross repayments	239,922
Unamortized debt issuance costs	(8,835)
	231,087

The components of interest expense, net are as follows:

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	December 31, 2016	January 2, 2016	January 3, 2015
	\$	\$	\$
Interest expense	32,090	9,853	3,717
Amortization of debt issuance costs	11,301	5,895	375
Interest income	(116)	(79)	(149)
Interest expense, net	43,275	15,669	3,943

**12. Series A Preferred Stock**

On October 7, 2016 (the Closing Date), the Company and SunOpta Foods entered into a subscription agreement (the Subscription Agreement) with Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. (collectively, the Investors). Pursuant to the Subscription Agreement, SunOpta Foods issued an aggregate of 85,000 shares of Preferred Stock to the Investors for consideration in the amount of \$85.0 million. In connection with the issuance of the Preferred Stock, the Company incurred direct and incremental expenses of \$6.0 million, which reduced the carrying value of the Preferred Stock. At any time on or after the fifth anniversary of the Closing Date, SunOpta Foods may redeem all of the Preferred Stock for an amount, per share of Preferred Stock, equal to the value of the liquidation preference at such time. The carrying value of the Preferred Stock is being accreted to the redemption amount of \$85.0 million through charges to retained earnings over the period preceding the fifth anniversary of the Closing Date, which accretion amounted to \$0.2 million for the period ended December 31, 2016.

The proceeds from the issuance of the Preferred Stock, net of issuance costs were used to repay \$79.0 million principal amount of Initial Loans outstanding under the Second Lien Loan Agreement (see note 11).

In connection with the Subscription Agreement, the Company agreed to, among other things (i) ensure SunOpta Foods has sufficient funds to pay its obligations under the terms of the Preferred Stock and (ii) grant each holder of Preferred Stock (the Holder) the right to exchange the Preferred Stock for shares of common stock of the Company (the Common Shares). The Preferred Stock is non-participating with the Common Shares in dividends and undistributed earnings of the Company.

The Preferred Stock has a stated value and initial liquidation preference of \$1,000 per share. Cumulative preferred dividends accrue daily on the Preferred Stock at an annualized rate of 8.0% prior to October 5, 2025 and 12.5% thereafter, in each case of the liquidation preference (subject to an increase of 1.0% per quarter, up to a maximum rate of 5.0% per quarter on the occurrence of certain events of non-compliance). Prior to October 5, 2025, SunOpta Foods may pay dividends in cash or elect, in lieu of paying cash, to add the amount that would have been paid to the liquidation preference. After October 4, 2025, the failure to pay dividends in cash will be an event of non-compliance. The Preferred Stock ranks senior to the shares of common stock of SunOpta Foods with respect to dividend rights and rights on the distribution of assets on any liquidation, winding up or dissolution of the Company or SunOpta Foods. As at December 31, 2016, the Company had accrued unpaid dividends of \$1.6 million, which were recorded in accounts payable and accrued liabilities on the consolidated balance sheet.

At any time, the Holders may exchange their shares of Preferred Stock, in whole or in part, into the number of Common Shares equal to, per share of Preferred Stock, the quotient of the liquidation preference divided by \$7.50 (such price, the Exchange Price and such quotient, the Exchange Rate). As at December 31, 2016, the aggregate shares of Preferred Stock outstanding were exchangeable into 11,333,333 Common Shares. The Exchange Price is subject to certain anti-dilution adjustments, including a weighted-average adjustment for issuances of Common Shares

below the Exchange Price, provided that the Exchange Price may not be lower than \$7.00 (subject to adjustment in certain circumstances). SunOpta Foods may cause the Holders to exchange all of the Preferred Stock into a number of Common Shares based on the applicable Exchange Price if (i) fewer than 10% of the shares of Preferred Stock issued on the Closing Date remain outstanding or (ii) on or after the third anniversary of the Closing Date, the average volume-weighted average price of the Common Shares during the then preceding 20 trading day period is greater than 200% of the Exchange Price. Prior to the receipt of applicable approval by the holders of Common Shares, shares of Preferred Stock are not exchangeable into more than 19.99% of the number of Common Shares outstanding immediately after giving effect to such exchange.

Upon certain events involving a change of control of the Company, SunOpta Foods must use reasonable efforts to provide the Holders with the option to exchange shares of the Preferred Stock for a security in the surviving or successor entity that has the same rights, preferences and privileges as the Preferred Stock as adjusted for the change of control. SunOpta Foods will also offer to redeem the Preferred Stock at an amount per share equal to the greater of (i) the liquidation preference plus an amount equal to the value of incremental dividends that would have accrued through to the fifth anniversary of the Closing Date and (ii) the amount payable per Common Share in such change of control multiplied by the Exchange Rate.

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In connection with the Subscription Agreement, the Company issued 11,333,333 Special Shares, Series 1 (the Special Voting Shares ) to the Investors, which entitle the Investors to one vote per Special Voting Share on all matters submitted to a vote of the holders of Common Shares, together as a single class, subject to certain exceptions. As of the Closing Date, the Special Voting Shares represented an 11.7% voting interest in the Company. Additional Special Voting Shares will be issued, or existing Special Voting Shares will be redeemed, as necessary to ensure that the aggregate number of Special Voting Shares outstanding is equal to the number of shares of Preferred Stock outstanding from time to time multiplied by the Exchange Rate in effect at such time. The Special Voting Shares are not transferable and the voting rights associated with the Special Voting Shares will terminate upon the transfer of the Preferred Stock to a third party, other than a controlled affiliate of the Investors. The Investors are entitled to designate up to two nominees for election to the Board of Directors of the Company (the Board ) and have the right to designate one individual to attend meetings of the Board as a non-voting observer, subject to the Investors maintaining certain levels of beneficial ownership of Common Shares on an as-exchanged basis. For so long as the Investors beneficially own or control at least 50% of the Preferred Stock issued on the Closing Date, including any corresponding Common Shares into which such Preferred Stock are exchanged, the Investors will be entitled to (i) participation rights with respect to future equity offerings of the Company; and (ii) governance rights, including the right to approve certain actions proposed to be taken by the Company and its subsidiaries.

### **13. Common Shares**

The Company is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of special shares without par value.

