

GARDNER DENVER INC
Form 10-Q
August 05, 2010

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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 June 30, 2010

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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. (Check one):

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: 52,304,074 shares of Common Stock, par value \$0.01 per share, as of July 30, 2010.

GARDNER DENVER, INC.
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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

GARDNER DENVER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

(Unaudited)

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

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

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

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

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

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

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

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

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

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

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GARDNER DENVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share amounts and amounts described in millions)

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

The financial information presented as of any date other than December 31, 2009 has been prepared from the books and records of the Company without audit. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of such financial statements, have been included.

The unaudited interim condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements and notes thereto included in Gardner Denver's Annual Report on Form 10-K for the year ended December 31, 2009.

The results of operations for the six-month period ended June 30, 2010 are not necessarily indicative of the results to be expected for the full year. The balance sheet at December 31, 2009 has been derived from the audited financial statements as of that date but does not include all of the information and notes required by GAAP for complete financial statements.

Other than as specifically indicated in these "Notes to Condensed Consolidated Financial Statements" included in this Quarterly Report on Form 10-Q, the Company has not materially changed its significant accounting policies from those disclosed in its Form 10-K for the year ended December 31, 2009.

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

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

Recently Issued Accounting Pronouncements

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

Note 2. Restructuring

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

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

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

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

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

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

Table of Contents**Note 3. Inventories**

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

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

Note 4. Goodwill and Other Intangible Assets

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

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

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

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

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

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

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

Note 5. Accrued Product Warranty

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

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

Note 6. Pension and Other Postretirement Benefits

The following table summarizes the components of net periodic benefit cost for the Company's defined benefit pension plans and other postretirement benefit plans recognized for the three and six-month periods ended June 30, 2010 and 2009:

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

	Six Months Ended June 30,				Other	
	Pension Benefits				Postretirement	
	U.S. Plans		Non-U.S. Plans		Benefits	
	2010	2009	2010	2009	2010	2009
Service cost	\$	\$	\$ 524	\$ 529	\$ 8	\$ 11
Interest cost	1,930	2,186	5,772	5,258	498	530
Expected return on plan assets	(1,770)	(1,826)	(5,134)	(4,301)		
Recognition of:						
Unrecognized prior-service cost		6	12	15	(50)	(100)
Unrecognized net actuarial loss (gain)	718	910	494	(35)	(650)	(650)
Net periodic benefit cost (income)	878	1,276	1,668	1,466	(194)	(209)
FASB ASC 715-30 curtailment gain			(837)	(118)		
Total net periodic benefit cost (income)	\$ 878	\$ 1,276	\$ 831	\$ 1,348	\$ (194)	\$ (209)

In March of 2010, the Patient Protection and Affordable Care Act (HR 3590) and the Health Care Education and Affordability Reconciliation Act (HR 4872) (the Acts) became law in the U.S. Based on the Company's current understanding of the provisions of the Acts, it does not expect that the Acts will have a significant impact on its accounting for and valuation of retiree medical benefit plans. The Company will continue to assess the accounting implications of the Acts as related regulations and interpretations of the Acts become available. The Company's accumulated benefit obligation for its U.S. post-retirement benefit plan was \$15.6 million at December 31, 2009.

The Company previously disclosed in its financial statements for the year ended December 31, 2009, that it expects to contribute approximately \$3.6 million to its non-U.S. pension plans in fiscal 2010. In the first quarter of 2010, the Company elected to make additional discretionary contributions to such plans and, as a result, contributions to its non-U.S. pension plans as of the date of this report are expected to be \$5.8 million in fiscal 2010.

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The Company's debt at June 30, 2010 and December 31, 2009 is summarized as follows:

	June 30, 2010	December 31, 2009
Short-term debt	\$ 6,341	\$ 5,497
Long-term debt:		
Credit Line, due 2013 ⁽¹⁾	\$	\$ 2,500
Term Loan, denominated in U.S. dollars, due 2013 ⁽²⁾	94,000	113,000
Term Loan, denominated in euro (EUR), due 2013	73,716	100,310
Senior Subordinated Notes at 8%, due 2013	125,000	125,000
Secured Mortgages ⁽⁴⁾	6,976	8,500
Capitalized leases and other long-term debt	7,750	9,709
Total long-term debt, including current maturities	307,442	359,019
Current maturities of long-term debt	28,456	28,084
Total long-term debt, less current maturities	\$ 278,986	\$ 330,935

(1) The loans under this facility may be denominated in U.S. dollars (USD) or several foreign currencies. The interest rates under the facility are based on prime, federal funds and/or LIBOR for the applicable currency.

