GARDNER DENVER INC
Form 10-Q
August 07, 2008

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from _____to _____

Commission File Number 1-13215

GARDNER DENVER, INC.

(Exact name of registrant as specified in its charter)

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

1800 Gardner Expressway
Quincy, Illinois 62305

(Address of principal executive offices and Zip Code)

(217) 222-5400

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 53,222,600 shares of Common Stock, par value $0.01 per share, as of July 27, 2008.

GARDNER DENVER, INC.
Table of Contents

	Page
PART I FINANCIAL INFORMATION	
Item 1 Financial Statements	3
Consolidated Statements of Operations	4
Consolidated Balance Sheets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	24
Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations	36
Item 3 Quantitative and Qualitative Disclosures About Market Risk	37
Item 4 Controls and Procedures	
PART II OTHER INFORMATION	
Item 1 Legal Proceedings	39
Item 1A Risk Factors	39
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	39
Item 4 Submission of Matters to a Vote of Security Holders	39
Item 6 Exhibits	39
SIGNATURES	40
EXHIBIT INDEX	41
EX-12	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenues	$ 518,112	$ 459,869	$ 1,013,782	$ 901,287
Cost of sales	350,236	306,037	684,580	598,528
Gross profit	167,876	153,832	329,202	302,759
Selling and administrative expenses	94,281	82,848	179,659	163,870
Operating income	73,595	70,984	149,543	138,889
Interest expense	5,041	6,858	10,641	13,595
Other income, net	(336)	(760)	(577)	(1,506)
Income before income taxes	68,890	64,886	139,479	126,800
Provision for income taxes	19,324	20,115	39,054	39,213
Net income	$ 49,566	$ 44,771	$ 100,425	$ 87,587
Basic earnings per share	$ 0.94	$ 0.84	$ 1.90	$ 1.65
Diluted earnings per share	$ 0.93	$ 0.83	$ 1.87	$ 1.63

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

Table of Contents

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

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and equivalents	$ 127,134	$ 92,922
Accounts receivable (net of allowance of $8,130 at June 30, 2008 and $9,737 at December 31, 2007)	329,003	308,748
Inventories, net	262,586	256,446
Deferred income taxes	25,336	21,034
Other current assets	25,870	22,378
Total current assets	769,929	701,528
Property, plant and equipment, net	299,801	293,380
Goodwill	706,137	685,496
Other intangibles, net	210,560	206,314
Other assets	22,672	18,889
Total assets	$ 2,009,099	$ 1,905,607
Liabilities and Stockholders Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 30,642	$ 25,737
Accounts payable	103,202	101,615
Accrued liabilities	191,868	184,850
Total current liabilities	325,712	312,202
Long-term debt, less current maturities	219,980	263,987
Postretirement benefits other than pensions	16,939	17,354
Deferred income taxes	64,908	64,188
Other liabilities	89,208	88,163
Total liabilities	716,747	745,894
Stockholders equity:		
Common stock, $0.01 par value; 100,000,000 shares authorized; 53,217,157 and 53,546,267 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	582	573
Capital in excess of par value	541,706	515,940
Retained earnings	645,509	545,084
Accumulated other comprehensive income	179,102	128,010

Treasury stock at cost; 4,954,080 and 3,758,853 shares at June 30, 2008 and December 31, 2007, respectively	(74,547)	(29,894)
Total stockholders equity	1,292,352	1,159,713
Total liabilities and stockholders equity	$ 2,009,099	$ 1,905,607

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

Table of Contents

GARDNER DENVER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2008	**2007**
Cash Flows From Operating Activities		
Net income	$ 100,425	$ 87,587
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,281	27,898
Unrealized foreign currency transaction (gain) loss, net	(670)	366
Net loss (gain) on asset dispositions	123	(34)
Stock issued for employee benefit plans	2,557	2,494
Stock-based compensation expense	3,039	3,620
Excess tax benefits from stock-based compensation	(8,479)	(6,170)
Deferred income taxes	(6,922)	(1,474)
Changes in assets and liabilities:		
Receivables	(10,940)	(37,283)
Inventories	5,522	(29,440)
Accounts payable and accrued liabilities	9,252	6,990
Other assets and liabilities, net	(6,789)	(172)
Net cash provided by operating activities	117,399	54,382
Cash Flows From Investing Activities		
Capital expenditures	(20,182)	(17,911)
Net cash paid in business combinations	(217)	(119)
Disposals of property, plant and equipment	1,108	338
Net cash used in investing activities	(19,291)	(17,692)
Cash Flows From Financing Activities		
Principal payments on short-term borrowings	(17,988)	(13,729)
Proceeds from short-term borrowings	17,773	15,973
Principal payments on long-term debt	(110,074)	(93,836)
Proceeds from long-term debt	67,317	49,327
Proceeds from stock option exercises	10,752	8,488
Excess tax benefits from stock-based compensation	8,479	6,170
Purchase of treasury stock	(44,627)	(955)
Other	(1,258)	(958)
Net cash used in financing activities	(69,626)	(29,520)
Effect of exchange rate changes on cash and equivalents	5,730	1,982

Net increase in cash and equivalents	34,212	9,152
Cash and equivalents, beginning of year	92,922	62,331
Cash and equivalents, end of period	$ 127,134	$ 71,483

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

Table of Contents

GARDNER DENVER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts and amounts described in millions)
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

The financial information presented as of any date other than December 31, 2007 has been prepared from the books and records of the Company without audit. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of such financial statements, have been included.

The unaudited interim consolidated financial statements should be read in conjunction with the complete consolidated financial statements and notes thereto included in Gardner Denver s Annual Report on Form 10-K for the year ended December 31, 2007.

The results of operations for the six-month period ended June 30, 2008 are not necessarily indicative of the results to be expected for the full year. The balance sheet at December 31, 2007 has been derived from the audited financial statements as of that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

Other than as specifically indicated in these Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, the Company has not materially changed its significant accounting policies from those disclosed in its Form 10-K for the year ended December 31, 2007.

Changes in Accounting Principles and Effects of New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. SFAS No. 157 applies whenever other statements require or permit assets or liabilities to be measured at fair value. This statement was effective for the Company on January 1, 2008. In February 2008, the FASB released FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157,* which delayed for one year the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Items in this classification include goodwill, asset retirement obligations, rationalization accruals, intangibles assets with indefinite lives and certain other items. The adoption of the provisions of SFAS No. 157 with respect to the Company s financial assets and liabilities only did not have a significant effect on the Company s consolidated statements of operations, balance sheets and statements of cash flows. The adoption of SFAS No. 157 with respect to the Company s non-financial assets and liabilities, effective January 1, 2009, is not expected to have a significant effect on the Company s consolidated financial statements. See Note 11 Fair Value of Financial Instruments for the disclosures required by SFAS No. 157 regarding the Company s financial instruments measured at fair value.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), which permits all entities to elect to measure eligible financial instruments and certain other items at fair value. Additionally, this statement establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of financial assets and liabilities. This statement is effective for fiscal years beginning after November 15, 2007 and was adopted by the Company effective January 1, 2008. The Company has currently chosen not to elect the fair value option

permitted by SFAS No. 159 for any items that are not already required to be measured at fair value in accordance with

Table of Contents

generally accepted accounting principles. Accordingly, the adoption of this standard had no effect on the Company s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)), which establishes principles and requirements for how the acquirer of a business is to (i) recognize and measure in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (ii) recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determine what information to disclose to enable users of its financial statements to evaluate the nature and financial effects of the business combination. This statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. This replaces the guidance of SFAS No. 141, *Business Combinations* (SFAS No. 141) which requires the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. In addition, costs incurred by the acquirer to effect the acquisition and restructuring costs that the acquirer expects to incur, but is not obligated to incur, are to be recognized separately from the acquisition. SFAS No. 141(R) applies to all transactions or other events in which an entity obtains control of one or more businesses. This statement requires an acquirer to recognize assets acquired and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. An acquirer is required to recognize assets or liabilities arising from all other contingencies as of the acquisition date, measured at their acquisition-date fair values, only if it is more likely than not that they meet the definition of an asset or a liability in FASB Concepts Statement No. 6, *Elements of Financial Statements.* This Statement requires the acquirer to recognize goodwill as of the acquisition date, measured as a residual, which generally will be the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Contingent consideration should be recognized at the acquisition date, measured at its fair value at that date. SFAS No. 141(R) defines a bargain purchase as a business combination in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree, and requires the acquirer to recognize that excess in earnings as attributable to the acquirer. This statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Company is currently evaluating the effect SFAS No. 141(R) will have on its accounting for, and reporting of, business combinations consummated on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). This statement establishes accounting and reporting standards that require (i) ownership interest in subsidiaries held by parties other than the parent be presented and identified in the equity section of the consolidated balance sheet, separate from the parent s equity; (ii) the amount of consolidated net income attributable to the parent and to the noncontrolling interest be identified and presented on the face of the consolidated statement of operations; (iii) changes in a parent s ownership interest while the parent retains its controlling interest be accounted for consistently; (iv) when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value, and the resulting gain or loss be measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment; and (v) disclosures be provided that clearly identify and distinguish between the interests of the parent and interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, or the Company s 2009 fiscal year. The Company is currently evaluating the effect SFAS No. 160 will have on its financial statements and related disclosure requirements.

In December 2007, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 110, *Certain Assumptions Used in Valuation Methods* (SAB 110). SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate, to continue use of the simplified method for estimating the expected term of plain vanilla share option grants after December 31, 2007. The Company used the simplified method to determine the expected term for the majority of its 2006 and 2007 option grants. SAB 110 was effective for the Company on January 1, 2008 and, accordingly, the Company will no longer use the simplified

method to estimate the expected term of future option grants. The adoption of SAB 110 did not have a material effect on the Company s consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 requires enhanced disclosures for derivative instruments and hedging activities, including (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Under SFAS No. 161, entities must disclose the fair value of derivative instruments, their gains or losses and their location in the balance sheet in tabular format, and information about

Table of Contents

credit-risk-related contingent features in derivative agreements, counterparty credit risk, and strategies and objectives for using derivative instruments. The fair value amounts must be disaggregated by asset and liability values, by derivative instruments that are designated and qualify as hedging instruments and those that are not, and by each major type of derivative contract. SFAS No. 161 is effective prospectively for interim periods and fiscal years beginning after November 15, 2008. The Company is currently evaluating the effect SFAS No. 161 will have on its disclosure requirements for derivative instruments and hedging activities.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), and is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R). FSP FAS 142-3 applies to (i) intangible assets that are acquired individually or with a group of other assets and (ii) intangible assets acquired in both business combinations and asset acquisitions. In developing assumptions about renewal or extension used to determine the useful life of a recognized intangible asset, an entity shall consider its own historical experience in renewing or extending similar arrangements; however, these assumptions should be adjusted for the entity-specific factors described in SFAS No. 142. In the absence of that experience, an entity shall consider the assumptions that market participants would use about renewal or extension, adjusted for the entity-specific factors in SFAS No. 142. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, or the Company s 2009 fiscal year, and interim periods within those fiscal years. The Company is currently evaluating the effect FSP FAS 142-3 will have on its financial statements and related disclosure requirements.

Note 2. Income Taxes

As of June 30, 2008, the total balance of unrecognized tax benefits was $7.6 million compared with $7.6 million at March 31, 2008 and $7.3 million at December 31, 2007. The increase in the first quarter was primarily a result of changes in foreign currency exchange rates. Included in the unrecognized tax benefits at June 30, 2008 is $1.1 million of uncertain tax positions that would affect the Company s effective tax rate if recognized. The balance of the unrecognized tax benefits, $6.5 million, would be recognized as an adjustment to goodwill if recognized prior to the adoption of SFAS No. 141(R).

The Company expects the following significant changes to its unrecognized tax benefits within the next twelve months: the U.S. federal statutes of limitations with respect to the 2004 tax year will expire on $0.3 million of tax reserves and multiple state statutes of limitations will expire on $2.0 million of tax reserves. The total change in the tax reserves in the next twelve months is expected to be $2.3 million.