On September 30, 2015, the Company completed a registered offering of 16,670,000 of Common Shares at a price of \$6.00 per share, for aggregate gross proceeds of \$100.0 million. Underwriting and other issuance costs of \$4.4 million incurred in connection with the issuance of these new Common Shares were recorded as a reduction to the gross proceeds from the offering, net of income taxes of \$1.6 million. The net proceeds from the offering were used by the Company to fund a portion of the purchase price of the Sunrise Acquisition (see note 2).

### **14. Stock-Based Compensation**

#### ***Stock Incentive Plan***

On May 28, 2013, the Company's shareholders approved the 2013 Stock Incentive Plan (the 2013 Plan ), which permits the grant of a variety of stock-based awards, including stock options, restricted stock units ( RSUs ) and performance share units ( PSUs ) to selected employees and directors of the Company. As at December 31, 2016, 1,554,218 securities remained available for issuance under the 2013 Plan.

For the years ended December 31, 2016, January 2, 2016 and January 3, 2015, total stock-based compensation expense amounted to \$4.1 million, \$4.4 million and \$3.9 million, respectively.

#### ***Stock Options***

Stock options granted during the year ended December 31, 2016, vest ratably on each of the first through third anniversaries of the grant date and expire on the tenth anniversary of the grant date. Stock options granted during the year ended January 2, 2016, vest ratably on each of the first through fifth anniversaries of the grant date and expire on the tenth anniversary of the grant date. Options granted prior to January 1, 2012 generally vest ratably on each of the first through fifth anniversaries from the date of grant and expire on the sixth anniversary of the grant date. Stock

options granted by the Company contain an exercise price that is equal to the closing market price of the shares on the day prior to the grant date. Any consideration paid by employees or directors on exercise of stock options or purchase of stock is credited to capital stock.

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Details of stock option activity for the year ended December 31, 2016 are as follows:

	Options	Weighted-average exercise price	Weighted-average remaining contractual term (years)	Aggregate intrinsic value
Outstanding at beginning of year	3,482,392	\$ 7.42		
Granted	1,535,441	4.25		
Exercised	(125,300)	4.70		
Forfeited or expired	(312,683)	6.92		
Outstanding at end of year	4,579,850	\$ 6.47	7.3	\$ 6,107
Exercisable at end of year	1,736,174	\$ 7.12	5.3	\$ 1,131

The weighted-average grant-date fair values of all stock options granted in the years ended December 31, 2016, January 2, 2016 and January 3, 2015, were \$1.86, \$4.37 and \$6.93, respectively. The weighted-average assumptions used in the Black-Scholes option pricing model to determine the fair value of the options granted in those years were as follows:

	December 31, 2016	January 2, 2016	January 3, 2015
Dividend yield <sup>(1)</sup>	0%	0%	0%
Expected volatility <sup>(2)</sup>	41.7%	50.1%	61.3%
Risk-free interest rate <sup>(3)</sup>	1.6%	1.9%	2.2%
Expected life of options (years) <sup>(4)</sup>	6.0	6.5	6.5

- (1) Determined based on expected annual dividend yield at the time of grant.
- (2) Determined based on historical volatility of the Company's Common Shares over the expected life of the option.
- (3) Determined based on the yield on U.S. Treasury zero-coupon issues with maturity dates equal to the expected life of the option.
- (4) Determined using simplified method, as the Company changed the vesting period of its stock option grants from five years to three years in 2016, and the contractual term of its stock option grants from six years to 10 years commencing in 2012 and, as a result, historical exercise data may not provide a reasonable basis upon which to estimate expected life.

The fair value of the options is based on estimates of the number of options that management expects to vest, which is estimated to be 85% of the granted amounts.

Details of stock options outstanding as at December 31, 2016 are as follows:

Expiry date	Exercise price range		Vested outstanding options	Weighted-average price (vested)	Total outstanding options	Weighted-average price (total)
	Low	High				
2017	\$ 4.99	\$ 7.72	466,750	\$ 7.10	487,750	\$ 7.02
2022	5.14	5.73	643,700	5.55	843,400	5.55
2023	7.09	8.23	402,150	7.48	705,250	7.47
2024	9.70	13.86	136,100	11.59	346,503	11.63

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2025	5.26	11.55	87,474	10.15	692,368	8.35
2026	3.27	6.65	-	-	1,504,579	4.27
			1,736,174	\$ 7.12	4,579,850	\$ 6.47

The Company realized a cash tax benefit of \$0.0 million (January 2, 2016 \$0.3 million; January 3, 2015 \$0.3 million) relating to options granted in prior years and exercised in the current year. Total compensation costs related to non-vested stock option awards not yet recognized as an expense was \$5.6 million as at December 31, 2016, which will be amortized over a weighted-average remaining vesting period of 1.2 years.

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*Restricted Stock Units and Performance Share Units*

For the year ended December 31, 2016, the Company granted 135,985 RSUs and 250,345 PSUs to certain employees and directors of the Company. Each vested RSU and PSU will be settled through the issuance of common shares of the Company and are therefore treated as equity awards.

RSUs vest ratably on each of the first through third anniversaries of the grant date. The weighted average grant date fair values of all RSUs granted for the year ended December 31, 2016 was estimated to be \$3.87 (January 2, 2016 \$10.07) based on the fair market value of a share of the Company's common stock on the dates of grant. The grant-date fair value is recognized on a straight-line basis over the three-year vesting period based on the number of RSUs expected to vest.

The following table summarizes non-vested RSU activity during the year ended December 31, 2016:

	RSUs	Weighted- average grant- date fair value
Non-vested at beginning of year	104,556	\$ 10.63
Granted	135,985	3.87
Vested	(50,323)	9.36
Forfeited or expired	(14,358)	10.79
Non-vested at end of year	175,860	\$ 6.10

PSUs vest three years following the grant date. The number of PSUs that ultimately vest (up to a specified maximum) will be determined based on performance relative to predetermined performance measures of the Company. If the Company's performance is below a specified performance level, no PSUs will vest. The weighted average grant date fair values of all PSUs granted for the year ended December 31, 2016 was estimated to be \$3.27 (January 2, 2016 \$10.15) based on the fair market value of a share of the Company's common stock on the dates of grant. Each reporting period, the number of PSUs that are expected to vest is re-determined and the grant-date fair value of these PSUs is amortized on a straight-line basis over the remaining vesting period less amounts previously recognized.