(2) The interest rate for this loan varies with prime, federal funds and/or LIBOR. At June 30, 2010, this rate was 2.9% and

averaged 2.8%
for the
six-month
period ended
June 30, 2010.

- (3) The interest rate
for this loan
varies with
LIBOR. At
June 30, 2010,
this rate was
2.9% and
averaged 2.9%
for the
six-month
period ended
June 30, 2010.

- (4) This amount
consists of two
fixed-rate
commercial
loans with an
outstanding
balance of \$5,704
at June 30,
2010. The loans
are secured by
the Company's
facility in Bad
Neustadt,
Germany.

Note 8. Stock-Based Compensation

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, 2010 and 2009.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Selling and administrative expenses	\$ 1,165	\$ 834	\$ 3,022	\$ 1,954
Total stock-based compensation expense included in operating expenses	\$ 1,165	\$ 834	\$ 3,022	\$ 1,954
Income (loss) before income taxes	(1,165)	(834)	(3,022)	(1,954)
Provision for income taxes	357	213	964	559
Net income (loss)	\$ (808)	\$ (621)	\$ (2,058)	\$ (1,395)
Net cash provided by operating activities	\$ (414)	\$ (60)	\$ (1,903)	\$ (88)
Net cash used in financing activities	\$ 414	\$ 60	\$ 1,903	\$ 88

Stock Option Awards

A summary of the Company's stock option activity for the six-month period ended June 30, 2010 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, 2009	1,381	\$ 27.10		
Granted	279	\$ 43.85		
Exercised	(401)	\$ 24.25		
Forfeited	(57)	\$ 27.87		
Expired or canceled	(9)	\$ 20.79		
Outstanding at June 30, 2010	1,193	\$ 31.98	\$15,224	4.6 years
Exercisable at June 30, 2010	692	\$ 31.00	\$ 9,483	3.5 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, 2010 multiplied by the number of in-the-money stock options. The weighted-average estimated grant-date fair value of employee stock options granted during the three and six-month periods ended June 30, 2010 were \$17.34 and \$16.55, respectively.

The total pre-tax intrinsic values of stock options exercised during the three-month periods ended June 30, 2010 and 2009 were \$1.9 million and \$0.6 million, respectively. The total pre-tax intrinsic values of stock options exercised during the first half of 2010 and 2009 were \$8.2 million and \$0.7 million, respectively. Pre-tax unrecognized compensation expense for stock options, net of estimated forfeitures, was \$4.2 million as of June 30, 2010 and will be recognized as expense over a weighted-average period of 2.1 years.

Table of Contents*Valuation Assumptions*

The fair value of each stock option grant under the Company's Amended and Restated Long-Term 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		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Assumptions:				
Risk-free interest rate	1.7%	1.7%	2.3%	1.7%
Dividend yield	0.5%		0.5%	
Volatility factor	46	45	43	42
Expected life (in years)	3.8	4.0	4.7	4.6

Restricted Share Awards

A summary of the Company's restricted share award activity for the six-month period ended June 30, 2010 is presented in the following table (underlying shares in thousands):

	Shares	Weighted-Average Grant-Date Fair Value (per share)
Nonvested at December 31, 2009	143	\$ 29.92
Granted	55	\$ 44.60
Vested	(21)	\$ 38.84
Forfeited		\$
Nonvested at June 30, 2010	177	\$ 33.41

The restricted shares granted in the six-month period of 2010 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 \$3.1 million as of June 30, 2010, which will be recognized as expense over a weighted-average period of 2.0 years. The total fair value of restricted share awards that vested during the six-month periods of 2010 and 2009 was \$0.8 million and \$1.6 million, respectively.

Note 9. Stockholders' Equity and Earnings (Loss) Per Share

In November 2008, the Company's Board of Directors authorized a share repurchase program to acquire up to 3.0 million shares of the Company's outstanding common stock. During the six-month period ended June 30, 2010, the Company repurchased 0.4 million shares under this program at a total cost of \$17.6 million.

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The following table details the calculation of basic and diluted earnings (loss) per common share for the three and six-month periods ended June 30, 2010 and 2009 (shares in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income (loss) attributable to Gardner Denver	\$ 37,334	\$ 27,399	\$ 69,292	\$ (221,770)
Weighted average shares of common stock outstanding:				
Basic	52,399	51,852	52,275	51,809
Effect of stock-based compensation awards ⁽¹⁾	403	250	421	
Diluted	52,802	52,102	52,696	51,809
Earnings (Loss) Per Share:				
Basic	\$ 0.71	\$ 0.53	\$ 1.33	\$ (4.28)
Diluted	\$ 0.71	\$ 0.53	\$ 1.31	\$ (4.28)

(1) Share equivalents totaling 198 thousand, consisting of outstanding stock options and nonvested restricted share awards, were excluded from the computation of diluted loss per share in the six-month period ended June 30, 2009 because the net loss for the period caused all potentially dilutive shares to be anti-dilutive.