The Company s accounting policy with respect to interest expense on underpayments of income tax and related penalties is to recognize such interest expense and penalties as part of the provision for income taxes. The Company s income tax liabilities at June 30, 2008 include approximately $2.3 million of accrued interest, of which approximately $0.8 million relates to goodwill, and no penalties.

The Company s U.S. federal income tax returns for the tax years 2004 and beyond remain subject to examination by the U.S. Internal Revenue Service (the IRS). The IRS, in October 2006, announced an exam of an acquired subsidiary, Thomas Industries Inc. (Thomas), for the year 2004. As of the date of this report, the exam has not commenced. The statutes of limitations for the U.S. state tax returns are open beginning with the 2004 tax year, except for one state for which the statute has been extended beginning with the 2001 tax year.

The Company is subject to income tax in approximately 30 jurisdictions outside the U.S. The statute of limitations varies by jurisdiction with 2001 being the oldest tax year still open, except as noted below. The Company s significant operations outside the U.S. are located in China, the United Kingdom and Germany. In China and the United Kingdom, tax years prior to 2005 are closed. In Germany, generally, the tax years 2003 and beyond remain subject to examination with the statute of limitations for the 2003 tax year expiring during 2008. An acquired subsidiary group is under audit for the tax years 2000 through 2002. In addition, audits are being conducted in various countries for years ranging from 2001 through 2005. To date, no material adjustments have been proposed as a result of these audits.

Table of Contents

Note 3. Inventories

Inventories as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008	December 31, 2007
Raw materials, including parts and subassemblies	$ 145,942	$ 142,546
Work-in-process	47,949	47,622
Finished goods	81,940	77,629
	275,831	267,797
Excess of FIFO costs over LIFO costs	(13,245)	(11,351)
Inventories, net	$ 262,586	$ 256,446

Note 4. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill attributable to each business segment for the six-month period ended June 30, 2008, and the year ended December 31, 2007, are presented in the table below. The adjustments to goodwill reflect reallocations of purchase price, primarily related to income tax matters, subsequent to the dates of acquisition for acquisitions completed in prior fiscal years.

	Compressor & Vacuum Products	Fluid Transfer Products	Total
Balance as of December 31, 2006	$ 600,626	$ 76,154	$ 676,780
Adjustments to goodwill	(34,608)	(403)	(35,011)
Foreign currency translation	42,512	1,215	43,727
Balance as of December 31, 2007	608,530	76,966	685,496
Adjustments to goodwill	(1,048)	(64)	(1,112)
Foreign currency translation	20,990	763	21,753
Balance as of June 30, 2008	$ 628,472	$ 77,665	$ 706,137

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

	June 30, 2008		December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists and relationships	$ 78,495	$ (18,796)	$ 74,187	$ (16,063)
Acquired technology	46,499	(32,372)	44,658	(28,431)
Other	10,608	(3,515)	9,634	(3,074)
Unamortized intangible assets:				
Trademarks	129,641		125,403	
Total other intangible assets	$ 265,243	$ (54,683)	$ 253,882	$ (47,568)

Amortization of intangible assets for the three and six-month periods ended June 30, 2008 was $3.0 million and $6.0 million, respectively. Amortization of intangible assets for the three and six-month periods ended June 30, 2007 was $3.0 million and $6.3 million, respectively. Amortization of intangible assets is anticipated to be approximately $12.7 million annually in 2008 through 2012, based upon exchange rates as of June 30, 2008 and reflecting intangible assets associated with acquisitions completed through June 30, 2008 (see Note 17 Subsequent Event).

Table of Contents

Note 5. Accrued Product Warranty

A reconciliation of the changes in the accrued product warranty liability for the three and six-month periods ended June 30, 2008 and 2007 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Balance at beginning of period	$ 16,284	$ 15,782	$ 15,087	$ 15,298
Product warranty accruals	3,716	3,626	8,017	7,186
Settlements	(3,157)	(3,409)	(6,710)	(6,564)
Effect of foreign currency translation	15	(538)	464	(459)
Balance at end of period	$ 16,858	$ 15,461	$ 16,858	$ 15,461

Note 6. Pension and Other Postretirement Benefits

The following table summarizes the components of net periodic benefit cost for the Company s defined benefit pension plans and other postretirement benefit plans recognized for the three and six-month periods ended June 30, 2008 and 2007:

	Three Months Ended June 30,					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	2008	2007	2008	2007	2008	2007
Service cost	$	$	$ 198	$ 1,341	$ 4	$ 4
Interest cost	1,066	1,137	3,161	2,707	282	353
Expected return on plan assets	(1,175)	(1,175)	(3,388)	(2,834)		
Recognition of:						
Unrecognized prior-service cost	4	4			(94)	(111)
Unrecognized net actuarial loss (gain)	55	1	(24)	99	(336)	(207)
Net periodic benefit (income) cost	$ (50)	$ (33)	$ (53)	$ 1,313	$ (144)	$ 39

	Six Months Ended June 30,					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	2008	2007	2008	2007	2008	2007
Service cost	$	$	$ 386	$ 2,660	$ 8	$ 8
Interest cost	2,132	2,274	6,281	5,369	564	706
Expected return on plan assets	(2,350)	(2,350)	(6,752)	(5,625)		
Recognition of:						
Unrecognized prior-service cost	8	8			(188)	(222)
	110	2	(46)	197	(672)	(414)

Unrecognized net actuarial loss (gain)						
Net periodic benefit (income) cost	$ (100)	$ (66)	$ (131)	$ 2,601	$ (288)	$ 78

Table of Contents

Note 7. Debt

The Company s debt is summarized as follows:

	June 30, 2008	December 31, 2007
Short-term debt	$ 3,985	$ 4,099
Long-term debt:		
Credit Line, due 2010 (1)	$ 25,893	$ 58,329
Term Loan, due 2010 (2)	68,738	76,103
Senior Subordinated Notes at 8%, due 2013	125,000	125,000
Secured Mortgages (3)	10,418	9,993
Variable Rate Industrial Revenue Bonds, due 2018 (4)	8,000	8,000
Capitalized leases and other long-term debt	8,588	8,200
Total long-term debt, including current maturities	246,637	285,625
Current maturities of long-term debt	26,657	21,638
Total long-term debt, less current maturities	$ 219,980	$ 263,987

(1) The loans under this facility may be denominated in U.S. dollars or several foreign currencies. At June 30, 2008, the outstanding balance consisted of British pound borrowings of £13,000. The interest rates under the facility are based on prime, federal funds and/or LIBOR for the applicable currency. The weighted-average interest rate was 6.1% as of June 30, 2008 for the British pound loans. The interest

rate averaged 3.5%, 5.2% and 6.3% during the first half of 2008 for the U.S. dollar, euro and British pound loans, respectively.

(2) The Term Loan is denominated in U.S. dollars and the interest rate varies with prime and/or LIBOR. At June 30, 2008, this rate was 3.6% and averaged 4.5% during the first half of 2008.

(3) This amount consists of two fixed-rate commercial loans with an outstanding balance of 6,617 at June 30, 2008. The loans are secured by the Company s facility in Bad Neustadt, Germany.

(4) The interest rate varies with market rates for tax-exempt industrial revenue bonds. At June 30, 2008, this rate was 1.9% and averaged 2.5% during the first half of 2008. These industrial revenue bonds are secured by an $8,100 standby

letter of credit.

Note 8. Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance with SFAS No. 123 (revised 2004), *Share-based Payment,* (SFAS No. 123(R)), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and non-employee directors based on their estimated fair values. The Company recognizes stock-based compensation expense for share-based payment awards over the requisite service period for vesting of the award or to an employee s eligible retirement date, if earlier. The following table summarizes the total stock-based compensation expense included in the consolidated statements of operations and the realized excess tax benefits included in the consolidated statements of cash flows for the three and six-month periods ended June 30, 2008 and 2007.

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Selling and administrative expenses	$ 780	$ 710	$ 3,039	$ 3,620
Total stock-based compensation expense included in operating expenses	$ 780	$ 710	$ 3,039	$ 3,620
Income before income taxes	(780)	(710)	(3,039)	(3,620)
Provision for income taxes	200	333	843	835
Net income	$ (580)	$ (377)	$ (2,196)	$ (2,785)
Basic and diluted earnings per share	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.05)
Net cash provided by operating activities	$ (8,051)	$ (5,011)	$ (8,479)	$ (6,170)
Net cash used in financing activities	$ 8,051	$ 5,011	$ 8,479	$ 6,170

Plan Descriptions

Under the Company s Amended and Restated Long-Term Incentive Plan (the Incentive Plan), designated employees and non-employee directors are eligible to receive awards in the form of stock options, stock appreciation rights, performance shares or restricted stock and restricted stock units (restricted shares), as determined by the Management Development and Compensation Committee of the Board of Directors (the Committee). Under the Incentive Plan, the grant price of a stock option is determined by the Committee, but must not be less than the market close price of the Company s common stock on the date of grant. The Incentive Plan provides that the term of any stock option granted may not exceed ten years. There are no vesting provisions tied to performance conditions for any of the outstanding stock options and restricted shares. Vesting for all outstanding stock options and restricted shares is based solely on continued service as an employee or director of the Company and generally occurs upon retirement, death or cessation of service due to disability, if earlier.

Stock Option Awards

Under the terms of existing awards, employee stock options become vested and exercisable ratably on each of the first three anniversaries of the date of grant. The options granted to employees in 2008 and 2007 expire seven years after the date of grant. The options granted to non-employee directors become exercisable on the first anniversary of the date of grant and expire five years after the date of grant.

A summary of the Company s stock option activity for the six-month period ended June 30, 2008 is presented in the following table (underlying shares in thousands):

	Shares	Outstanding Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life
Outstanding at December 31, 2007	1,870	$ 20.06		
Granted	325	$ 36.66		
Exercised	(802)	$ 13.40		
Forfeited or canceled	(23)	$ 22.42		

Outstanding at June 30, 2008	1,370	$ 27.86	$39,649	4.6 years
Exercisable at June 30, 2008	824	$ 22.80	$28,009	3.6 years

The aggregate intrinsic value was calculated as the difference between the exercise price of the underlying stock options and the quoted closing price of the Company s common stock at June 30, 2008 multiplied by the number of in-the-money stock options. The weighted-average estimated grant-date fair values of employee and director stock options granted during the three and six-month periods ending June 30, 2008 were $14.23 and $10.94, respectively.

Table of Contents

The total pre-tax intrinsic values of stock options exercised during the second quarter of 2008 and 2007 were $25.9 million and $15.9 million, respectively. The total pre-tax intrinsic values of stock options exercised during the first half of 2008 and 2007 were $27.7 million and $20.1 million, respectively. Pre-tax unrecognized compensation expense for stock options, net of estimated forfeitures, was $3.1 million as of June 30, 2008 and will be recognized as expense over a weighted-average period of 2.0 years.

Valuation Assumptions and Expense under SFAS No. 123(R)

The fair value of each stock option grant under the Incentive Plan was estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average assumptions used for the periods indicated are noted in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Assumptions:				
Risk-free interest rate	2.8%	4.6%	2.6%	4.7%
Dividend yield				
Volatility factor	32	28	30	29
Expected life (in years)	4.0	4.1	4.5	4.9

Restricted Share Awards

In the first quarter of 2008, the Company began granting restricted stock units in lieu of restricted stock. Upon vesting, restricted stock units result in the issuance of the equivalent number of shares of the Company s common stock. All restricted shares cliff vest three years after the date of grant.

A summary of the Company s restricted share activity for the six-month period ended June 30, 2008 is presented in the following table (underlying shares in thousands):

	Shares	**Weighted-Average Grant-Date Fair Value (per share)**
Nonvested at December 31, 2007	90	$ 33.43
Granted	67	$ 37.24
Vested	(2)	$ 38.32
Forfeited		
Nonvested at June 30, 2008	155	$ 35.02

The restricted stock units granted in the first half of 2008 were valued at the market close price of the Company s common stock on the date of grant. Pre-tax unrecognized compensation expense for nonvested restricted shares, net of estimated forfeitures, was $1.9 million as of June 30, 2008, which will be recognized as expense over a weighted-average period of 1.8 years. The total fair value of restricted shares that vested during the first half of 2008 was $0.1 million. No restricted shares vested during the first half of 2007.