The following table summarizes non-vested PSU activity during the year ended December 31, 2016:

	PSUs	Weighted- average grant- date fair value
Non-vested at beginning of year	231,448	\$ 10.60
Granted	250,345	3.27
Forfeited or expired	(27,368)	7.31
Non-vested at end of year	454,425	\$ 6.75

Total compensation costs related to non-vested RSU and PSU awards not yet recognized as an expense was \$0.7 million and \$0.7 million, respectively, as at December 31, 2016, which will be amortized over weighted-average remaining vesting periods of 1.5 years and 1.5 years, respectively.





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*CEO Succession*

Effective November 11, 2016, Hendrik Jacobs stepped down as the Company's President and Chief Executive Officer (CEO). Under the terms of his separation agreement dated November 8, 2016, Mr. Jacobs's outstanding stock options will continue to vest for a period of two years after November 11, 2016, and vested options may be exercised until May 11, 2019. Any stock options unexercised as of that date will expire. In addition, under the terms of his separation agreement, all PSUs granted to Mr. Jacobs were forfeited and cancelled as of November 11, 2016. As of November 11, 2016, the Company recognized incremental stock-based compensation expense of \$0.2 million in other expense on the consolidated statement of operations related to the continued vesting of Mr. Jacobs's unvested stock options, less the reversal of the previously recognized compensation cost related to Mr. Jacobs's forfeited PSUs.

Effective October 1, 2015, Steven Bromley resigned as the Company's CEO and was succeeded by Mr. Jacobs. Mr. Bromley served as Vice-Chair of the Company's board of directors from October 1, 2015 until his resignation from the Company on December 31, 2015. Under the terms of his separation agreement dated July 6, 2015, Mr. Bromley retains his outstanding stock options and PSUs as of December 31, 2015 for a period of up to three years following that date, and those stock options and PSUs will continue to vest during that three-year period. Any stock options unexercised at the end of the three-year period will expire. As of July 6, 2015, the Company recognized incremental stock-based compensation expense of \$0.9 million in other expense on the consolidated statement of operations to reflect an increase in the fair value of Mr. Bromley's vested and unvested stock options and PSUs as a result of a modification to the terms of those awards to allow their continued vesting.

*Employee Share Purchase Plan*

The Company maintains an employee share purchase plan whereby employees can purchase common shares through payroll deductions. In the year ended December 31, 2016, the Company's employees purchased 82,841 common shares (January 2, 2016 55,024; January 3, 2015 51,946) for total proceeds of \$0.4 million (January 2, 2016 \$0.4 million; January 3, 2015 \$0.5 million). As at December 31, 2016, 1,173,960 common shares are remaining to be granted under this plan.

*Warrants*

On January 29, 2015, the Company received proceeds of \$0.8 million on the exercise of warrants issued by the Company on February 5, 2010 to purchase 250,000 common shares at an exercise price of \$3.25 per share, and, on June 4, 2015, the Company received proceeds of \$3.1 million on the exercise of warrants issued by the Company on June 11, 2010 to purchase 600,000 common shares at an exercise price of \$5.11 per share. These warrants had been issued by the Company in exchange for external advisory services. As at December 31, 2016 and January 2, 2016, the Company had no remaining issued and outstanding warrants.

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**15. Other Expense (Income), Net**

The components of other expense (income) are as follows:

	December 31, 2016	January 2, 2016	January 3, 2015
	\$	\$	\$
Impairment of long-lived assets <sup>(1)</sup>	13,257	-	-
Legal settlement <sup>(2)</sup>	9,000	-	-
Severance and rationalization costs <sup>(3)</sup>	4,186	2,936	312
Product withdrawal and recall costs <sup>(4)</sup>	2,838	-	-
Business development costs <sup>(5)</sup>	233	7,767	261
Loss (gain) on sale of assets	145	251	(1,386)
Increase (decrease) in fair value of contingent consideration <sup>(6)</sup>	(1,158)	884	(1,373)
Other	(209)	313	(34)
	28,292	12,151	(2,220)

**(1) Impairment of long-lived assets**

On December 27, 2016, the Board approved the closure of the Company's soy extraction facility located in Heuvelton, New York. The Company determined that its ingredients processing facility in Alexandria, Minnesota could absorb the production volume from the Heuvelton facility, while continuing to meet the needs of its customers. Based on the location and use of the Heuvelton facility, the Company recorded an impairment loss of \$1.2 million in the fourth quarter of 2016, to write down the carrying value of the associated long-lived assets to a nominal salvage value. The closure of the Heuvelton facility occurred on January 10, 2017. The facility is included in the Consumer Products operating segment.

On November 8, 2016, the Board approved the closure of the Company's juice facility located in San Bernardino, California, following a review and evaluation of commercial and operational developments that impacted the facility. In particular, the Company identified a need for significant investment in new packaging and processing capabilities in order to satisfy packaging format changes demanded by the facility's largest customer. In addition, the Company was unsuccessful in contracting sufficient supply of raw citrus fruit for the upcoming season to allow for effective and efficient use of the facility's extraction capabilities. This supply chain challenge is expected to continue for the foreseeable future, and while the Company has secured sufficient supply of extracted juice to meet its production requirements, the Company determined that it would be more beneficial to transfer its juice production from the facility to contract manufacturers with whom the Company has ongoing relationships. Accordingly, the Company decided not to make further capital investments in support of the bottling or extraction areas of the facility. As a result, the Company determined that the carrying value of the long-lived assets of \$10.9 million was not recoverable and that the assets were impaired. In the third quarter of 2016, the Company recorded an impairment loss of \$10.3 million to write down the carrying value of these assets to their estimated fair value. Fair value was determined based on market prices for comparable assets, which represent level 2 inputs. The closure of the San Bernardino facility occurred on December 28, 2016. On February 28, 2017, the Company incurred approximately \$3.0 million of additional costs related to the early termination of equipment leases associated with the facility, which will be recognized in other expense in the first quarter of 2017. This facility is included in the Consumer Products operating segment.



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In the first quarter of 2016, the Company recorded an impairment loss of \$1.7 million related to the write-off of leasehold improvements at its Buena Park, California frozen fruit processing facility, following the transfer of all production volume from this facility into Sunrise's facilities located in Kansas and California. The Buena Park facility is included in the Consumer Products operating segment.

