

GARDNER DENVER INC
Form 10-Q
November 06, 2008

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

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from _____ to _____

**Commission File Number 1-13215
GARDNER DENVER, INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

76-0419383

(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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(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 No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 51,734,174 shares of Common Stock, par value \$0.01 per share, as of October 26, 2008.

GARDNER DENVER, INC.
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GARDNER DENVER, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Revenues	\$ 480,310	\$ 457,230	\$ 1,494,092	\$ 1,358,517
Cost of sales	329,925	308,050	1,014,505	906,578
Gross profit	150,385	149,180	479,587	451,939
Selling and administrative expenses	80,343	80,700	257,330	242,812
Other operating expense, net	14,586	1,395	17,258	3,153
Operating income	55,456	67,085	204,999	205,974
Interest expense	3,829	6,566	14,470	20,161
Other income, net	(237)	(657)	(814)	(2,163)
Income before income taxes	51,864	61,176	191,343	187,976
Provision for income taxes	17,226	7,524	56,280	46,737
Net income	\$ 34,638	\$ 53,652	\$ 135,063	\$ 141,239
Basic earnings per share	\$ 0.65	\$ 1.00	\$ 2.55	\$ 2.66
Diluted earnings per share	\$ 0.65	\$ 0.99	\$ 2.52	\$ 2.62

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

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

	September 30, 2008	December 31, 2007
	(Unaudited)	
Assets		
Current assets:		
Cash and equivalents	\$ 179,115	\$ 92,922
Accounts receivable (net of allowance of \$7,802 at September 30, 2008 and \$8,755 at December 31, 2007)	302,429	308,748
Inventories, net	233,807	256,446
Deferred income taxes	23,133	21,034
Other current assets	18,168	22,378
Total current assets	756,652	701,528
Property, plant and equipment, net	280,152	293,380
Goodwill	676,083	685,496
Other intangibles, net	192,861	206,314
Other assets	19,706	18,889
Total assets	\$ 1,925,454	\$ 1,905,607
Liabilities and Stockholders Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	\$ 31,741	\$ 25,737
Accounts payable	90,624	101,615
Accrued liabilities	219,287	184,850
Total current liabilities	341,652	312,202
Long-term debt, less current maturities	243,208	263,987
Postretirement benefits other than pensions	16,916	17,354
Deferred income taxes	60,655	64,188
Other liabilities	76,777	88,163
Total liabilities	739,208	745,894
Stockholders equity:		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 51,725,258 and 53,546,267 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	582	573
Capital in excess of par value	543,531	515,940
Retained earnings	680,147	545,084
Accumulated other comprehensive income	92,826	128,010

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Treasury stock at cost; 6,469,971 and 3,758,853 shares at September 30, 2008 and December 31, 2007, respectively	(130,840)	(29,894)
Total stockholders' equity	1,186,246	1,159,713
Total liabilities and stockholders' equity	\$ 1,925,454	\$ 1,905,607

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

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

	Nine Months Ended September 30,	
	2008	2007
Cash Flows From Operating Activities		
Net income	\$ 135,063	\$ 141,239
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,675	42,796
Unrealized foreign currency transaction loss (gain), net	10,452	(847)
Net loss on asset dispositions	317	177
Stock issued for employee benefit plans	3,661	3,583
Stock-based compensation expense	3,813	4,278
Excess tax benefits from stock-based compensation	(8,492)	(6,253)
Deferred income taxes	(8,563)	(9,783)
Changes in assets and liabilities:		
Receivables	2,008	(24,826)
Inventories	19,662	(30,582)
Accounts payable and accrued liabilities	16,754	21,554
Other assets and liabilities, net	(14,873)	(13,864)
Net cash provided by operating activities	204,477	127,472
Cash Flows From Investing Activities		
Capital expenditures	(28,924)	(32,215)
Net cash paid in business combinations	(6,469)	(205)
Disposals of property, plant and equipment	1,624	511
Other	656	679
Net cash used in investing activities	(33,113)	(31,230)
Cash Flows From Financing Activities		
Principal payments on short-term borrowings	(30,709)	(29,685)
Proceeds from short-term borrowings	27,480	32,272
Principal payments on long-term debt	(143,208)	(226,704)
Proceeds from long-term debt	131,319	136,180
Proceeds from stock option exercises	10,885	8,748
Excess tax benefits from stock-based compensation	8,492	6,253
Purchase of treasury stock	(81,691)	(960)
Debt issuance costs	(91)	
Other	(1,258)	(958)
Net cash used in financing activities	(78,781)	(74,854)

Effect of exchange rate changes on cash and equivalents	(6,390)	5,115
Net increase in cash and equivalents	86,193	26,503
Cash and equivalents, beginning of year	92,922	62,331
Cash and equivalents, end of period	\$ 179,115	\$ 88,834

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

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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.