Note 9. Stockholders Equity and Earnings Per Share

In November 2007, the Company s Board of Directors authorized a new share repurchase program to acquire up to 2,700 thousand shares of the Company s outstanding common stock. All common stock acquired will be held as treasury stock and will be available for general corporate purposes. During the six-month period ended June 30, 2008, the Company repurchased 1,184 thousand shares under this program at a total cost of $44.1 million.

The following table details the calculation of basic and diluted earnings per common share for the three and six-month periods ended June 30, 2008 and 2007 (shares in thousands):

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Basic Earnings Per Share:				
Net income	$ 49,566	$ 44,771	$ 100,425	$ 87,587
Shares:				
Weighted average number of common shares outstanding	52,753	53,147	52,891	52,951
Basic earnings per common share	$ 0.94	$ 0.84	$ 1.90	$ 1.65
Diluted Earnings Per Share:				
Net income	$ 49,566	$ 44,771	$ 100,425	$ 87,587
Shares:				
Weighted average number of common shares outstanding	52,753	53,147	52,891	52,951
Effect of dilutive outstanding equity-based awards	711	896	715	939
Weighted average number of diluted common shares	53,464	54,043	53,606	53,890
Diluted earnings per common share	$ 0.93	$ 0.83	$ 1.87	$ 1.63

For the three months ended June 30, 2008 and 2007, respectively, antidilutive equity-based awards to purchase 12 and 138 weighted-average shares of common stock were outstanding. For the six months ended June 30, 2008 and 2007, respectively, antidilutive equity-based awards to purchase 291 and 235 weighted-average shares of common stock were outstanding. Antidilutive equity-based awards outstanding were not included in the computation of diluted earnings per share.

Note 10. Accumulated Other Comprehensive Income

The Company s accumulated other comprehensive income (loss) consists of unrealized net gains and losses on the translation of the assets and liabilities of its foreign operations (including the foreign currency hedge of the Company s net investments in foreign operations); unrecognized gains and losses on cash flow hedges (consisting of interest rate swaps), net of income taxes; and unamortized pension and other postretirement benefit prior service cost and actuarial gains or losses, net of income taxes.

The following table sets forth the changes in each component of accumulated other comprehensive income (loss):

	Foreign Currency Translation Adjustment (1)	Unrealized Gains (Losses) on Cash Flow Hedges	Pension and Postretirement Benefit Plans	Accumulated Other Comprehensive Income
Balance at December 31, 2006	$ 64,109	$ 1,557	$ (14,935)	$ 50,731
Before tax income (loss)	2,233	(410)	(215)	1,608

Income tax effect		156	90	246
Other comprehensive income (loss)	2,233	(254)	(125)	1,854
Balance at March 31, 2007	66,342	1,303	(15,060)	52,585
Before tax income (loss)	12,039	737	(214)	12,562
Income tax effect		(280)	89	(191)
Other comprehensive income (loss)	12,039	457	(125)	12,371
Balance at June 30, 2007	$ 78,381	$ 1,760	$ (15,185)	$ 64,956
Balance at December 31, 2007	$ 133,467	$ (110)	$ (5,347)	$ 128,010
Before tax income (loss)	50,157	(1,110)	(393)	48,654
Income tax effect		422	147	569
Other comprehensive income (loss)	50,157	(688)	(246)	49,223
Currency translation (2)			1	1
Balance at March 30, 2008	183,624	(798)	(5,592)	177,234
Before tax income (loss)	1,313	1,287	(395)	2,205
Income tax effect		(489)	148	(341)
Other comprehensive income (loss)	1,313	798	(247)	1,864
Currency translation (2)			4	4
Balance at June 30, 2008	$ 184,937	$	$ (5,835)	$ 179,102

Table of Contents

(1) Income taxes are generally not provided for foreign currency translation adjustments, as such adjustments relate to permanent investments in international subsidiaries.

(2) The Company uses the historical rate approach in determining the U.S. dollar amounts of changes to accumulated other comprehensive income associated with non-U.S. pension benefit plans.

The Company s comprehensive income for the three and six-month periods ended June 30, 2008 and 2007 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	$ 49,566	$ 44,771	$ 100,425	$ 87,587
Other comprehensive income	1,864	12,371	51,087	14,225
Comprehensive income	$ 51,430	$ 57,142	$ 151,512	$ 101,812

Note 11. Fair Value of Financial Instruments

A financial instrument is defined as a cash equivalent, evidence of an ownership interest in an entity, or a contract that creates a contractual obligation or right to deliver or receive cash or another financial instrument from another party. The Company s financial instruments consist primarily of cash and equivalents, trade receivables, trade payables, deferred compensation obligations and debt instruments. The book values of these instruments are a reasonable estimate of 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.

The Company, from time to time, uses interest rate swaps to manage its exposure to market changes in interest rates. Also, as part of its hedging strategy, the Company uses forward exchange contracts 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. The following table summarizes the notional amounts and fair values of the Company s outstanding derivative financial instruments by risk category and instrument type:

	June 30, 2008				December 31, 2007			
	Notional Amount	Average Receive Rate	Average Pay Rate	Estimated Fair Value	Notional Amount	Average Receive Rate	Average Pay Rate	Estimated Fair Value
Foreign currency forwards	$49,836	N/A	N/A	$1,109	$29,757	N/A	N/A	$ 580
Interest rate swaps	$	N/A	N/A	$	$30,000	4.9%	4.1%	$(141)

Effective January 1, 2008, the Company adopted SFAS No. 157 with respect to its financial assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS No. 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities as of the reporting date.
Level 2	Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities as of the reporting date.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Table of Contents

The following table summarizes the Company s fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2008:

	Level 1	Level 2	Level 3	Total
Financial Assets				
Foreign currency forwards (1)	$	$1,109	$	$ 1,109
Trading securities held in deferred compensation plan (2)	10,543			10,543
Total	$10,543	$1,109	$	$11,652
Financial Liabilities				
Interest rate swaps (1)	$	$	$	$
Phantom stock plan (3)		3,020		3,020
Deferred compensation plan (4)	10,543			10,543
Total	$10,543	$3,020	$	$13,563

(1) Based on internally-developed models that use as their basis readily observable market parameters such as current spot and forward rates, and the LIBOR index.

(2) Based on the observable price of publicly traded mutual funds which, in accordance with EITF No.97-14, *Accounting for Deferred Compensation Arrangements where Amounts Earned are Held in a Rabbi Trust and Invested,* are classified as Trading securities and accounted for using the

mark-to-market method.

(3) Based on the price of the Company s common stock.

(4) Based on the fair value of the investments in the deferred compensation plan.

Note 12. Acquisition-Related Restructuring Costs

In connection with the acquisition of Thomas in 2005, the Company initiated plans to close and consolidate certain former Thomas facilities, primarily in the U.S. and Europe. The total estimated cost of these plans was $16.5 million and included various voluntary and involuntary employee termination and relocation programs affecting both salaried and hourly employees and exit costs associated with the sale, lease termination or sublease of certain manufacturing and administrative facilities. These actions were substantively completed during 2007.

At June 30, 2008 and December 31, 2007, the balance in the related accruals was $0.2 million and $1.4 million, respectively. The balance at December 31, 2007 included $1.1 million associated with termination benefits. Changes to the balance during the six-month period ended June 30, 2008 primarily reflect adjustments to the cost of acquiring Thomas, cash payments and the effect of changes in foreign currency exchange rates. The balance at June 30, 2008 is associated with a lease contract that will expire in future years.

Note 13. Supplemental Cash Flow Information

In the six-month periods ended June 30, 2008 and 2007, the Company paid $39.1 million and $48.7 million, respectively, to various taxing authorities for income taxes. Interest paid for the same six-month periods of 2008 and 2007, was $10.1 million and $13.1 million, respectively.

Note 14. 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, among other things, the Company has been named as a defendant in a number of asbestos personal injury lawsuits. The Company has also been named as a defendant in a 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 to date, the substantial majority of the plaintiffs have not suffered an injury for which the Company bears responsibility.

Table of Contents

Predecessors to the Company sometimes manufactured, distributed and/or sold products allegedly at issue in the pending asbestos and silicosis litigation lawsuits (the Products). However, neither the Company nor its predecessors ever mined, manufactured, mixed, produced or distributed asbestos fiber or silica sand, the materials that allegedly caused the injury underlying the lawsuits. Moreover, the asbestos-containing components of the Products were enclosed within the subject Products.

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 not been material.

The Company believes that the pending and future asbestos and silicosis lawsuits are not likely to, 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 or for which the Company otherwise bears responsibility; 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, including, without limitation, potential insolvencies of insurance companies or other defendants, could cause a different outcome, there can be no assurance that the resolution of pending or future lawsuits will not have a material adverse effect on the Company s consolidated financial position, results of operations or liquidity.

The Company has been identified as a potentially responsible party (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, the Company was only a small contributor to these waste sites, and the Company has, or is attempting to negotiate, de minimis settlements for their cleanup. The cleanup of the remaining sites is substantially complete and the Company s future obligations entail a share of the sites ongoing operating and maintenance expense.

The Company is also addressing three on-site cleanups for which it is the primary responsible party. Two of these cleanup sites are in the operation and maintenance stage and the third is in the implementation stage. The Company is also participating in a voluntary cleanup program with other potentially responsible parties on a fourth site which is in the assessment stage. Based on currently available information, the Company does not anticipate that any of these sites will result in material additional costs beyond those already accrued on its balance sheet.

The Company has an accrued liability on its balance sheet to the extent costs are known or can be reasonably estimated for its remaining financial obligations for these matters. Based upon consideration of currently available information, the Company does not anticipate any material adverse effect on its 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.

Note 15. Guarantor Subsidiaries

The Company s obligations under its 8% Senior Subordinated Notes due 2013 are jointly and severally, fully and unconditionally guaranteed by certain wholly-owned domestic subsidiaries of the Company (the Guarantor Subsidiaries). The Company s subsidiaries that do not guarantee the Senior Subordinated Notes are referred to as the Non-Guarantor Subsidiaries. The guarantor condensed consolidating financial data below presents the statements of operations, balance sheets and statements of cash flows data (i) for Gardner Denver, Inc. (the Parent Company), the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries on a consolidated basis (which is derived from Gardner Denver s historical reported financial information); (ii) for the Parent Company, alone (accounting for its Guarantor Subsidiaries and Non-Guarantor Subsidiaries on a cost basis under which the investments are recorded by each entity owning a portion of another entity at historical cost); (iii) for the Guarantor Subsidiaries alone; and (iv) for the

Non-Guarantor Subsidiaries alone.