### (2) Legal settlement

In 2016, the Company recorded a charge of \$9.0 million in connection with the settlement of a complaint filed by Plum, PBC (Plum) that arose out of a voluntary recall by Plum of certain resealable pouch products manufactured at the Company's Allentown, Pennsylvania facility in 2013 (see note 21). In 2013, the Company had previously recorded a \$5.2 million provision for the expected loss associated with this recall, which reflected at that time the amount due to the Company for product sold to Plum that was subject to the recall, as well as the carrying value of recalled product still in inventory at the Company. The previously recorded provision did not include any potential amounts payable in connection with the settlement of litigation relating to the voluntary recall.

### (3) Severance and rationalization costs

For the year ended December 31, 2016, severance and rationalization costs included contractual severance benefits of \$1.5 million and previously unrecognized stock-based compensation expense of \$0.2 million recognized in connection with the departure of Mr. Jacobs as President and CEO effective November 11, 2016, as well as costs for employees affected by the closures of the Company's Heuvelton, San Bernardino and Buena Park facilities (see (1) above).

For the year ended January 2, 2016, employee severance costs included contractual severance benefits of \$1.2 million and previously unrecognized stock-based compensation expense of \$0.9 million recognized in connection with the departure of Mr. Bromley as CEO effective October 1, 2015.

### (4) Product withdrawal and recall costs

For the year ended December 31, 2016, the Company recognized costs of \$1.9 million related to the voluntary withdrawal of certain consumer-packaged products due to quality-related issues, as well as \$0.9 million in connection with the recall of certain roasted sunflower kernel products (see note 4).

### (5) Business development costs

For the year ended January 2, 2016, business development costs included transaction costs incurred in connection with the acquisitions of Sunrise, Niagara Natural and Citrusource (see note 2).

### (6) Fair value of contingent consideration

For the year ended December 31, 2016, the decrease in the fair value of contingent consideration reflects the gain on settlement of the Niagara Natural obligation. For the year ended January 2, 2016, the increase in fair value reflects the accretion for the time value of money related to the Citrusource and Niagara Natural obligations, as well as the contractual amount owing to former shareholders of OLC. For the year ended January 3, 2015, the decrease in fair value reflects the settlement of the earn-out related to the acquisition of Edner of Nevada, Inc., which was acquired by the Company in December 2010.

## 16. Impairment Loss on Investment

On October 31, 2014, Enchi completed the sale of its yeast business in exchange for cash and certain royalty rights based on future sales of the yeast products by the purchaser. As a consequence of this sale, the Company estimated that its investment in equity securities of Enchi was fully impaired and that the impairment was other-than-temporary.

As a result, the Company recorded an impairment loss on investment of \$11.9 million on the statement of operations in 2014, to write off the remaining carrying value of its equity investment. The Company also estimated that the fair value of its \$1.4 million investment in convertible subordinated notes of Enchi was \$4.8 million, including the value ascribed to the accelerated payment option embedded in the notes (see note 5). As a result, the Company recognized a gain on its investment in debt securities of Enchi of \$3.4 million in 2014, which was recorded as a net amount against the impairment loss on investment on the statement of operations.

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**17. Income Taxes**

The provision for (recovery of) income taxes differs from the amount that would have resulted from applying the combined Canadian federal and provincial statutory income tax rate to earnings (loss) from continuing operations before income taxes due to the following:

	December 31, 2016	January 2, 2016	January 3, 2015
	\$	\$	\$
Earnings (loss) from continuing operations before income taxes	(74,361)	(6,522)	31,533
Canadian statutory rate	26.5%	26.5%	26.5%
Income tax provision (recovery) at statutory rate	(19,706)	(1,728)	8,356
Foreign tax rate differential	(11,329)	(3,097)	3,570
Change in unrecognized tax benefits	(1,268)	(855)	(335)
Change in valuation allowance	(267)	4,015	1,082
Goodwill impairment loss	6,841	-	-
Impact of other non-deductible expenses	1,238	1,190	-
Impact of changes in enacted tax rates	90	(208)	(161)
Impact of non-deductible acquisition expenses	-	910	-
Impairment loss on investment	-	(4,029)	1,122
Benefits of losses and credits not previously recognized	-	-	(621)
U.S. domestic manufacturing deduction	-	-	(906)
Other	604	412	(64)
Provision for (recovery of) income taxes	(23,797)	(3,390)	12,043

The components of earnings (loss) from continuing operations before income taxes are shown below:

	December 31, 2016	January 2, 2016	January 3, 2015
	\$	\$	\$
Canada	9,811	6,038	(4,400)
U.S.	(93,941)	(20,028)	31,469
Other	9,769	7,468	4,464
	(74,361)	(6,522)	31,533

The components of the provision for (recovery of) income taxes are shown below:

	December 31, 2016	January 2, 2016	January 3, 2015
	\$	\$	\$
Current income tax provision (recovery):			
Canada	3,560	-	-
U.S.	(1,293)	(1,982)	14,626
Other	3,664	2,300	1,064
	5,931	318	15,690
Deferred income tax provision (recovery):			
Canada	(12)	2,484	2,741
U.S.	(29,463)	(5,971)	(6,397)

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Other	(253)	(221)	9
	(29,728)	(3,708)	(3,647)
Provision for (recovery of) income taxes	(23,797)	(3,390)	12,043

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Deferred income taxes of the Company are comprised of the following:

	December 31, 2016	January 2, 2016
	\$	\$
Differences in property, plant and equipment and intangible assets	(87,833)	(91,368)
Capital and non-capital losses	31,494	22,077
Tax benefit of scientific research expenditures	1,199	(170)
Tax benefit of costs incurred during share issuances	944	1,259
Inventory basis differences	5,761	(1,712)
Accrued interest	3,356	-
Other accrued reserves	10,653	5,895
	(34,426)	(64,019)
Less: valuation allowance	9,090	9,347
Net deferred income tax liability	(43,516)	(73,366)

The components of the deferred income tax asset (liability) are shown below:

	December 31, 2016	January 2, 2016
	\$	\$
Canada	1,045	958
U.S.	(43,668)	(73,244)
Other	(893)	(1,080)
	(43,516)	(73,366)

The components of the deferred income tax valuation allowance are as follows:

	December 31, 2016	January 2, 2016
	\$	\$
Balance, beginning of year	9,347	5,332
Increase in valuation allowance	(267)	4,015
Foreign exchange	10	-
Balance, end of year	9,090	9,347

The Company has approximately \$0.0 million and \$0.4 million (January 2, 2016 \$0.1 million and \$0.3 million) in Canadian and U.S. federal scientific research investment tax credits and \$0.8 million (January 2, 2016 \$0.7 million) in U.S. State research and development tax credits, which will expire in varying amounts up to 2029.