Certain prior year amounts have been reclassified to conform to the current year presentation (see below).

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 nine-month period ended September 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.

Effective July 1, 2008, the Company's presentation of certain expenses within its consolidated statements of operations was changed. Foreign currency gains and losses, employee termination and certain retirement costs and certain other operating expenses and income previously included in Selling and administrative expenses, have been reported as Other operating expense (income), net. This change in presentation was made in accordance with Rule 5-03 of Regulation S-X and in connection with charges recorded during the quarter ended September 30, 2008, including mark-to-market adjustments for cash transactions and forward currency contracts on the British pound sterling (GBP) entered into in order to limit the impact of changes in the U.S. dollar (USD) to GBP exchange rate on the amount of USD-denominated borrowing capacity that will remain available on the Company's new revolving credit facility following completion of the CompAir Holdings Limited (CompAir) acquisition (see Note 16 Subsequent Events). Amounts recorded in periods prior to the quarter ended September 30, 2008 were not material to this item or to Selling and administrative expenses. This change in presentation had no effect on reported consolidated operating income, income before income taxes, net income, per share amounts or reportable segment operating income. Amounts presented for the three and nine-month periods ended September 30, 2007 have been reclassified to conform to the current classification. Amounts presented for the nine-month period ended September 30, 2008 reflect this reclassification for the six-month period ended June 30, 2008. The following table provides the reclassifications for the periods indicated.

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	2008		Years Ended December 31, 2007				Total Year
	First Quarter	Second Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Amounts Reclassified							
Selling and administrative expenses	\$ 1,241	\$ (3,913)	\$ (434)	\$ (1,324)	\$ (1,395)	\$ 1,798	\$ (1,355)
Other operating (income) expense, net	(1,241)	3,913	434	1,324	1,395	(1,798)	1,355
Net	\$	\$	\$	\$	\$	\$	\$

	Years Ended December 31,	
	2006	2005
Amounts Reclassified		
Selling and administrative expenses	\$ (5,358)	\$ (35)
Other operating expense, net	5,358	35
Net	\$	\$

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, intangible 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 10 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 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

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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 expects that SFAS No. 141(R) will affect the Company's accounting for business combinations consummated on or after January 1, 2009, but that such effect will be dependent upon those acquisitions. See also Note 11 Income Taxes.

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 to continue use of the simplified method for estimating the expected term of plain vanilla share option grants after December 31, 2007 if they do not have historically sufficient experience to provide a reasonable estimate. 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 no longer uses 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 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

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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. Inventories

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

	September 30, 2008	December 31, 2007
Raw materials, including parts and subassemblies	\$ 130,910	\$ 142,546
Work-in-process	46,556	47,622
Finished goods	69,600	77,629
	247,066	267,797
Excess of FIFO costs over LIFO costs	(13,259)	(11,351)
Inventories, net	\$ 233,807	\$ 256,446

Note 3. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill attributable to each business segment for the nine-month period ended September 30, 2008, and the year ended December 31, 2007, are presented in the table below. The adjustments to goodwill include reallocated goodwill between segments and 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	(3,719)	5,283	1,564
Acquisitions	2,771		2,771
Foreign currency translation	(11,957)	(1,791)	(13,748)
Balance as of September 30, 2008	\$ 595,625	\$ 80,458	\$ 676,083

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

September 30, 2008	December 31, 2007
Gross	Gross

	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists and relationships	\$ 71,375	\$ (18,333)	\$ 74,187	\$ (16,063)
Acquired technology	47,789	(34,834)	44,658	(28,431)
Other	7,143	(3,882)	9,634	(3,074)
Unamortized intangible assets:				
Trademarks	123,603		125,403	
Total other intangible assets	\$ 249,910	\$ (57,049)	\$ 253,882	\$ (47,568)

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Amortization of intangible assets for the three and nine-month periods ended September 30, 2008 was \$3.2 million and \$9.2 million, respectively. Amortization of intangible assets for the three and nine-month periods ended September 30, 2007 was \$3.4 million and \$9.7 million, respectively. Amortization of intangible assets is anticipated to be approximately \$10.4 million annually in 2009 through 2012, based upon exchange rates as of September 30, 2008 and reflecting intangible assets associated with acquisitions completed through September 30, 2008 (see Note 16

Subsequent Events and, in particular, the acquisition of CompAir on October 20, 2008).