Table of Contents

Consolidating Statement of Operations
Three Months Ended June 30, 2008

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 102,312	$ 129,953	$ 358,718	$ (72,871)	$ 518,112
Cost of sales	69,695	92,515	260,665	(72,639)	350,236
Gross profit	32,617	37,438	98,053	(232)	167,876
Selling and administrative expenses	25,926	11,291	57,064		94,281
Operating income	6,691	26,147	40,989	(232)	73,595
Interest expense (income)	5,745	(3,137)	2,433		5,041
Other expense (income), net	22	(2)	(356)		(336)
Income before income taxes	924	29,286	38,912	(232)	68,890
Provision for income taxes	252	10,982	8,311	(221)	19,324
Net income	$ 672	$ 18,304	$ 30,601	$ (11)	$ 49,566

Consolidating Statement of Operations
Three Months Ended June 30, 2007

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 109,075	$ 125,399	$ 290,531	$ (65,136)	$ 459,869
Cost of sales	69,565	86,017	215,156	(64,701)	306,037
Gross profit	39,510	39,382	75,375	(435)	153,832
Selling and administrative expenses	21,272	12,277	49,299		82,848
Operating income	18,238	27,105	26,076	(435)	70,984
Interest expense (income)	6,994	(2,558)	2,422		6,858
Other (income) expense, net	(457)	(4)	(298)	(1)	(760)
Income before income taxes	11,701	29,667	23,952	(434)	64,886
Provision for income taxes	3,276	10,000	6,839		20,115
Net income	$ 8,425	$ 19,667	$ 17,113	$ (434)	$ 44,771

Table of Contents

Consolidating Statement of Operations
Six Months Ended June 30, 2008

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 198,211	$ 264,175	$ 696,972	$ (145,576)	$ 1,013,782
Cost of sales	135,417	185,732	505,380	(141,949)	684,580
Gross profit	62,794	78,443	191,592	(3,627)	329,202
Selling and administrative expenses	49,461	20,560	109,634	4	179,659
Operating income	13,333	57,883	81,958	(3,631)	149,543
Interest expense (income)	11,724	(6,080)	4,997		10,641
Other expense (income), net	69	(3)	(643)		(577)
Income before income taxes	1,540	63,966	77,604	(3,631)	139,479
Provision for income taxes	420	23,988	15,532	(886)	39,054
Net income	$ 1,120	$ 39,978	$ 62,072	$ (2,745)	$ 100,425

Consolidating Statement of Operations
Six Months Ended June 30, 2007

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 221,424	$ 244,042	$ 563,306	$ (127,485)	$ 901,287
Cost of sales	142,449	168,642	413,152	(125,715)	598,528
Gross profit	78,975	75,400	150,154	(1,770)	302,759
Selling and administrative expenses	42,067	24,821	96,982		163,870
Operating income	36,908	50,579	53,172	(1,770)	138,889
Interest expense (income)	13,940	(4,964)	4,619		13,595
Other (income) expense, net	(830)	(12)	(664)		(1,506)
Income before income taxes	23,798	55,555	49,217	(1,770)	126,800
Provision for income taxes	8,068	23,320	7,825		39,213
Net income	$ 15,730	$ 32,235	$ 41,392	$ (1,770)	$ 87,587

Table of Contents

Consolidating Balance Sheet
June 30, 2008

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and equivalents	$ 37,933	$ (2,936)	$ 92,137	$	$ 127,134
Accounts receivable, net	64,107	59,034	205,862		329,003
Inventories, net	28,930	64,170	187,227	(17,741)	262,586
Deferred income taxes	18,222	2,512		4,602	25,336
Other current assets	5,461	4,453	15,956		25,870
Total current assets	154,653	127,233	501,182	(13,139)	769,929
Intercompany (payable) receivable	(349,537)	344,263	5,274		
Investments in affiliates	884,666	198,654	29	(1,083,320)	29
Property, plant and equipment, net	55,324	47,383	197,094		299,801
Goodwill	111,115	212,024	382,998		706,137
Other intangibles, net	7,127	46,789	156,644		210,560
Other assets	18,380	275	6,866	(2,878)	22,643
Total assets	$ 881,728	$ 976,621	$ 1,250,087	$ (1,099,337)	$ 2,009,099
Liabilities and Stockholders Equity					
Current liabilities:					
Short-term borrowings and current maturities of long-term debt	$ 24,549	$ 1	$ 6,092	$	$ 30,642
Accounts payable and accrued liabilities	43,329	60,781	191,617	(657)	295,070
Total current liabilities	67,878	60,782	197,709	(657)	325,712
Long-term intercompany (receivable) payable	(20,963)	(18,597)	39,560		
Long-term debt, less current maturities	177,189	76	42,715		219,980
Deferred income taxes		25,418	42,368	(2,878)	64,908
Other liabilities	50,432	261	55,454		106,147
Total liabilities	274,536	67,940	377,806	(3,535)	716,747
Stockholders equity:					
Common stock	582				582
Capital in excess of par value	540,610	660,696	423,720	(1,083,320)	541,706

Retained earnings	162,614	205,474	289,903	(12,482)	645,509
Accumulated other comprehensive (loss) income	(22,067)	42,511	158,658		179,102
Treasury stock, at cost	(74,547)				(74,547)
Total stockholders equity	607,192	908,681	872,281	(1,095,802)	1,292,352
Total liabilities and stockholders equity	$ 881,728	$ 976,621	$ 1,250,087	$ (1,099,337)	$ 2,009,099

Table of Contents

Consolidating Balance Sheet
December 31, 2007

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and equivalents	$ 10,409	$ (2,261)	$ 84,774	$	$ 92,922
Accounts receivable, net	59,537	56,634	192,577		308,748
Inventories, net	25,340	70,134	175,086	(14,114)	256,446
Deferred income taxes	15,204	2,006		3,824	21,034
Other current assets	4,367	5,977	12,034		22,378
Total current assets	114,857	132,490	464,471	(10,290)	701,528
Intercompany (payable) receivable	(278,396)	276,809	1,587		
Investments in affiliates	914,680	198,654	29	(1,113,334)	29
Property, plant and equipment, net	54,606	48,260	190,514		293,380
Goodwill	111,033	211,983	362,480		685,496
Other intangibles, net	7,537	47,560	151,217		206,314
Other assets	17,266	479	5,074	(3,959)	18,860
Total assets	$ 941,583	$ 916,235	$ 1,175,372	$ (1,127,583)	$ 1,905,607
Liabilities and Stockholders Equity					
Current liabilities:					
Short-term borrowings and current maturities of long-term debt	$ 19,639	$	$ 6,098	$	$ 25,737
Accounts payable and accrued liabilities	70,407	39,017	177,649	(608)	286,465
Total current liabilities	90,046	39,017	183,747	(608)	312,202
Long-term intercompany (receivable) payable	(14,541)	(18,176)	32,717		
Long-term debt, less current maturities	189,463	77	74,447		263,987
Deferred income taxes		26,306	41,841	(3,959)	64,188
Other liabilities	52,561	313	52,643		105,517
Total liabilities	317,529	47,537	385,395	(4,567)	745,894
Stockholders equity:					
Common stock	573				573
Capital in excess of par value	515,194	672,918	441,162	(1,113,334)	515,940

Retained earnings	150,768	165,606	238,392	(9,682)	545,084
Accumulated other comprehensive (loss) income	(12,587)	30,174	110,423		128,010
Treasury stock, at cost	(29,894)				(29,894)
Total stockholders equity	624,054	868,698	789,977	(1,123,016)	1,159,713
Total liabilities and stockholders equity	$ 941,583	$ 916,235	$ 1,175,372	$ (1,127,583)	$ 1,905,607

Table of Contents

Consolidating Condensed Statement of Cash Flows
Six Months Ended June 30, 2008

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	$ 40,237	$ 2,612	$ 74,550	$	$ 117,399
Cash flows from investing activities:					
Capital expenditures	(5,346)	(3,792)	(11,044)		(20,182)
Net cash paid in business combinations	(217)				(217)
Disposals of property, plant and equipment	11	83	1,014		1,108
Net cash used in investing activities	(5,552)	(3,709)	(10,030)		(19,291)
Cash flows from financing activities:					
Net change in long-term intercompany receivables/payables	25,871	422	(26,293)		
Principal payments on short-term borrowings			(17,988)		(17,988)
Proceeds from short-term borrowings			17,773		17,773
Principal payments on long-term debt	(54,865)		(55,209)		(110,074)
Proceeds from long-term debt	47,500		19,817		67,317
Proceeds from stock option exercises	10,752				10,752
Excess tax benefits from stock-based compensation	8,208		271		8,479
Purchase of treasury stock	(44,627)				(44,627)
Other			(1,258)		(1,258)
Net cash used in financing activities	(7,161)	422	(62,887)		(69,626)
Effect of exchange rate changes on cash and equivalents			5,730		5,730
Net increase (decrease) in cash and equivalents	27,524	(675)	7,363		34,212
Cash and equivalents, beginning of year	10,409	(2,261)	84,774		92,922
Cash and equivalents, end of period	$ 37,933	$ (2,936)	$ 92,137	$	$ 127,134

Table of Contents

Consolidating Condensed Statement of Cash Flows
Six Months Ended June 30, 2007

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ 29,443	$ 1,203	$ 26,572	$ (2,836)	$ 54,382
Cash flows from investing activities:					
Capital expenditures	(4,911)	(4,210)	(8,790)		(17,911)
Net cash paid in business combinations	(119)				(119)
Disposals of property, plant and equipment	61	107	170		338
Other, net	(17)	17			
Net cash used in investing activities	(4,986)	(4,086)	(8,620)		(17,692)
Cash flows from financing activities:					
Net change in long-term intercompany receivables/payables	3,151	(214)	(5,773)	2,836	
Principal payments on short-term borrowings			(13,729)		(13,729)
Proceeds from short-term borrowings			15,973		15,973
Principal payments on long-term debt	(85,154)		(8,682)		(93,836)
Proceeds from long-term debt	46,500		2,827		49,327
Proceeds from stock option exercises	8,488				8,488
Excess tax benefits from stock-based compensation	6,170				6,170
Purchase of treasury stock	(955)				(955)
Other			(958)		(958)
Net cash (used in) provided by financing activities	(21,800)	(214)	(10,342)	2,836	(29,520)
Effect of exchange rate changes on cash and equivalents	45		1,937		1,982
Net increase (decrease) in cash and equivalents	2,702	(3,097)	9,547		9,152
Cash and equivalents, beginning of year	5,347	(573)	57,557		62,331
Cash and equivalents, end of period	$ 8,049	$ (3,670)	$ 67,104	$	$ 71,483

Table of Contents

Note 16. Segment Results

The Company s organizational structure is based on the products and services it offers and consists of five operating divisions: Compressor, Blower, Engineered Products, Thomas Products and Fluid Transfer. These divisions comprise two reportable segments: Compressor and Vacuum Products and Fluid Transfer Products. The Compressor, Blower, Engineered Products and Thomas Products divisions are aggregated into the Compressor and Vacuum Products segment because the long-term financial performance of these businesses is affected by similar economic conditions and their products, manufacturing processes and other business characteristics are similar in nature.

The following table provides financial information by business segment for the three and six-month periods ended June 30, 2008 and 2007:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Compressor and Vacuum Products				
Revenues	$ 418,126	$ 354,394	$ 803,204	$ 693,251
Operating income	51,790	40,834	97,241	79,529
Operating income as a percentage of revenues	12.4%	11.5%	12.1%	11.5%
Fluid Transfer Products				
Revenues	$ 99,986	$ 105,475	$ 210,578	$ 208,036
Operating income	21,805	30,150	52,302	59,360
Operating income as a percentage of revenues	21.8%	28.6%	24.8%	28.5%
Reconciliation of Segment Results to Consolidated Results				
Total segment operating income	$ 73,595	$ 70,984	$ 149,543	$ 138,889
Interest expense	5,041	6,858	10,641	13,595
Other income, net	(336)	(760)	(577)	(1,506)
Consolidated income before income taxes	$ 68,890	$ 64,886	$ 139,479	$ 126,800

Note 17. Subsequent Event

On July 20, 2008, the Company entered into separate share purchase agreements with the holders of 100% of the outstanding shares of CompAir Holdings Limited (CompAir), a global manufacturer of compressed air and gas solutions. The terms of the share purchase agreements place the total enterprise value of CompAir at 197.5 million, or approximately $395.0 million, to be paid through a combination of cash payments to the CompAir shareholders and the assumption of existing CompAir debt.

To finance the acquisition, the Company will use excess available cash and a new syndicated credit facility. The form, terms and size of the debt financing are subject to prevailing market conditions. The transaction is subject to certain closing conditions, including the receipt of applicable regulatory approvals. The acquisition is not conditioned upon completion of financing and is currently expected to close during the fourth quarter of 2008.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following management s discussion and analysis of financial condition and results of operations should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2007, including the financial statements, accompanying notes and management s discussion and analysis of financial condition and results of operations, and the interim consolidated financial statements and accompanying notes included in this Report on Form 10-Q.

The discussion in this Item 2, including, without limitation, the discussion under the caption Outlook, does not reflect the effect that the pending acquisition of CompAir may have on the Company s future operations, liquidity and

financial condition (see Note 17 Subsequent Event in the Notes to Consolidated Financial Statements).

Table of Contents

Operating Segments

The Company s organizational structure is based on the products and services it offers and consists of five operating divisions: Compressor, Blower, Engineered Products, Thomas Products and Fluid Transfer. These divisions comprise two reportable segments: Compressor and Vacuum Products and Fluid Transfer Products. The Compressor, Blower, Engineered Products and Thomas Products divisions are aggregated into the Compressor and Vacuum Products segment because the long-term financial performance of these businesses are affected by similar economic conditions and their products, manufacturing processes and other business characteristics are similar in nature.