The Company has U.S. federal non-capital loss carry-forwards of approximately \$51.3 million as at December 31, 2016 (January 2, 2016 \$29.7 million). The Company also has state loss carry-forwards of approximately \$64.2 million as at December 31, 2016 (January 2, 2016 \$10.2 million). The amounts are available to reduce future federal and provincial/state income taxes. Non-capital loss carry-forwards attributable to the U.S. expire in varying amounts over the next 20 years.

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The Company has Canadian capital losses of approximately \$29.7 million as at December 31, 2016 (January 2, 2016 \$0.1 million) for which a full valuation allowance exists. These amounts are available to reduce future capital gains and do not expire.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determinations, the Company considers all available positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies and recent financial operations. Based on this evaluation, a valuation allowance of \$9.1 million (January 2, 2016 \$9.3 million) has been recorded against certain assets to reduce the net benefit recorded in the consolidated financial statements.

Undistributed earnings of the Company's non-Canadian affiliates and associated companies are considered to be indefinitely reinvested; accordingly, no provision for deferred taxes has been provided thereon.

The Company believes it has adequately examined its tax positions taken or expected to be taken in a tax return; however, amounts asserted by taxing authorities could differ from the Company's positions. Accordingly, additional provisions on federal, provincial, state and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved. A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding interest and penalties) is presented below:

	December 31, 2016	January 2, 2016
	\$	\$
Balance, beginning of year	1,720	2,575
Reductions in tax positions of prior years	(1,268)	(855)
Balance, end of year	452	1,720

The Company's unrecognized tax benefits largely include a possible reduction to prior year losses for U.S. exposures relating to the deductibility of certain interest amount accrued. The Company estimates that the remaining \$0.5 million of the above unrecognized tax benefits will be realized during the next 12 months. Consistent with its historical financial reporting, the Company has classified interest and penalties related to income tax liabilities, when applicable, as part of interest expense in its consolidated statements of operations, and with the related liability on the consolidated balance sheets. All of the unrecognized tax benefits could impact the Company's effective tax rate if recognized.

The number of years with open tax audits varies depending on the tax jurisdiction. The Company's major taxing jurisdictions include Canada (including Ontario) the U.S. (including multiple states), and the Netherlands. The Company's 2009 through 2015 tax years (and any tax year for which available non-capital loss carry-forwards were generated up to the amount of non-capital loss carry-forward) remain subject to examination by the Internal Revenue Service for U.S. federal tax purposes, and the 2009 through 2015 tax years remain subject to examination by the appropriate governmental agencies for Canadian federal tax purposes. There are other ongoing audits in various other jurisdictions that are not considered material to the Company's consolidated financial statements.

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**18. Earnings (Loss) Per Share**

Basic and diluted earnings (loss) per share were calculated as follows (shares in thousands):

	December 31, 2016	January 2, 2016	January 3, 2015
<b>Numerator for basic earnings (loss) per share:</b>			
Earnings (loss) from continuing operations, less amounts attributable to non-controlling interests	\$ (50,618)	\$ (2,996)	\$ 19,295
Less: dividends and accretion on Series A Preferred Stock	(1,812)	-	-
Earnings (loss) from continuing operations available to common shareholders	(52,430)	(2,996)	19,295
Loss from discontinued operations attributable to SunOpta Inc.	(570)	(19,475)	(6,194)
Earnings (loss) available to common shareholders	\$ (53,000)	\$ (22,471)	\$ 13,101
<b>Denominator for basic earnings (loss) per share:</b>			
Basic weighted-average number of shares outstanding	85,569	72,408	66,835
<b>Basic earnings (loss) per share:</b>			
- from continuing operations	\$ (0.61)	\$ (0.04)	\$ 0.29
- from discontinued operations	(0.01)	(0.27)	(0.09)
	\$ (0.62)	\$ (0.31)	\$ 0.20
<b>Numerator for diluted earnings (loss) per share:</b>			
Earnings (loss) from continuing operations, less amounts attributable to non-controlling interests	\$ (50,618)	\$ (2,996)	\$ 19,295
Less: dividends and accretion on Series A Preferred Stock (1)	(1,812)	-	-
Earnings (loss) from continuing operations available to common shareholders	(52,430)	(2,996)	19,295
Loss from discontinued operations attributable to SunOpta Inc.	(570)	(19,475)	(6,194)
Earnings (loss) available to common shareholders	\$ (53,000)	\$ (22,471)	\$ 13,101
<b>Denominator for diluted earnings (loss) per share:</b>			
Basic weighted-average number of shares outstanding	85,569	72,408	66,835
Dilutive effect of the following:			
Series A Preferred Stock (1)	-	-	-
Stock options and warrants (2)	-	-	1,535
Diluted weighted-average number of shares outstanding	85,569	72,408	68,370
<b>Diluted earnings (loss) per share:</b>			
- from continuing operations	\$ (0.61)	\$ (0.04)	\$ 0.28
- from discontinued operations	(0.01)	(0.27)	(0.09)

\$	(0.62)	\$	(0.31)	\$	0.19
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- (1) For the year ended December 31, 2016, it was more dilutive to assume the Preferred Stock was not converted into Common Shares and, therefore, the numerator of the diluted loss per share calculation was not adjusted to add back the dividends and accretion on the Preferred Stock and the denominator was not adjusted to include 2,670,320 Common Shares issuable on an if-converted basis.

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- (2) For the years ended December 31, 2016 and January 2, 2016, stock options to purchase 66,166 and 54,316 Common Shares, respectively, were excluded from the calculation of diluted loss per share due to their anti-dilutive effect of reducing the loss per share. In addition, for the years ended December 31, 2016, January 2, 2016 and January 3, 2015, options to purchase 2,321,448, 856,492 and 63,000 Common Shares were anti-dilutive because the exercise prices of these options were greater than the average market price.