Note 4. Accrued Product Warranty

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Balance at beginning of period	\$ 16,858	\$ 15,461	\$ 15,087	\$ 15,298
Product warranty accruals	4,796	2,179	12,813	8,705
Settlements	(4,109)	(3,014)	(10,819)	(9,578)
Effect of foreign currency translation	(862)	298	(398)	499
Balance at end of period	\$ 16,683	\$ 14,924	\$ 16,683	\$ 14,924

Note 5. 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 nine-month periods ended September 30, 2008 and 2007:

	Three Months Ended September 30,				Other	
	Pension Benefits				Postretirement	
	U.S. Plans		Non-U.S. Plans		Benefits	
	2008	2007	2008	2007	2008	2007
Service cost	\$	\$	\$ 190	\$ 611	\$ 4	\$ 4
Interest cost	1,025	877	3,036	2,751	282	353
Expected return on plan assets	(1,116)	(1,051)	(3,255)	(3,082)		
Recognition of:						
Unrecognized prior-service cost	4	4			(94)	(111)
Unrecognized net actuarial loss (gain)	1	137	(23)	101	(336)	(207)
Net periodic benefit (income) cost	\$ (86)	\$ (33)	\$ (52)	\$ 381	\$ (144)	\$ 39

Nine Months Ended September 30,
Pension Benefits

	Nine Months Ended September 30,				Other	
	Pension Benefits				Postretirement	
	U.S. Plans		Non-U.S. Plans		Benefits	
	2008	2007	2008	2007	2008	2007

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Service cost	\$	\$	\$ 576	\$ 3,271	\$ 12	\$ 12
Interest cost	3,157	3,151	9,317	8,120	846	1,059
Expected return on plan assets	(3,466)	(3,401)	(10,007)	(8,707)		
Recognition of:						
Unrecognized prior-service cost	12	12			(282)	(333)
Unrecognized net actuarial loss (gain)	111	139	(69)	298	(1,008)	(621)
Net periodic benefit (income) cost	\$ (186)	\$ (99)	\$ (183)	\$ 2,982	\$ (432)	\$ 117

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On September 19, 2008, the Company entered into a new credit agreement with a syndicate of lenders (the 2008 Credit Agreement) consisting of (i) a \$310.0 million revolving credit facility, (ii) a \$180.0 million term loan and (iii) a 120.0 million term loan, each maturing on the fifth anniversary of the revolving loan funding date. In addition, the 2008 Credit Agreement provides for a possible increase in the revolving credit facility of up to \$200.0 million. The Company can initiate funding under the revolving credit facility at any time prior to October 31, 2008 by retiring outstanding balances on its existing revolving credit and term loan facilities, at which point the 2008 Credit Agreement will supersede the Company's existing credit agreement. Funding of the term loan facilities is subject to, among other things, completion of the CompAir acquisition.

All borrowings and letters of credit under the 2008 Credit Agreement will be subject to the satisfaction of customary conditions, including absence of a default and accuracy of representations and warranties.

The interest rates per annum applicable to loans under the 2008 Credit Agreement will be, at the Company's option, either a base rate plus an applicable margin percentage or a Eurocurrency rate plus an applicable margin.

The base rate will be the greater of (i) the prime rate or (ii) one-half of 1% over the weighted average of rates on overnight federal funds as published by the Federal Reserve Bank of New York. The Eurocurrency rate will be LIBOR. The Company expects that the applicable margin percentage over LIBOR will initially be no lower than a percentage per annum equal to 2.50% with respect to the term loans and 2.10% with respect to loans under the revolving credit facility and the applicable margin percentage over the base rate will initially be no lower than a percentage per annum equal to 1.25%. After the Company's delivery of its financial statements and compliance certificate for each fiscal quarter, the applicable margin percentages will be subject to adjustments based upon the ratio of the Company's Consolidated Total Debt to Consolidated Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) (each as defined in the 2008 Credit Agreement) being within certain defined ranges.

The obligations under the 2008 Credit Agreement will be guaranteed by the Company's existing and future domestic subsidiaries. The obligations under the 2008 Credit Agreement will be secured by a pledge of the capital stock of each of the Company's existing and future material domestic subsidiaries as well as 65% of the capital stock of each of the Company's existing and future first-tier material foreign subsidiaries.

The 2008 Credit Agreement includes customary covenants that are substantially similar to those contained in the Company's existing credit facilities. Subject to certain exceptions, these covenants will restrict or limit the ability of the Company and its subsidiaries to, among other things: incur liens; engage in mergers, consolidations and sales of assets; incur additional indebtedness; pay dividends and redeem stock; make investments (including loans and advances); enter into transactions with affiliates, make capital expenditures and incur rental obligations. In addition, the 2008 Credit Agreement will require the Company to maintain compliance with certain financial ratios on a quarterly basis, including a maximum total leverage ratio test and a minimum interest coverage ratio test. The maximum total leverage ratio test will become more restrictive over time.