The Company has determined its reportable segments in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* and evaluates the performance of its reportable segments based on operating income, which is defined as income before interest expense, other income, net, and income taxes. Reportable segment operating income and segment operating margin (defined as segment operating income divided by segment revenues) are indicative of short-term operating performance and ongoing profitability. Management closely monitors the operating income and operating margin of each business segment to evaluate past performance and actions required to improve profitability.

Non-GAAP Financial Measures

To supplement the Company s financial information presented in accordance with accounting principles generally accepted in the United States of America (GAAP), management, from time to time, uses 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 and infrequent items or items outside of management s control (e.g. foreign currency exchange rates).

Results of Operations

Performance during the Quarter Ended June 30, 2008 Compared with the Quarter Ended June 30, 2007

Revenues

Revenues increased $58.2 million, or 13%, to $518.1 million in the three months ended June 30, 2008, compared to $459.9 million in the second quarter of 2007. This increase was attributable to favorable changes in foreign currency exchange rates ($32.8 million, or 7%), volume growth in the Compressor and Vacuum Products segment and price increases ($11.3 million, or 3%), partially offset by lower volume in the Fluid Transfer Products segment. The net combined volume increase between the two segments was $14.1 million, or 3%.

Revenues in the Compressor and Vacuum Products segment increased $63.7 million, or 18%, to $418.1 million in 2008, compared to $354.4 million in 2007. This increase reflects favorable changes in foreign currency exchange rates (8%), volume growth (7%) and price increases (3%). The volume growth was attributable to nearly all of this segment s product lines and geographic regions.

Revenues in the Fluid Transfer Products segment decreased $5.5 million, or 5%, to $100.0 million in 2008, compared to $105.5 million in 2007. This decrease reflects lower volume (11%), partially offset by favorable changes in foreign currency exchange rates (4%) and price increases (2%). The lower volume was attributable to reduced petroleum pump shipments, partially offset by increased shipments of loading arms.

Gross Profit

Gross profit increased $14.1 million, or 9%, to $167.9 million in the three months ended June 30, 2008, compared to $153.8 million in the second quarter of 2007, and as a percentage of revenues was 32.4% in 2008 compared to 33.5% in 2007. The increase in gross profit primarily reflects the increases in revenue discussed above, including the favorable effect of changes in foreign currency exchange rates. The decline in gross profit as a percentage of revenues primarily reflects the lower volume of petroleum pump shipments, which have a higher gross profit percentage than the Company s average, partially offset by the effect of operational improvements and leveraging fixed and semi-fixed costs over additional sales volume.

Table of Contents

Selling and Administrative Expenses

Selling and administrative expenses increased $11.5 million, or 14%, to $94.3 million in the second quarter of 2008, compared to $82.8 million in the second quarter of 2007. This increase primarily reflects the unfavorable impact of changes in foreign currency exchanges rates of approximately $5.9 million and non-recurring retirement expenses of $3.9 million. Inflationary increases were partially offset by cost reductions realized through integration initiatives. As a percentage of revenues, selling and administrative expenses were 18.2% in the second quarter of 2008 compared to 18.0% in the second quarter of 2007. This increase was primarily due to the effect of the non-recurring retirement expenses, largely offset by increased leverage of other selling and administrative expenses over additional sales volume and the favorable effect of the cost reductions discussed above.

Operating Income

Consolidated operating income increased $2.6 million, or 4%, to $73.6 million in the second quarter of 2008 compared to $71.0 million in the second quarter of 2007, and as a percentage of revenues was 14.2% in 2008 compared to 15.4% in 2007. These results reflect the revenue, gross profit and selling and administrative expense factors discussed above.

The Compressor and Vacuum Products segment generated operating income of $51.8 million and operating margin of 12.4% in the second quarter of 2008, compared to $40.8 million and 11.5%, respectively, in the second quarter of 2007 (see Note 16 Segment Results in the Notes to Consolidated Financial Statements for a reconciliation of segment operating income to consolidated income before income taxes). This improvement reflects revenue growth as discussed above, the favorable effect of increased leverage of the segment s fixed and semi-fixed costs over increased revenue, cost reductions, the benefits of acquisition integration activities and manufacturing lead-time improvements, partially offset by costs incurred to streamline operations in Europe and Australia .

The Fluid Transfer Products segment generated operating income of $21.8 million and operating margin of 21.8% in the second quarter of 2008, compared to $30.2 million and 28.6%, respectively, in the second quarter of 2007 (see Note 16 Segment Results in the Notes to Consolidated Financial Statements for a reconciliation of segment operating income to consolidated income before income taxes). The decrease in operating income resulted from the lower volume of petroleum pump shipments, which have a higher operating margin than this segment s average, partially offset by increased shipments of loading arms.

Interest Expense

Interest expense of $5.0 million in the second quarter of 2008 declined $1.9 million from $6.9 million in the comparable period of 2007 primarily due to lower average borrowings in 2008. Net principal payments on debt totaled $42.8 million in the second quarter of 2008 and $43.0 million in the first six months of 2008 (see Consolidated Statements of Cash Flows and Note 7 Debt in the Notes to Consolidated Financial Statements). The weighted average interest rate, including the amortization of debt issuance costs, was 7.2% in both the second quarter of 2008 and the second quarter of 2007.

Provision for Income Taxes

The provision for income taxes and effective tax rate were $19.3 million and 28.0%, respectively, for the three-month period ended June 30, 2008 compared to $20.1 million and 31.0%, respectively, for the three-month period ended June 30, 2007. The lower effective tax rate primarily reflects a higher proportion of earnings in jurisdictions with lower tax rates coupled with a reduction in the corporate income tax rates in Germany and the U.K., which became effective in 2008.

Net Income

Consolidated net income of $49.6 million increased $4.8 million, or 11%, in the second quarter of 2008 from $44.8 million in the second quarter of 2007. Diluted earnings per share increased 12% to $0.93 in the second quarter of 2008 from $0.83 in the same period of 2007. This improvement was the net result of the factors affecting operating income, interest expense and the provision for income taxes discussed above. The Company s repurchase of approximately 1.2 million shares of its common stock during the first quarter of 2008 (see Liquidity and Capital Resources) did not have a significant effect on second quarter 2008 net income and diluted earnings per share.

Table of Contents

Performance during the Six Months Ended June 30, 2008 Compared with the Six Months Ended June 30, 2007

Revenues

Revenues increased $112.5 million, or 12%, to $1,013.8 million in the six months ended June 30, 2008, compared to $901.3 million in the first six months of 2007. This increase was attributable to favorable changes in foreign currency exchange rates ($59.8 million, or 6%), price increases ($27.4 million, or 3%) and volume growth in the Compressor and Vacuum Products segment, partially offset by lower volume in the Fluid Transfer Products segment. The net combined volume increase between the two segments was $25.3 million, or 3%.

Revenues in the Compressor and Vacuum Products segment increased $109.9 million, or 16%, to $803.2 million in 2008, compared to $693.3 million in 2007. This increase reflects favorable changes in foreign currency exchange rates (7%), volume growth (6%) and price increases (3%). The volume growth was attributable to nearly all of this segment s product lines and geographic regions.

Revenues in the Fluid Transfer Products segment increased $2.6 million, or 1%, to $210.6 million in 2008, compared to $208.0 million in 2007. This increase reflects price increases (4%) and favorable changes in foreign currency exchange rates (4%), partially offset by lower volume (7%). Lower petroleum pump volume was partially offset by higher loading arm volume, including the shipment of the second of two large contracts for liquid natural gas and compressed natural gas loading arms in the first quarter of 2008.

Gross Profit

Gross profit increased $26.4 million, or 9%, to $329.2 million in the first six months of 2008 compared to $302.8 million in the first six months of 2007, and as a percentage of revenues was 32.5% in 2008 compared to 33.6% in 2007. The increase in gross profit primarily reflects the increases in revenue discussed above, including the favorable effect of changes in foreign currency exchange rates. The decline in gross profit as a percentage of revenues primarily reflects the lower volume of petroleum pump shipments, which have a higher gross profit percentage than the Company s average, partially offset by the effect of operational improvements and leveraging fixed and semi-fixed costs over additional sales volume.

Selling and Administrative Expenses

Selling and administrative expenses increased $15.8 million, or 10%, to $179.7 million in the first six months of 2008, compared to $163.9 million in the first six months of 2007. This increase primarily reflects the unfavorable impact of changes in foreign currency exchanges rates of approximately $10.7 million and non-recurring retirement expenses of $3.9 million. Inflationary increases were partially offset by cost reductions realized through integration initiatives. As a percentage of revenues, selling and administrative expenses improved to 17.7% in the first six months of 2008 from 18.2% in the comparable period of 2007 primarily due to increased leverage of these expenses over additional volume and the favorable effect of the cost reductions discussed above, partially offset by the effect of the non-recurring retirement expenses.

Operating Income

Consolidated operating income increased $10.6 million, or 8%, to $149.5 million in the first six months of 2008 compared to $138.9 million in the first six months of 2007, and as a percentage of revenues was 14.8% in 2008 compared to 15.4% in 2007. These results reflect the revenue, gross profit and selling and administrative expense factors discussed above.

The Compressor and Vacuum Products segment generated operating income of $97.2 million and operating margin of 12.1% in the first six months of 2008, compared to $79.5 million and 11.5%, respectively, in the first six months of 2007 (see Note 16 Segment Results in the Notes to Consolidated Financial Statements for a reconciliation of segment operating income to consolidated income before income taxes). This improvement reflects revenue growth as discussed above, the favorable effect of increased leverage of the segment s fixed and semi-fixed costs over increased revenue, cost reductions, the benefits of acquisition integration activities and manufacturing lead-time improvements, partially offset by costs incurred to streamline operations in Europe and Australia.

The Fluid Transfer Products segment generated operating income of $52.3 million and operating margin of 24.8% in the first six months of 2008, compared to $59.4 million and 28.5%, respectively, in the first six months of 2007 (see Note 16 Segment Results in

27

Table of Contents

the Notes to Consolidated Financial Statements for a reconciliation of segment operating income to consolidated income before income taxes). The decrease in operating income resulted from the lower volume of petroleum pump shipments, which have a higher operating margin than this segment s average, partially offset by increased shipments of loading arms.

Interest Expense

Interest expense of $10.6 million in the first six months of 2008 declined $3.0 million from $13.6 million in the comparable period of 2007 primarily due to lower average borrowings in 2008, partially offset by a higher weighted average interest rate in the first six months of 2008. Net principal payments on debt totaled $43.0 million in the first six months of 2008 (see Consolidated Statements of Cash Flows and Note 7 Debt in the Notes to Consolidated Financial Statements). The weighted average interest rate, including the amortization of debt issuance costs, increased to 7.5% in the first six months of 2008, compared to 6.9% in the first six months of 2007, due primarily to the greater relative weight of the fixed interest rate on the Company s 8% Senior Subordinated Notes and increases in the floating-rate indices of the Company s euro-denominated borrowings.

Provision for Income Taxes

The provision for income taxes and effective tax rate were $39.1 million and 28.0%, respectively, for the six-month period ended June 30, 2008 compared to $39.2 million and 30.9%, respectively, for the six-month period ended June 30, 2007. The lower effective tax rate primarily reflects a higher proportion of earnings in jurisdictions with lower tax rates coupled with a reduction in the corporate income tax rates in Germany and the U.K, which became effective in 2008.

Net Income

Consolidated net income of $100.4 million increased $12.8 million, or 15%, in the first six months of 2008 from $87.6 million in the first six months of 2007. Diluted earnings per share increased 15% to $1.87 in the six-month period of 2008 from $1.63 in the same period of 2007. This improvement reflects the net result of the factors affecting operating income, interest expense and the provision for income taxes discussed above. The Company s repurchase of approximately 1.2 million shares of its common stock during the first quarter of 2008 (see Liquidity and Capital Resources) did not have a significant effect on net income and diluted earnings per share in the first six months of 2008.