**19. Supplemental Cash Flow Information**

	December 31, 2016	January 2, 2016	January 3, 2015
	\$	\$	\$
Changes in non-cash working capital, net of businesses acquired:			
Accounts receivable	(39,857)	17,404	(17,881)
Inventories	(16,107)	(25,732)	(10,380)
Income tax recoverable	22,868	(9,782)	3,735
Prepaid expenses and other current assets	(242)	(2,044)	(2,152)
Accounts payable and accrued liabilities	23,221	15,242	1,842
Customer and other deposits	(2,774)	1,227	518
	(12,891)	(3,685)	(24,318)
Cash paid for:			
Interest	28,651	10,496	3,725
Income taxes	1,781	10,526	12,351

**20. Related Party Transactions**

The following table summarizes transactions between the Company and related parties:

	December 31, 2016	January 2, 2016	January 3, 2015
	\$	\$	\$
Sales of agronomy products <sup>(1)</sup>	488	906	276
Purchases of fruits, grains and seeds <sup>(2)</sup>	14,867	2,340	1,106
Sales of coffee beans <sup>(3)</sup>	1,896	1,395	1,274
Rent paid <sup>(4)</sup>	976	1,002	396

- (1) Represents sales of agronomy products to employees and a former director at market prices, which are included in revenues on the consolidated statements of operations.
- (2) Represents purchases of raw fruit and fruit processing services at market prices from non-controlling shareholders of Sunrise's Mexican subsidiary, as well as purchases of grains and seeds at market prices from employees and a former director, which are included in cost of goods sold on the consolidated statements of operations.
- (3) Represents the sale of coffee beans at market prices from TOC to a company that is owned by the non-controlling shareholder of Trabocca B.V., a less-than-wholly-owned subsidiary of TOC. These sales are

included in revenues on the consolidated statement of operations.

- (4) Represents rental payments at market rates for the lease of production, warehouse and/or office facilities from former owners or shareholders of acquired businesses who remain employed by the Company. These payments are included in cost of goods sold or selling, general and administrative expenses on the consolidated statements of operations.

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**21. Commitments and contingencies*****Plum Dispute***

Plum, a Delaware public benefit corporation and a subsidiary of Campbell Soup Company ( Campbell ), and SunOpta Global Organic Ingredients, Inc., a wholly-owned subsidiary of the Company ( SGOI ), are parties to a manufacturing and packaging agreement dated September 21, 2011 (the Plum Manufacturing Agreement ). Pursuant to the Plum Manufacturing Agreement, SGOI agreed to manufacture and package certain food items for Plum at SGOI's Allentown, Pennsylvania facility in accordance with Plum's specifications regarding, among other things, product ingredients and packaging, manufacturing processes, and quality control standards. On November 8, 2013, Plum initiated a voluntary recall of certain products manufactured by SGOI at its Allentown facility. On February 3, 2015, Plum filed a complaint against SGOI in the Lehigh County Court of Common Pleas in Allentown, Pennsylvania. On April 13, 2015, Plum filed an amended complaint adding packaging manufacturer and supplier Cheer Pack North America ( Cheer Pack ) as a Defendant. SGOI asserted counterclaims against Plum, crossclaims against Cheer Pack and third-party claims against Gualapack S.p.A ( Gualapack ), Hosokawa Yoko, Co. ( Hosokawa ), Secure HY Packaging Co., Ltd. ( SHY ) and CDF Corporation ( CDF ). Cheer Pack asserted cross-claims against SGOI. Plum alleged it initiated the recall in response to consumer complaints of bloated packaging and premature spoilage of certain products, which could lead to gastrointestinal symptoms and discomfort if consumed. Plum alleged that the spoilage of its products resulted from a post-processing issue at SGOI's Allentown facility. Plum sought unspecified damages equal to the direct costs of the recall and handling of undistributed product, incidental and consequential damages, lost profits and attorneys' fees.

On July 29, 2016, SGOI entered into a Mutual Release and Settlement Agreement (the Settlement Agreement ) with Plum, Campbell, Cheer Pack, Gualapack, Hosokawa, CDF and SHY. The Settlement Agreement resolved the disputed issues among the parties in connection with the litigation filed by Plum against SGOI, as described above. Pursuant to the terms of the Settlement Agreement, the Company paid Campbell \$5.0 million in cash and will provide Campbell with rebates of up to \$4.0 million over a four-year period in connection with Plum's purchases of pouch products and Campbell's purchases of aseptic broth products pursuant to manufacturing and supply agreements, as amended, between the parties and their affiliates. In order for Campbell to obtain the full \$4.0 million in rebates, Plum and Campbell must order certain minimum quantities of pouch products and aseptic broth products within each of the designated twelve-month periods over the four-year rebate period. In connection with the Settlement Agreement, the Company recorded a charge of \$9.0 million in 2016 (see note 15), as the Company believes there is reasonable assurance that the minimum order quantities will be achieved.

***Employment Matter***

On April 19, 2013, a class-action complaint, in the case titled *De Jesus, et al. v. Frozsun, Inc. d/b/a Frozsun Foods*, was filed against Sunrise Growers, Inc. (then named Frozsun, Inc.) in California Superior Court, Santa Barbara County seeking damages, equitable relief and reasonable attorneys' fees for alleged wage and hour violations. This case includes claims for failure to pay all hours worked, failure to pay overtime wages, meal and rest period violations, waiting-time penalties, improper wage statements and unfair business practices. The putative class includes approximately 8,500 to 9,000 non-exempt hourly employees from Sunrise's production facilities in Santa Maria and Oxnard, California. The parties are currently engaged in pre-class certification discovery. The Company is unable to estimate any potential liabilities relating to this proceeding, and any such liabilities could be material.

***Other Claims***

In addition, various claims and potential claims arising in the normal course of business are pending against the Company. It is the opinion of management that these claims or potential claims are without merit and the amount of potential liability, if any, to the Company is not determinable. Management believes the final determination of these claims or potential claims will not materially affect the financial position or results of the Company.

***Environmental Laws***

The Company believes that, with respect to both its operations and real property, it is in material compliance with current environmental laws. Based on known existing conditions and the Company's experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have a material adverse effect on its consolidated financial position, but there can be no assurance that unforeseen changes in the laws or enforcement policies of relevant governmental bodies, the discovery of changed conditions on the Company's real property or in its operations, or changes in the use of such properties and any related site restoration requirements, will not result in the incurrence of significant costs.