The 2008 Credit Agreement contains customary events of default, including upon a change of control. If an event of default occurs, the lenders under the 2008 Credit Agreement will be entitled to take various actions, including the acceleration of amounts due under the 2008 Credit Agreement.

Initial borrowings under the 2008 Credit Agreement were made on October 15, 16 and 17, 2008. (See Note 16 Subsequent Events.) Funds borrowed pursuant to the 2008 Credit Agreement were used to fund a portion of the purchase price of the Company's acquisition of CompAir and to retire the outstanding balances on the Company's then existing revolving credit and term loan facilities. The remaining amounts available under the 2008 Credit Agreement may be used for working capital and for general corporate purposes.

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The Company's debt at September 30, 2008 and December 31, 2007, including borrowings under its then existing revolving credit and term loan facilities, is summarized as follows:

	September 30, 2008	December 31, 2007
Short-term debt	\$ 404	\$ 4,099
Long-term debt:		
Credit Line, due 2010 (1)	\$ 62,000	\$ 58,329
Term Loan, due 2010 (2)	62,601	76,103
Senior Subordinated Notes at 8%, due 2013	125,000	125,000
Secured Mortgages (3)	9,344	9,993
Variable Rate Industrial Revenue Bonds, due 2018 (4)	8,000	8,000
Capitalized leases and other long-term debt	7,600	8,200
Total long-term debt, including current maturities	274,545	285,625
Current maturities of long-term debt	31,337	21,638
Total long-term debt, less current maturities	\$ 243,208	\$ 263,987

(1) The loans under this facility may be denominated in USD or several foreign currencies. At September 30, 2008, the outstanding balance consisted of USD borrowings of \$62,000. 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 4.7% as of September 30, 2008 for the USD

loans. The interest rate averaged 3.7%, 5.3% and 6.3% during the first nine months of 2008 for the USD, euro (EUR) and GBP, respectively.

- (2) The Term Loan is denominated in USD and the interest rate varies with prime and/or LIBOR. At September 30, 2008, this rate was 4.8% and averaged 4.2% during the first nine months of 2008.
- (3) This amount consists of two fixed-rate commercial loans with an outstanding balance of 6,617 at September 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 September 30, 2008, this rate was 10.0% and averaged 2.7% during the first nine months of 2008. These

industrial revenue
bonds are secured
by an \$8,100
standby letter of
credit.

Note 7. 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 adopted SAB 110 effective January 1, 2008. 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 nine-month periods ended September 30, 2008 and 2007.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Selling and administrative expenses	\$ 774	\$ 658	\$ 3,813	\$ 4,278
Total stock-based compensation expense included in operating expenses	\$ 774	\$ 658	\$ 3,813	\$ 4,278
Income before income taxes	(774)	(658)	(3,813)	(4,278)
Provision for income taxes	166	92	1,009	927
Net income	\$ (608)	\$ (566)	\$ (2,804)	\$ (3,351)
Basic and diluted earnings per share	\$ (0.01)	\$ (0.01)	\$ (0.05)	\$ (0.06)
Net cash provided by operating activities	\$ (13)	\$ (83)	\$ (8,492)	\$ (6,253)
Net cash used in financing activities	\$ 13	\$ 83	\$ 8,492	\$ 6,253

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 restricted stock and restricted stock units (restricted shares), stock options, stock appreciation rights or performance 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 nine-month period ended September 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	328	\$ 36.68		
Exercised	(808)	\$ 13.47		

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Forfeited or canceled	(23)	\$ 22.42		
Outstanding at September 30, 2008	1,367	\$ 27.89	\$10,517	4.0 years
Exercisable at September 30, 2008	818	\$ 22.80	\$10,168	3.2 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 September 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 nine-month periods ending September 30, 2008 were \$12.36 and \$10.95, respectively.