Outlook

In general, the Company believes that demand for compressor and vacuum products tends to correlate to the rate of total industrial capacity utilization and the rate of change of industrial equipment production because air is often used as a fourth utility in the manufacturing process. Over longer time periods, the Company believes that demand also tends to follow economic growth patterns indicated by the rates of change in the gross domestic product (GDP) around the world. During the first quarter of 2008, total industrial capacity utilization rates in the U.S., as published by the Federal Reserve Board, remained above 80%. In the second quarter of 2008, the rate declined to slightly below 80%. Rates above 80% have historically indicated a good demand environment for industrial equipment such as compressor and vacuum products.

The Company continues to expect global economic growth to slow during the balance of 2008, although demand in Eastern Europe and Asia is expected to remain strong. While demand for compressor and vacuum products was broad-based during the second quarter, both regionally and across product lines, demand for standard industrial compressors in the U.S. and U.K. has continued to slow in recent months. Demand remains strong in Asia, and is still growing in Europe, but at a lower rate. Demand for the Company s engineered packages, including environmental and oil and gas refining applications in the U.S., and products designed for original equipment manufacturer (OEM) applications continues to be strong throughout the world. On balance, the global economic climate appears to be consistent with the Company s expectations that orders for its compressor and vacuum products will continue to grow through the balance of 2008, but at a lower rate.

Orders in the second quarter of 2008 reflected a reacceleration in demand for drilling pumps compared to the first quarter of 2008. Although demand for petroleum pumps has improved slightly during 2008 compared to the first quarter of 2008, the Company is not expecting a significant increase in volume related to recent increases in oil and gas prices. The Company believes there is excess capacity in North American well servicing firms that will be

absorbed during the second half of the year, which could result in near-term downward pressure on well servicing pump demand. Although drilling pump demand is improving, the rate of new rig build is not expected to reach the quantity completed during any of the previous three years. Therefore, the Company currently expects Fluid Transfer Product shipments to increase slightly compared to its previous estimates, but remain

Table of Contents

lower than in 2007. The Company s investments in capital to expand its production capacities for aftermarket parts and enable it to expand its market share in this area, are beginning to come on-line.

Order backlog consists of orders believed to be firm for which a customer purchase order has been received or communicated. However, since orders may be rescheduled or canceled, backlog does not necessarily reflect future sales levels.

In the second quarter of 2008, orders for compressor and vacuum products increased 13% to $404.0 million, compared to $358.1 million in the second quarter of 2007. Order backlog for the Compressor and Vacuum Products segment increased 19% to $470.1 million as of June 30, 2008, compared to $393.5 million as of June 30, 2007. The increases in orders and backlog reflected increased global demand for products used in OEM applications and engineered packages, and order growth in Europe and Asia for standard products. Additionally, investments in lean enterprise techniques have resulted in manufacturing lead-time improvements and improved manufacturing execution. The favorable effect of changes in foreign currency exchange rates increased orders and backlog in the second quarter of 2008 by approximately 8%, compared to the same period of 2007.

Future demand for petroleum-related fluid transfer products has historically corresponded to market conditions, rig counts and expectations for oil and natural gas prices, which the Company cannot predict. Orders for fluid transfer products decreased 24% to $95.2 million in the second quarter of 2008, compared to $125.1 million in the second quarter of 2007. This decrease was due primarily to the receipt of two large contracts for liquid natural gas and compressed natural gas loading arms in the second quarter of 2007 that did not recur in the second quarter of 2008. During the second quarter of 2008, drilling pump orders reaccelerated compared to 2007 and the first quarter of 2008 as a result of investments in rigs by key customers and on-going international demand for drilling pumps. The favorable effect of changes in foreign currency exchange rates increased orders approximately 3% compared to the second quarter of 2007. Order backlog for the Fluid Transfer Products segment declined 31% to $122.8 million at June 30, 2008, compared to $178.8 million at June 30, 2007. The decrease in backlog was primarily associated with large orders for well stimulation pumps and loading arms received in 2007, partially offset by increased demand for drilling pumps in the second quarter of 2008. The favorable effect of changes in foreign currency exchange rates increased backlog by approximately 3% compared to June 30, 2007.

The Company continues to expect Fluid Transfer segment revenues, operating income and operating margin to decline for the total year 2008 compared to 2007 based on its expectations for a year over year decline in volume and reduced leverage of fixed and semi-fixed costs as production levels continue to decrease.

The Company is rapidly expanding its implementation of lean enterprise techniques, which is expected to create near-term pressure on operating margins and production as processes are improved and inventory is reduced. The future benefits are expected to be realized in the reduction of manufacturing lead time, with operating margin improvements attributable to the expansion of lean enterprise techniques expected to begin in 2009.

Based on its current economic outlook, and excluding the effect of the pending acquisition of CompAir, the Company currently estimates that total year 2008 income before income taxes will increase approximately 3% compared with 2007, and that net income will decrease approximately 1% to 4% due to a higher effective income tax rate. The year over year increase in the effective income tax rate primarily reflects non-recurring reductions in the 2007 tax provision associated with the German rate reduction and resulting 2007 German deferred tax benefit, net of a lower German rate benefit and expected lower foreign tax credit benefit in 2008.

Liquidity and Capital Resources

Operating Working Capital

During the six months ended June 30, 2008, operating working capital (defined as accounts receivable plus inventories, less accounts payable and accrued liabilities) increased $17.8 million to $296.5 million from $278.7 million at December 31, 2007 due to the effect of changes in foreign currency exchange rates. Excluding the effect of exchange rate changes, operating working capital declined, as increases in accounts payable and accrued liabilities and a reduction in inventories were partially offset by an increase in accounts receivable. The increase in accounts receivable reflects an increase in days sales in receivables to 58 at June 30, 2008 from 56 at December 31, 2007, and was due largely to an increase in revenues outside the U.S., which typically carry longer payment terms. The increase in accounts payable and accrued liabilities was due primarily to increased production during the first half

of 2008. Inventory turns improved to 5.3 times in the second quarter of 2008 from 4.7 times in the second quarter of 2007 and 5.0 times in the first quarter of 2008 as a result of improved production throughput realized from the completion of certain lean manufacturing initiatives.

Table of Contents

Cash Flows

Cash provided by operating activities of $117.4 million in the first six months of 2008 increased $63.0 million from $54.4 million in the same period of 2007. This improvement reflects increased earnings and improved operating working capital performance. Cash provided by operating working capital of $3.8 million in the first six months of 2008 compares to $59.7 million used for operating working capital in the first six months of 2007. Cash used for accounts receivable of $10.9 million in the first six months of 2008 primarily reflected an increase in days sales in receivables resulting from an increase in revenues outside the U.S., which typically carry longer payment terms, coupled with an increase in revenues in the second quarter of 2008 compared to the fourth quarter of 2007. Cash used for accounts receivable of $37.3 million in the first six months of 2007 primarily reflected increased revenues and changes in product mix between the second quarter of 2007 and fourth quarter of 2006. Cash provided by inventories of $5.5 million in the first six months of 2008 represents a $34.9 million improvement over cash used of $29.4 million in the first six months of 2007. The Company made incremental investments in inventories in the first half of 2007 to support temporary production and supply chain inefficiencies related to manufacturing integration projects, and planned increases in production volume and shipments. Improved inventory performance in the first half of 2008 compared with the first half of 2007 reflects the completion of these integration projects and certain other lean manufacturing initiatives. Cash inflows from accounts payable and accrued liabilities were $9.3 million in the first half of 2008 compared to $7.0 million in the first half of 2007.

Net cash used in investing activities of $19.3 million and $17.7 million in the first six months of 2008 and 2007, respectively, consisted primarily of capital spending on assets intended to increase operating efficiency and flexibility, expand production capacity, support acquisition projects and bring new products to market. The Company currently expects capital spending to total approximately $45.0 to $50.0 million for the full year 2008. Capital expenditures related to environmental projects have not been significant in the past and are not expected to be significant in the foreseeable future.

Net cash used in financing activities of $69.6 million in the first six months of 2008 compares with $29.5 million used in the same period of 2007. Cash provided by operating activities was used for net repayments of short-term and long-term borrowings of $43.0 million in the six-month period of 2008 and $42.3 million in the six-month period of 2007. At June 30, 2008, the Company s debt to total capital was 16.2%, compared to 20.0% at December 31, 2007 and 27.4% at June 30, 2007. As discussed below, the Company repurchased shares of its common stock totaling $44.6 million during the first half of 2008, including shares exchanged or surrendered in connection with its stock option plans of $0.5 million.

Share Repurchase Programs

In November 2007, the Company s Board of Directors authorized a new share repurchase program to acquire up to 2,700,000 shares of the Company s outstanding common stock, representing approximately 5% of the Company s outstanding shares. All common stock acquired will be held as treasury stock and will be available for general corporate purposes. This program replaced a previous program authorized in October 1998. During the six-month period ended June 30, 2008, the Company repurchased 1,184,065 shares at a total cost of approximately $44.1 million.

Liquidity

The Company s primary cash requirements include working capital, capital expenditures, principal and interest payments on indebtedness and acquisitions. The Company s primary sources of funds are its ongoing net cash flows from operating activities and availability under its Revolving Line of Credit (as discussed below). At June 30, 2008, the Company had cash and equivalents of $127.1 million, of which $1.5 million was pledged to financial institutions as collateral to support the issuance of standby letters of credit and similar instruments. The Company also had $181.2 million of unused availability under its Revolving Line of Credit at June 30, 2008.

The Company entered into a syndicated credit agreement in 2005 (the 2005 Credit Agreement) in connection with the Thomas acquisition. The 2005 Credit Agreement provides the Company with access to senior secured credit facilities, including a Term Loan in the original principal amount of $380.0 million, and a $225.0 million Revolving Line of Credit.

The Term Loan has a final maturity of July 1, 2010 and the outstanding principal balance at June 30, 2008 was $68.7 million. The Term Loan requires quarterly principal payments aggregating approximately $12.2 million,

$34.4 million and $22.1 million in the last six months of 2008, fiscal year 2009 and fiscal year 2010, respectively.

Table of Contents

The Revolving Line of Credit matures on July 1, 2010. Loans under this facility may be denominated in U.S. dollars or several foreign currencies and may be borrowed by the Company or two of its foreign subsidiaries as outlined in the 2005 Credit Agreement. On June 30, 2008, the Revolving Line of Credit had an outstanding principal balance of $25.9 million and outstanding letters of credit of $17.9 million.

The interest rates applicable to loans under the 2005 Credit Agreement vary, at the Company s option, with the prime rate plus an applicable margin or LIBOR plus an applicable margin. The applicable margin percentages are adjustable quarterly, based upon financial ratio guidelines defined in the 2005 Credit Agreement (See Note 7 Debt in the Notes to Consolidated Financial Statements).

The Company s obligations under the 2005 Credit Agreement are guaranteed by the Company s existing and future domestic subsidiaries, and are secured by a pledge of certain subsidiaries capital stock. The Company is subject to customary covenants regarding certain earnings, liquidity and capital ratios.

The Company also issued $125.0 million of 8% Senior Subordinated Notes (the Notes) in 2005. The Notes have a fixed annual interest rate of 8% and are guaranteed by certain of the Company s domestic subsidiaries (the Guarantors). At any time prior to May 1, 2009, the Company may redeem all or part of the Notes issued under the Indenture among the Company, the Guarantors and The Bank of New York Trust Company, N.A. (the Indenture) at a redemption price equal to 100% of the principal amount of the Notes redeemed plus a premium as determined under the Indenture, accrued and unpaid interest through May 1, 2009 and liquidated damages, if any. On or after May 1, 2009, the Company may redeem all or a part of the Notes at varying redemption prices, plus accrued and unpaid interest and liquidated damages, if any. Upon a change of control, as defined in the Indenture, the Company is required to offer to purchase all of the Notes then outstanding for cash at 101% of the principal amount thereof plus accrued and unpaid interest and liquidated damages, if any. The Indenture contains events of default and affirmative, negative and financial covenants customary for such financings, including, among other things, limits on incurring additional debt and restricted payments.