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***Grain Held for Others***

As at December 31, 2016, the Company held grain for the benefit of others in the amount of \$0.5 million (January 2, 2016 \$1.7 million). The Company is liable for any deficiencies of grade or shortage of quantity that may arise in connection with such grain.

***Letters of Credit***

The Company has outstanding letters of credit at December 31, 2016 totaling \$4.3 million (January 2, 2016 \$4.2 million).

***Real Property Lease Commitments***

The Company has entered into various leasing arrangements, which have fixed monthly rents that are adjusted annually each year for inflation.

Minimum commitments under operating leases, principally for processing facilities, warehouse and distribution facilities, and equipment for the next five fiscal years and thereafter are as follows:

	\$
2017	26,959
2018	23,834
2019	19,983
2020	16,187
2021	7,703
Thereafter	12,477
	107,143

In the years ended December 31, 2016, January 2, 2016 and January 3, 2015, net minimum rents, including contingent rents and sublease rental income, were \$27.9 million, \$21.6 million and \$15.0 million, respectively.

**22. Segmented Information**

The composition of the Company's reportable segments is as follows:

- Global Ingredients aggregates our North American-based Raw Material Sourcing and Supply and European-based International Sourcing and Supply operating segments focused on the procurement and sale of specialty and organic grains and seeds, raw material ingredients, value-added grain- and cocoa-based ingredients, and organic commodities.
- Consumer Products consists of three main commercial platforms: Healthy Beverages, Healthy Fruit and Healthy Snacks. Healthy Beverages includes aseptic packaged products including non-dairy and dairy beverages, broths and teas; refrigerated premium juices; and shelf-stable juices and functional waters. Healthy Fruit includes IQF fruits for retail; IQF and bulk frozen fruit for foodservice; and custom fruit preparations for industrial use. Healthy Snacks includes fruit snacks; nutritional and protein bars; and resealable pouch products.



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In addition, Corporate Services provides a variety of management, financial, information technology, treasury and administration services to each of the SunOpta Foods operating segments from the Company's headquarters in Mississauga, Ontario and administrative office in Edina, Minnesota.

When reviewing the operating results of the Company's operating segments, management uses segment revenues from external customers and segment operating income to assess performance and allocate resources. Segment operating income excludes other income/expense items and goodwill impairment losses. In addition, interest expense and income amounts, and provisions for income taxes are not allocated to the operating segments.

**Segment Revenues and Operating Income**

Reportable segment operating results for the years ended December 31, 2016, January 2, 2016 and January 3, 2015 were as follows:

	December 31, 2016		
	Global Ingredients \$	Consumer Products \$	Consolidated \$
Segment revenues from external customers	574,295	772,436	1,346,731
Segment operating income	26,787	1,206	27,993
Corporate Services			(13,247)
Other expense, net (see note 15)			(28,292)
Goodwill impairment (see note 9)			(17,540)
Interest expense, net			(43,275)
Loss from continuing operations before income taxes			(74,361)

	January 2, 2016		
	Global Ingredients \$	Consumer Products \$	Consolidated \$
Segment revenues from external customers	610,890	534,244	1,145,134
Segment operating income	28,184	3,208	31,392
Corporate Services			(10,094)
Other expense, net (see note 15)			(12,151)
Interest expense, net			(15,669)
Loss from continuing operations before income taxes			(6,522)

	January 3, 2015		
	Global Ingredients \$	Consumer Products \$	Consolidated \$
Segment revenues from external customers	619,066	483,679	1,102,745
Segment operating income	26,274	27,872	54,146
Corporate Services			(12,449)
Other income, net (see note 15)			2,220

Interest expense, net	(3,943)
Impairment loss on investment (see note 16)	(8,441)
Earnings from continuing operations before income taxes	31,533

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**Segment Assets**

Total assets and goodwill by reportable segment as at December 31, 2016 and January 2, 2016 were as follows:

	December 31, 2016	January 2, 2016
	\$	\$
<b>Segment assets:</b>		
Global Ingredients	304,149	321,962
Consumer Products	776,405	812,796
Total segment assets	1,080,554	1,134,758
Corporate Services	49,004	20,115
Assets held for sale	-	64,330
Total assets	1,129,558	1,219,203
<b>Segment goodwill:</b>		
Global Ingredients	8,255	25,990
Consumer Products	215,356	215,700
Total segment goodwill	223,611	241,690

**Segment Capital Expenditures, Depreciation and Amortization**

Capital expenditures, depreciation and amortization by reportable segment for the years ended December 31, 2016, January 2, 2016 and January 3, 2015 were as follows:

	December 31, 2016	January 2, 2016	January 3, 2015
	\$	\$	\$
<b>Segment capital expenditures:</b>			
Global Ingredients	4,767	5,872	6,140
Consumer Products	14,586	21,529	8,209
Total segment capital expenditures	19,353	27,401	14,349
Corporate Services	3,207	3,785	3,322
Total capital expenditures	22,560	31,186	17,671
<b>Segment depreciation and amortization:</b>			
Global Ingredients	6,406	6,352	6,668
Consumer Products	25,532	12,814	7,562
Total segment depreciation and amortization	31,938	19,166	14,230
Corporate Services	2,212	1,841	1,411
Total depreciation and amortization	34,150	21,007	15,641

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***Geographic Information***

The Company's assets, operations and employees are principally located in the U.S., Canada, Europe, Mexico and Ethiopia. Revenues from external customers are attributed to countries based on the location of the customer. Revenues from external customers by geographic area for the years ended December 31, 2016, January 2, 2016 and January 3, 2015 were as follows:

	December 31, 2016	January 2, 2016	January 3, 2015
	\$	\$	\$
Revenues from external customers:			
U.S.	1,084,199	893,637	855,967
Canada	30,959	33,291	32,910
Europe and other	231,573	218,206	213,868
Total revenues from external customers	1,346,731	1,145,134	1,102,745

Long-lived assets consist of property, plant and equipment, net of accumulated depreciation, which are attributed to countries based on the physical location of the assets. Long-lived assets by geographic area as at December 31, 2016 and January 2, 2016 were as follows:

	December 31, 2016	January 2, 2016
	\$	\$
Long-lived assets:		
U.S.	133,335	146,457
Canada	3,346	3,664
Europe and other	25,558	26,392
Total long-lived assets	162,239	176,513

***Major Customers***

For the year ended December 31, 2016, Costco accounted for approximately 11% of consolidated revenues. Revenues from Costco are included in the Consumer Products operating segment. The Company did not have any customers that exceeded 10% of total revenues for the years ended January 2, 2016 and January 3, 2015.