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The total pre-tax intrinsic values of stock options exercised during the third quarters of 2008 and 2007 were \$0.1 million and \$0.4 million, respectively. The total pre-tax intrinsic values of stock options exercised during the first nine months of 2008 and 2007 were \$27.8 million and \$20.5 million, respectively. Pre-tax unrecognized compensation expense for stock options, net of estimated forfeitures, was \$2.4 million as of September 30, 2008 and will be recognized as expense over a weighted-average period of 1.7 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		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Assumptions:				
Risk-free interest rate	2.3%	N/A	2.6%	4.7%
Dividend yield		N/A		
Volatility factor	35	N/A	30	29
Expected life (in years)	4.2	N/A	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 nine-month period ended September 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	77	\$ 37.48
Vested	(2)	\$ 38.32
Forfeited	(6)	\$ 35.82
Nonvested at September 30, 2008	159	\$ 35.25

The restricted stock units granted in the first nine months 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 share awards, net of estimated forfeitures, was \$1.9 million as of September 30, 2008, which will be recognized as expense over a weighted-average period of 1.6 years. The total fair value of restricted share awards that vested during the first nine months of 2008 was \$0.1 million. No restricted share awards vested during the first nine months of 2007.

Note 8. 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 2.7 million shares of the Company's outstanding common stock. During the nine-month period ended September 30, 2008, the Company repurchased all 2.7 million shares under this program at a total cost, excluding commissions, of \$100.4 million. Of this total, \$19.2 million will be settled in the fourth quarter of 2008 and is included in accrued

liabilities at September 30, 2008. All common stock acquired is held as treasury stock and available for general corporate purposes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Basic Earnings Per Share:				
Net income	\$ 34,638	\$ 53,652	\$ 135,063	\$ 141,239
Shares:				
Weighted average number of common shares outstanding	53,080	53,472	52,915	53,124
Basic earnings per common share	\$ 0.65	\$ 1.00	\$ 2.55	\$ 2.66
Diluted Earnings Per Share:				
Net income	\$ 34,638	\$ 53,652	\$ 135,035	\$ 141,239
Shares:				
Weighted average number of common shares outstanding	53,080	53,472	52,915	53,124
Effect of dilutive outstanding equity-based awards	528	764	656	874
Weighted average number of diluted common shares	53,608	54,236	53,571	53,998
Diluted earnings per common share	\$ 0.65	\$ 0.99	\$ 2.52	\$ 2.62

For the three months ended September 30, 2008 and 2007, respectively, antidilutive equity-based awards to purchase 20 and 144 weighted-average shares of common stock were outstanding. For the nine months ended September 30, 2008 and 2007, respectively, antidilutive equity-based awards to purchase 169 and 200 weighted-average shares of common stock were outstanding. Antidilutive equity-based awards outstanding were not included in the computation of diluted earnings per common share.

Note 9. 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.

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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
Before tax income (loss)	29,906	(2,072)	(76)	27,758
Income tax effect		787	(375)	412
Other comprehensive income (loss)	29,906	(1,285)	(451)	28,170
Cumulative prior period translation adjustment (2)	12,271			12,271
Balance at September 30, 2007	\$ 120,558	\$ 475	\$ (15,636)	\$ 105,397
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 (3)			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 (3)			4	4

Balance at June 30, 2008	184,937	(5,835)	179,102
Before tax loss	(85,998)	(448)	(86,446)
Income tax effect		168	168
Other comprehensive loss	(85,998)	(280)	(86,278)
Currency translation (3)		2	2
Balance at September 30, 2008	\$ 98,939	\$ (6,113)	\$ 92,826

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

(2) Represents the cumulative translation gain for the period September 30, 2004 to June 30, 2007 relative to certain assets and liabilities associated with the Company's 2004 acquisition of nash_elmo Holdings LLC which were moved from a USD subsidiary to various non-USD (primarily EUR) subsidiaries based on the exchange rates in effect at the acquisition date. Approximately \$6.8 million of

this adjustment relates to the six months ended June 30, 2007 and approximately \$5.5 million relates to periods prior to December 31, 2006.

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

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The Company's comprehensive (loss) income for the three and nine-month periods ended September 30, 2008 and 2007 was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Net income	\$ 34,638	\$ 53,652	\$ 135,063	\$ 141,239
Other comprehensive (loss) income (1)	(86,278)	28,170	(35,191)	49,226
Comprehensive (loss) income	\$ (51,640)	\$ 81,822	\$ 99,872	\$ 190,465

(1) The nine months ended September 30, 2007 includes a cumulative translation adjustment of \$6,831 related to the six-month period ended June 30, 2007 which was recorded in the three-month period ended September 30, 2007.

Note 10. 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 foreign currency forwards to minimize the impact of foreign 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:

Notional Amount	September 30, 2008			Notional Amount	December 31, 2007		
	Average Receive Rate	Average Pay Rate	Estimated Fair Value		Average Receive Rate	Average Pay Rate	Estimated Fair Value

Foreign currency forwards	\$96,766	N/A	N/A	\$(5,273)	\$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.

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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 September 30, 2008:

	Level 1	Level 2	Level 3	Total
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