Management currently expects the Company s future cash flows from operating activities will be sufficient to fund its scheduled debt service, purchases of shares under its stock repurchase program and provide required resources for working capital and capital investments for at least the next twelve months. The Company currently expects to fund the pending acquisition of CompAir with excess available cash and a new syndicated credit facility to be negotiated. The Company is proactively pursuing other acquisition opportunities, but the size and timing of any future acquisitions and the related potential capital requirements cannot be predicted. In the event that suitable businesses are available for acquisition upon acceptable terms, the Company may obtain all or a portion of the necessary financing through the incurrence of additional long-term borrowings.

Contractual Obligations and Commitments

The following table and accompanying disclosures summarize the Company s significant contractual obligations at June 30, 2008 and the effect such obligations are expected to have on its liquidity and cash flow in future periods:

			Payments Due by Period		
(Dollars in millions)		**Balance**			**After**
Contractual Cash Obligations	**Total**	**of 2008**	**2009 - 2010**	**2011 - 2012**	**2012**
Debt	$242.3	$ 17.0	$ 83.9	$ 1.5	$139.9
Estimated interest payments (1)	65.5	7.4	25.8	22.6	9.7
Capital leases	8.3	0.2	0.7	0.7	6.7
Operating leases	76.2	10.0	27.2	16.3	22.7
Purchase obligations (2)	214.5	188.7	25.7	0.1	
Total	$606.8	$223.3	$163.3	$41.2	$179.0

(1) Estimated interest payments for long-term debt were calculated as follows: for fixed-rate debt and term debt, interest was calculated based on applicable rates and payment dates; for variable-rate debt and/or non-term debt, interest rates and payment dates were estimated based on management s determination of the most likely scenarios for each relevant debt instrument. Management expects to settle such interest payments with cash flows from operating activities and/or short-term borrowings.

(2) Purchase obligations consist primarily of agreements to purchase inventory or services made in the normal course of business to meet operational requirements. The purchase

obligation amounts do not represent the entire anticipated purchases in the future, but

Table of Contents

represent only those items for which the Company is contractually obligated as of June 30, 2008. For this reason, these amounts will not provide a complete and reliable indicator of the Company s expected future cash outflows.

In accordance with SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 123(R)* (SFAS No. 158), the total pension and other postretirement benefit liabilities recognized on the consolidated balance sheet as of December 31, 2007 were $72.3 million and represented the funded status of the Company s defined benefit plans at the end of 2007. The total pension and other postretirement benefit liability is included in the consolidated balance sheet line items accrued liabilities, postretirement benefits other than pensions and other liabilities. Because this liability is impacted by, among other items, plan funding levels, changes in plan demographics and assumptions, and investment return on plan assets, it does not represent expected liquidity needs. Accordingly, the Company did not include this liability in the Contractual Cash Obligations table.

The Company funds its U.S. qualified pension plans in accordance with the Employee Retirement Income Security Act of 1974 regulations for the minimum annual required contribution and Internal Revenue Service regulations for the maximum annual allowable tax deduction. The Company is committed to making the required minimum contributions and expects to contribute a total of approximately $5.7 million to its U.S. qualified pension plans during 2008. Furthermore, the Company expects to contribute a total of approximately $2.3 million to its U.S. postretirement health care benefit plans during 2008. Future contributions are dependent upon various factors including the performance of the plan assets, benefit payment experience and changes, if any, to current funding requirements. Therefore, no amounts were included in the Contractual Cash Obligations table. The Company generally expects to fund all future contributions with cash flows from operating activities.

The Company s non-U.S. pension plans are funded in accordance with local laws and income tax regulations. The Company expects to contribute a total of approximately $6.8 million to its non-U.S. qualified pension plans during 2008. No amounts have been included in the Contractual Cash Obligations table due to the same reasons noted above.

Disclosure of amounts in the Contractual Cash Obligations table regarding expected benefit payments in future years for the Company s pension plans and other postretirement benefit plans cannot be properly reflected due to the ongoing nature of the obligations of these plans. In order to inform the reader about expected benefit payments for these plans over the next several years, the Company anticipates the annual benefit payments for the U.S. plans to be in the range of approximately $8.0 million to $9.0 million in 2008 and to remain at or near these annual levels for the next several years, and the annual benefit payments for the non-U.S. plans to be in the range of approximately $5.0 million to $6.0 million in 2008 and to increase by approximately $1.0 million each year over the next several years, based on exchange rates at December 31, 2007.

Net deferred income tax liabilities were $39.6 million as of June 30, 2008. This amount is not included in the Contractual Cash Obligations table because the Company believes this presentation would not be meaningful. Net deferred income tax liabilities are calculated based on temporary differences between the tax basis of assets and liabilities and their book basis, which will result in taxable amounts in future years when the book basis is settled. The

results of these calculations do not have a direct connection with the amount of cash taxes to be paid in any future periods. As a result, scheduling net deferred income tax liabilities as payments due by period could be misleading, because this scheduling would not relate to liquidity needs.

In the normal course of business, the Company or its subsidiaries may sometimes be required to provide surety bonds, standby letters of credit or similar instruments to guarantee its performance of contractual or legal obligations. As of June 30, 2008, the Company had $74.1 million in such instruments outstanding and had pledged $1.5 million of cash to the issuing financial institutions as collateral for such instruments.

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, among other things, the Company has been named as a defendant in a number of asbestos personal injury lawsuits. The Company has also been named as a defendant in a 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 to date, the substantial majority of the plaintiffs have not suffered an injury for which the Company bears responsibility.

Table of Contents

Predecessors to the Company sometimes manufactured, distributed and/or sold products allegedly at issue in the pending asbestos and silicosis litigation lawsuits (the Products). However, neither the Company nor its predecessors ever mined, manufactured, mixed, produced or distributed asbestos fiber or silica sand, the materials that allegedly caused the injury underlying the lawsuits. Moreover, the asbestos-containing components of the Products were enclosed within the subject Products.

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 not been material.

The Company believes that the pending and future asbestos and silicosis lawsuits are not likely to, 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 or for which the Company otherwise bears responsibility; 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, including, without limitation, potential insolvencies of insurance companies or other defendants, could cause a different outcome, there can be no assurance that the resolution of pending or future lawsuits will not have a material adverse effect on the Company s consolidated financial position, results of operations or liquidity.

The Company has been identified as a potentially responsible party (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, the Company was only a small contributor to these waste sites, and the Company has, or is attempting to negotiate, de minimis settlements for their cleanup. The cleanup of the remaining sites is substantially complete and the Company s future obligations entail a share of the sites ongoing operating and maintenance expense.

The Company is also addressing three on-site cleanups for which it is the primary responsible party. Two of these cleanup sites are in the operation and maintenance stage and the third is in the implementation stage. The Company is also participating in a voluntary cleanup program with other potentially responsible parties on a fourth site which is in the assessment stage. Based on currently available information, the Company does not anticipate that any of these sites will result in material additional costs beyond those already accrued on its balance sheet.

The Company has an accrued liability on its balance sheet to the extent costs are known or can be reasonably estimated for its remaining financial obligations for these matters. Based upon consideration of currently available information, the Company does not anticipate any material adverse effect on its 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.

Changes in Accounting Principles and Effects of New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. SFAS No. 157 applies whenever other statements require or permit assets or liabilities to be measured at fair value. This statement was effective for the Company on January 1, 2008. In February 2008, the FASB released FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157,* which delayed for one year the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Items in this classification include goodwill, asset retirement obligations, rationalization accruals, intangibles assets with indefinite lives and certain

other items. The adoption of the provisions of SFAS No. 157 with respect to the Company s financial assets and liabilities only did not have a significant effect on the Company s consolidated statements of operations, balance sheets and statements of cash flows. The adoption of SFAS No. 157 with respect to the Company s non-financial assets and liabilities, effective January 1, 2009, is not expected to have a significant effect on the Company s consolidated financial statements. See Note 11 Fair Value of Financial Instruments for the disclosures required by SFAS No. 157 regarding the Company s financial instruments measured at fair value.

Table of Contents

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), which permits all entities to elect to measure eligible financial instruments and certain other items at fair value. Additionally, this statement establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of financial assets and liabilities. This statement is effective for fiscal years beginning after November 15, 2007 and was adopted by the Company effective January 1, 2008. The Company has currently chosen not to elect the fair value option permitted by SFAS No. 159 for any items that are not already required to be measured at fair value in accordance with generally accepted accounting principles. Accordingly, the adoption of this standard had no effect on the Company s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)), which establishes principles and requirements for how the acquirer of a business is to (i) recognize and measure in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (ii) recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determine what information to disclose to enable users of its financial statements to evaluate the nature and financial effects of the business combination. This statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. This replaces the guidance of SFAS No. 141, *Business Combinations* (SFAS No. 141) which requires the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. In addition, costs incurred by the acquirer to effect the acquisition and restructuring costs that the acquirer expects to incur, but is not obligated to incur, are to be recognized separately from the acquisition. SFAS No. 141(R) applies to all transactions or other events in which an entity obtains control of one or more businesses. This statement requires an acquirer to recognize assets acquired and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. An acquirer is required to recognize assets or liabilities arising from all other contingencies as of the acquisition date, measured at their acquisition-date fair values, only if it is more likely than not that they meet the definition of an asset or a liability in FASB Concepts Statement No. 6, *Elements of Financial Statements.* This Statement requires the acquirer to recognize goodwill as of the acquisition date, measured as a residual, which generally will be the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Contingent consideration should be recognized at the acquisition date, measured at its fair value at that date. SFAS No. 141(R) defines a bargain purchase as a business combination in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree, and requires the acquirer to recognize that excess in earnings as attributable to the acquirer. This statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Company is currently evaluating the effect SFAS No. 141(R) will have on its accounting for, and reporting of, business combinations consummated on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). This statement establishes accounting and reporting standards that require (i) ownership interest in subsidiaries held by parties other than the parent be presented and identified in the equity section of the consolidated balance sheet, separate from the parent s equity; (ii) the amount of consolidated net income attributable to the parent and to the noncontrolling interest be identified and presented on the face of the consolidated statement of operations; (iii) changes in a parent s ownership interest while the parent retains its controlling interest be accounted for consistently; (iv) when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value, and the resulting gain or loss be measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment; and (v) disclosures be provided that clearly identify and distinguish between the interests of the parent and interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, or the Company s 2009 fiscal year. The Company is currently evaluating the effect SFAS No. 160 will have on its financial statements and related disclosure

requirements.

In December 2007, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 110, *Certain Assumptions Used in Valuation Methods* (SAB 110). SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate, to continue use of the simplified method for estimating the expected term of plain vanilla share option grants after December 31, 2007. The Company used the simplified method to determine the expected term for the majority of its 2006 and 2007 option grants. SAB 110 was effective for the Company on January 1, 2008 and, accordingly, the Company will no longer use the simplified method to estimate the expected term of future option grants. The adoption of SAB 110 did not have a material effect on the Company s consolidated financial statements.

Table of Contents

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 requires enhanced disclosures for derivative instruments and hedging activities, including (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Under SFAS No. 161, entities must disclose the fair value of derivative instruments, their gains or losses and their location in the balance sheet in tabular format, and information about credit-risk-related contingent features in derivative agreements, counterparty credit risk, and strategies and objectives for using derivative instruments. The fair value amounts must be disaggregated by asset and liability values, by derivative instruments that are designated and qualify as hedging instruments and those that are not, and by each major type of derivative contract. SFAS No. 161 is effective prospectively for interim periods and fiscal years beginning after November 15, 2008. The Company is currently evaluating the effect SFAS No. 161 will have on its disclosure requirements for derivative instruments and hedging activities.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), and is intended to improve the consistency between the useful life of a recognized intangible asset und SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R). FSP FAS 142-3 applies to (i) intangible assets that are acquired individually or with a group of other assets and (ii) intangible assets acquired in both business combinations and asset acquisitions. In developing assumptions about renewal or extension used to determine the useful life of a recognized intangible asset, an entity shall consider its own historical experience in renewing or extending similar arrangements; however, these assumptions should be adjusted for the entity-specific factors described in SFAS No. 142. In the absence of that experience, an entity shall consider the assumptions that market participants would use about renewal or extension, adjusted for the entity-specific factors in SFAS No. 142. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, or the Company s 2009 fiscal year, and interim periods within those fiscal years. The Company is currently evaluating the effect FSP FAS 142-3 will have on its financial statements and related disclosure requirements.