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**Supplemental financial information (unaudited)**

Summarized below is the Consolidated Statement of Operations for the quarters ended December 31, 2016, October 1, 2016, July 2, 2016 and April 2, 2016, as well as the fiscal 2015 quarterly comparatives.

	December 31, 2016	Quarter ended January 2, 2016
	\$	\$
Revenues	297,539	316,378
Cost of goods sold	280,496	291,148
Gross profit	17,043	25,230
Selling, general and administrative expenses	26,005	24,723
Intangible asset amortization	2,810	2,846
Other expense, net <sup>(1)</sup>	5,569	7,758
Goodwill impairment <sup>(2)</sup>	17,540	-
Foreign exchange gain	(1,817)	(595)
Loss from continuing operations before the following	(33,064)	(9,502)
Interest expense, net	8,527	12,498
Loss from continuing operations before income taxes	(41,591)	(22,000)
Recovery of income taxes	(8,165)	(8,228)
Loss from continuing operations	(33,426)	(13,772)
Loss from discontinued operations, net of income taxes and non-controlling interest	-	(16,516)
Loss	(33,426)	(30,288)
Earnings (loss) attributable to non-controlling interests	50	(220)
Loss attributable to SunOpta Inc.	(33,476)	(30,068)
Loss per share - basic		
-from continuing operations	(0.41)	(0.16)
-from discontinued operations	-	(0.19)
	(0.41)	(0.35)
Loss per share - diluted		
-from continuing operations	(0.41)	(0.16)
-from discontinued operations	-	(0.19)
	(0.41)	(0.35)

(1) Fourth quarter of 2016 includes the impairment of long-lived assets of \$1.2 million associated with closure of the Heuvelton, New York facility (see note 15 to the consolidated financial statements).

(2)

Fourth quarter of 2016 reflects the impairment of goodwill associated with the sunflower reporting unit (see note 9 to the consolidated financial statements).

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**Supplemental financial information (unaudited) continued**

	October 1, 2016	Quarter ended October 3, 2015
	\$	\$
Revenues	348,732	277,213
Cost of goods sold	307,702	250,904
Gross profit	41,030	26,309
Selling, general and administrative expenses	23,915	21,020
Intangible asset amortization	2,826	786
Other expense, net <sup>(1)</sup>	10,312	3,652
Foreign exchange loss	1,068	404
Earnings from continuing operations before the following	2,909	447
Interest expense, net	12,178	1,103
Loss from continuing operations before income taxes	(9,269)	(656)
Recovery of income taxes	(5,411)	(568)
Loss from continuing operations	(3,858)	(88)
Earnings from discontinued operations, net of income taxes and non-controlling interest	-	508
Earnings (loss)	(3,858)	420
Earnings (loss) attributable to non-controlling interests	(503)	106
Earnings (loss) attributable to SunOpta Inc.	(3,355)	314
Earnings (loss) per share - basic		
-from continuing operations	(0.04)	-
-from discontinued operations	-	0.01
	(0.04)	-
Earnings (loss) per share - diluted		
-from continuing operations	(0.04)	-
-from discontinued operations	-	0.01
	(0.04)	-

(1) Third quarter of 2016 includes the impairment of long-lived assets of \$10.3 million associated with closure of the San Bernardino, California facility (see note 15 to the consolidated financial statements).

**Supplemental financial information (unaudited) continued**

	July 2, 2016	Quarter ended July 4, 2015
	\$	\$
Revenues	348,146	277,594
Cost of goods sold	312,168	247,941
Gross profit	35,978	29,653
Selling, general and administrative expenses	24,489	19,314
Intangible asset amortization	2,824	694
Other expense, net	8,433	637
Foreign exchange loss (gain)	(180)	653
Earnings from continuing operations before the following	412	8,355
Interest expense, net	11,548	1,141
Earnings (loss) from continuing operations before income taxes	(11,136)	7,214
Provision for (recovery of) income taxes	(7,135)	2,385
Earnings (loss) from continuing operations	(4,001)	4,829
Loss from discontinued operations, net of income taxes and non- controlling interest	-	(2,747)
Earnings (loss)	(4,001)	2,082
Earnings attributable to non-controlling interests	123	33
Earnings (loss) attributable to SunOpta Inc.	(4,124)	2,049
Earnings (loss) per share - basic		
-from continuing operations	(0.05)	0.07
-from discontinued operations	-	(0.04)
	(0.05)	0.03
Earnings (loss) per share - diluted		
-from continuing operations	(0.05)	0.07
-from discontinued operations	-	(0.04)
	(0.05)	0.03

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**Supplemental financial information (unaudited) continued**

	April 2, 2016 <sup>(1)</sup> \$	Quarter ended April 4, 2015 \$
Revenues	352,314	273,949
Cost of goods sold	320,413	244,779
Gross profit	31,901	29,170
Selling, general and administrative expenses	24,272	20,697
Intangible asset amortization	2,822	625
Other expense, net <sup>(1)</sup>	3,978	104
Foreign exchange loss (gain)	2,172	(2,103)
Earnings (loss) from continuing operations before the following	(1,343)	9,847
Interest expense, net	11,022	927
Earnings (loss) from continuing operations before income taxes	(12,365)	8,920
Provision for (recovery of) income taxes	(3,086)	3,021
Earnings (loss) from continuing operations	(9,279)	5,899
Loss from discontinued operations, net of income taxes and non- controlling interest	(570)	(720)
Earnings (loss)	(9,849)	5,179
Earnings (loss) attributable to non-controlling interests	384	(55)
Earnings (loss) attributable to SunOpta Inc.	(10,233)	5,234
Earnings (loss) per share - basic		
-from continuing operations	(0.11)	0.09
-from discontinued operations	(0.01)	(0.01)
	(0.12)	0.08
Earnings (loss) per share - diluted		
-from continuing operations	(0.11)	0.09
-from discontinued operations	(0.01)	(0.01)
	(0.12)	0.08

(1) First quarter of 2016 includes the impairment of long-lived assets of \$1.7 million associated with closure of the Buena Park, California facility (see note 15 to the consolidated financial statements).