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 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 may be found in the Company s 2007 Annual Report on Form 10-K, filed on February 29, 2008, in the Critical Accounting Policies section of Management s Discussion and Analysis and in Note 1 Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements.

Cautionary Statements Regarding Forward-Looking Statements

All of the statements in Management s Discussion and Analysis of Financial Condition and Results of Operations, other than historical facts, are forward-looking statements including, without limitation, statements made under the caption Outlook. As a general matter, forward-looking statements are those focused upon anticipated events or trends, assumptions, expectations and beliefs relating to matters that are not historical in nature. The words anticipate, preliminary, expect, believe, estimate, intend, plan to, will, foresee, project, forecast and similar e forward-looking statements.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for these forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that forward-looking statements are subject to known and unknown risks, uncertainties and other factors relating to the Company s operations and business environment, all of which are difficult to predict and many of which are beyond the control of the Company. These

known and unknown risks, uncertainties and other factors could cause actual results to differ materially from those matters expressed in, anticipated by or implied by such forward-looking statements.

These risks and factors include, but are not limited to: (1) the Company s exposure to economic downturns and market cycles, particularly the level of oil and natural gas prices and oil and natural gas drilling production, which affect demand for the Company s petroleum products, and industrial production and manufacturing capacity utilization rates, which affect demand for the Company s

Table of Contents

compressor and vacuum products; (2) the risks associated with intense competition in the Company s market segments, particularly the pricing of the Company s products; (3) the risks of large or rapid increases in raw material costs or substantial decreases in their availability, and the Company s dependence on particular suppliers, particularly iron casting and other metal suppliers; (4) the ability to continue to identify and complete strategic acquisitions and effectively integrate such acquired companies to achieve desired financial benefits; (5) economic, political and other risks associated with the Company s international sales and operations, including changes in currency exchange rates (primarily between the U.S. dollar, the euro, the British pound and the Chinese yuan); (6) the ability to attract and retain quality executive management and other key personnel; (7) the risks associated with potential product liability and warranty claims due to the nature of the Company s products; (8) the risk of regulatory noncompliance; (9) the risks associated with environmental compliance costs and liabilities; (10) the risks associated with pending asbestos and silicosis personal injury lawsuits; (11) the risk of possible future charges if the Company determines that the value of goodwill and other intangible assets, representing a significant portion of the Company s total assets, are impaired; (12) the risk that communication or information systems failure may disrupt our business and result in financial loss and liability to our customers; (13) the risks associated with enforcing the Company s intellectual property rights and defending against potential intellectual property claims; and (14) the ability to avoid employee work stoppages and other labor difficulties. The foregoing factors should not be construed as exhaustive and should be read together with important information regarding risks and factors that may affect the Company s future performance set forth under Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

These statements reflect the current views and assumptions of management with respect to future events. The Company does not undertake, and hereby disclaims, any duty to update these forward-looking statements, even though its situation and circumstances may change in the future. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this report. The inclusion of any statement in this report does not constitute an admission by the Company or any other person that the events or circumstances described in such statement are material.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risks during the normal course of business, including those presented by changes in commodity prices, interest rates, and currency exchange rates. The Company s exposure to these risks is managed through a combination of operating and financing activities. The Company selectively uses derivative financial instruments, including forwards and swaps, to manage the risks from changes in interest rates and currency exchange rates. The Company does not hold derivatives for trading or speculative purposes. Fluctuations in commodity prices, interest rates, and currency exchange rates can be volatile, and the Company s risk management activities do not totally eliminate these risks. Consequently, these fluctuations could have a significant effect on the Company s financial results.

Notional transaction amounts and fair values for the Company s outstanding derivatives, by risk category and instrument type, as of June 30, 2008 and December 31, 2007, are summarized in Note 11 Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements.

Commodity Price Risk

The Company is a purchaser of certain commodities, including aluminum. In addition, the Company is a purchaser of components and parts containing various commodities, including cast iron, aluminum, copper, and steel. The Company generally buys these commodities and components based upon market prices that are established with the vendor as part of the purchase process. The Company does not use commodity financial instruments to hedge commodity prices.

The Company has long-term contracts with some of its suppliers of key components. However, to the extent that commodity prices increase and the Company does not have firm pricing from its suppliers, or its suppliers are not able to honor such prices, then the Company may experience margin declines to the extent it is not able to increase selling prices of its products.

Table of Contents

Interest Rate Risk

The Company s exposure to interest rate risk results primarily from its borrowings of $250.6 million at June 30, 2008. The Company manages its exposure to interest rate risk by maintaining a mixture of fixed and variable rate debt and, from time to time, uses pay-fixed interest rate swaps as cash flow hedges of variable rate debt in order to adjust the relative proportions. The interest rates on approximately 54% of the Company s borrowings were effectively fixed as of June 30, 2008. If the relevant LIBOR amounts for all of the Company s borrowings had been 100 basis points higher than actual in the first six months of 2008, the Company s interest expense would have increased by $0.4 million.

Exchange Rate Risk

A substantial portion of the Company s operations is conducted by its subsidiaries outside of the U.S. in currencies other than the U.S. dollar. Almost all of the Company s non-U.S. subsidiaries conduct their business primarily in their local currencies, which are also their functional currencies. Other than the U.S. dollar, the euro, British pound, and Chinese yuan are the principal currencies in which the Company and its subsidiaries enter into transactions.

The Company is exposed to the impacts of changes in currency exchange rates on the translation of its non-U.S. subsidiaries assets, liabilities, and earnings into U.S. dollars. The Company partially offsets these exposures by having certain of its non-U.S. subsidiaries act as the obligor on a portion of its borrowings and by denominating such borrowings, as well as a portion of the borrowings for which the Company is the obligor, in currencies other than the U.S. dollar. Of the Company s total net assets of $1,292.4 million at June 30, 2008, approximately $872.3 million was denominated in currencies other than the U.S. dollar. Borrowings by the Company s non-U.S. subsidiaries at June 30, 2008 totaled $48.8 million, and the Company s consolidated borrowings denominated in currencies other than the U.S. dollar totaled $48.8 million. Fluctuations due to changes in currency exchange rates in the value of non-U.S. dollar borrowings that have been designated as hedges of the Company s net investment in foreign operations are included in other comprehensive income.

The Company and its subsidiaries are also subject to the risk that arises when they, from time to time, enter into transactions in currencies other than their functional currency. To mitigate this risk, the Company and its subsidiaries typically settle intercompany trading balances monthly. The Company also selectively uses forward currency contracts to manage this risk. At June 30, 2008, the notional amount of open forward currency contracts was $49.8 million and their aggregate fair value was $1.1 million.

To illustrate the impact of currency exchange rates on the Company s financial results, the Company s operating income for the first six months of 2008 would have decreased by approximately $8.0 million if the U.S. dollar had been 10 percent more valuable than actual relative to other currencies. This calculation assumes that all currencies change in the same direction and proportion to the U.S. dollar and that there are no indirect effects of the change in the value of the U.S. dollar such as changes in non-U.S. dollar sales volumes or prices.

Item 4. Controls and Procedures

The Company s management carried out an evaluation (as required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act)), with the participation of the President and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act), as of the end of the period covered by this report. Based upon this evaluation, the President and Chief Executive Officer and Executive Vice President, Finance and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this Quarterly Report on Form 10-Q, such that the information relating to the Company and its consolidated subsidiaries required to be disclosed by the Company in the reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms, and (ii) is accumulated and communicated to the Company s management, including its principal executive and financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In addition, the Company s management carried out an evaluation, as required by Rule 13a-15(d) of the Exchange Act, with the participation of the President and Chief Executive Officer and the Executive Vice President, Finance and

Chief Financial Officer, of changes in the Company s internal control over financial reporting. Based on this evaluation, the President and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer concluded that there were no changes in the Company s internal

Table of Contents

control over financial reporting that occurred during the quarter ended June 30, 2008 that have materially affected, or that are reasonably likely to materially affect, the Company s internal control over financial reporting.

In designing and evaluating the disclosure controls and procedures, the Company s management recognized that any controls and procedures, no matter how well designed, can provide only reasonable assurances of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company is a party to various legal proceedings and administrative actions. The information regarding these proceedings and actions is included under Note 14 Contingencies to the Company s Consolidated Financial Statements included in this Quarterly Report on Form 10-Q and under Contingencies in Part I, Item 2 of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

For information regarding factors that could affect the Company s results of operations, financial condition and liquidity, see the risk factors discussion provided under Part I, Item 1A of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See also Cautionary Statements Regarding Forward-Looking Statements included in Part I, Item 2 of this Quarterly Report on Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of equity securities during the three months ended June 30, 2008 are listed in the following table.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2008 April 30, 2008		N/A		1,914,186
May 1, 2008 May 31, 2008	212	$ 50.41		1,914,186
June 1, 2008 June 30, 2008	1,981	$ 52.98		1,914,186
Total	2,193	$ 52.73		1,914,186

(1) All of these shares were exchanged or surrendered in connection with the exercise of options under Gardner Denver s stock option plans.

(2) Excludes commissions.

(3) In November 2007, the Board of

Directors approved a new share repurchase program to acquire up to 2.7 million shares of Gardner Denver s common stock.

Item 4. Submission of Matters to a Vote of Security Holders

The Company s Annual Meeting of Stockholders (the Annual Meeting) was held pursuant to notice on May 6, 2008. At the Annual Meeting, Donald G. Barger, Jr., Raymond R. Hipp, and David D. Petratis were elected to serve as directors for a three-year term expiring in 2011. There were 42,644,263 affirmative votes cast, 6,499,932 votes against and no abstaining votes concerning Mr. Barger s election as director, 47,298,659 affirmative votes cast, 1,845,536 votes against and no abstaining votes concerning Mr. Hipp s election as a director, and 47,322,174 affirmative votes cast, 1,822,021 votes against and no abstaining votes concerning Mr. Petratis election as a director. The terms of directors Ross J. Centanni, Frank J. Hansen, Barry L. Pennypacker, Diane K. Schumacher, Charles L. Szews and Richard L. Thompson continued past the Annual Meeting.

Item 6. Exhibits

See the list of exhibits in the Index to Exhibits to this quarterly report on Form 10-Q, which is incorporated herein by reference.

Table of Contents

SIGNATURES

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

GARDNER DENVER, INC.
(Registrant)

Date: August 6, 2008 By: /s/ Barry L. Pennypacker

Barry L. Pennypacker
President and Chief Executive Officer

Date: August 6, 2008 By: /s/ Helen W. Cornell

Helen W. Cornell
Executive Vice President, Finance and
Chief Financial Officer

Date: August 6, 2008 By: /s/ David J. Antoniuk

David J. Antoniuk
Vice President and Corporate Controller
(Principal Accounting Officer)

Table of Contents

GARDNER DENVER, INC.
INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Certificate of Incorporation of Gardner Denver, Inc., as amended on May 3, 2006, filed as Exhibit 3.1 to Gardner Denver, Inc. s Current Report on Form 8-K, dated May 3, 2006 (SEC File No. 001-13215), and incorporated herein by reference.
3.2	Bylaws of Gardner Denver, Inc., as amended on July 29, 2008, filed as Exhibit 3.2 to Gardner Denver, Inc s Current Report on Form 8-K, dated August 4, 2008 (SEC File No. 001-13215), and incorporated herein by reference.
4.1	Amended and Restated Rights Agreement, dated as of January 17, 2005, between Gardner Denver, Inc. and National City Bank as Rights Agent, filed as Exhibit 4.1 to Gardner Denver, Inc. s Current Report on Form 8-K, dated January 21, 2005, and incorporated herein by reference.
11	Statement re: Computation of Earnings Per Share, incorporated herein by reference to Note 9 Stockholders Equity and Earnings per Share to the Company s Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.
12*	Statements re: Computation of Ratio of Earnings to Fixed Charges.
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-15(e) or 15d-15(e) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-15(e) or 15d-15(e) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

** Furnished herewith