For the three-month periods ended June 30, 2010 and 2009, respectively, anti-dilutive equity-based awards to purchase 245 thousand and 786 thousand weighted-average shares of common stock were outstanding. For the six-month periods ended June 30, 2010 and 2009, respectively, anti-dilutive equity-based awards to purchase 207 thousand and 1,022 thousand weighted-average shares of common stock were outstanding. Antidilutive equity-based awards outstanding were not included in the computation of diluted earnings (loss) per common share.

Note 10. Accumulated Other Comprehensive Income (Loss)

The Company's other comprehensive income (loss) consists of (i) unrealized foreign currency net gains and losses on the translation of the assets and liabilities of its foreign operations, (ii) unrealized gains and losses on hedges of net investments in foreign operations, (iii) unrealized gains and losses on cash flow hedges (consisting of interest rate swaps), net of income taxes, and (iv) pension and other postretirement 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):

	Cumulative Currency Translation Adjustment⁽¹⁾	Foreign Currency Gains and (Losses)	Unrealized Gains (Losses) on Cash Flow Hedges	Pension and Postretirement Benefit Plans	Accumulated Other Comprehensive Income
Balance at December 31, 2008	\$ 113,344	\$ (22,982)	\$	\$ (17,955)	\$ 72,407
Before tax (loss) income	(29,688)	1,512		73	(28,103)
Income tax effect		(2,886)		(28)	(2,914)
Other comprehensive (loss) income	(29,688)	(1,374)		45	(31,017)
Currency translation ⁽²⁾					
Balance at March 31, 2009	83,656	(24,356)		(17,910)	41,390
Before tax income	32,931	6,682	366	73	40,052
Income tax effect		1,294	(139)	(28)	1,127
Other comprehensive income	32,931	7,976	227	45	41,179
Currency translation ⁽²⁾				1	1
Balance at June 30, 2009	\$ 116,587	\$ (16,380)	\$ 227	\$ (17,864)	\$ 82,570
Balance at December 31, 2009	\$ 134,573	\$ (21,319)	\$ (250)	\$ (30,490)	\$ 82,514
Before tax (loss) income	(38,820)	8,920	(706)	272	(30,334)
Income tax effect		297	268	(84)	481
Other comprehensive (loss) income	(38,820)	9,217	(438)	188	(29,853)
Currency translation ⁽²⁾				15	15
Balance at March 31, 2010	95,753	(12,102)	(688)	(30,287)	52,676
Before tax (loss) income	(47,788)	664	(495)	252	(47,367)
Income tax effect		(649)	188	(75)	(536)
Other comprehensive (loss) income	(47,788)	15	(307)	177	(47,903)
Currency translation ⁽²⁾				8	8
Balance at June 30, 2010	\$ 47,965	\$ (12,087)	\$ (995)	\$ (30,102)	\$ 4,781

(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
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 income (loss) for the three and six-month periods ended June 30, 2010 and 2009 was as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net income (loss) attributable to Gardner Denver	\$ 37,334	\$ 27,399	\$ 69,292	\$ (221,770)
Other comprehensive (loss) income	(47,903)	41,179	(77,756)	10,162
Comprehensive (loss) income attributable to Gardner Denver	(10,569)	68,578	(8,464)	(211,608)
Net income attributable to noncontrolling interests	590	648	885	1,345
Other comprehensive (loss) income	(86)	557	(809)	745
Comprehensive income attributable to noncontrolling interest	504	1,205	76	2,090
Total comprehensive (loss) income	\$ (10,065)	\$ 69,783	\$ (8,388)	\$ (209,518)

Note 11. Hedging Activities and Fair Value Measurements*Hedging Activities*

The Company is exposed to certain market risks during the normal course of its business arising from adverse changes in commodity prices, interest rates, and foreign 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 (derivatives), including foreign currency forward contracts and interest rate swaps, to manage the risks from fluctuations in foreign currency exchange rates and interest rates, respectively. The Company does not purchase or hold derivatives for trading or speculative purposes. Fluctuations in commodity prices, interest rates, and foreign 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.

The Company's exposure to interest rate risk results primarily from its borrowings of \$313.8 million at June 30, 2010. The Company manages its debt centrally, considering tax consequences and its overall financing strategies. 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.

A substantial portion of the Company's operations is conducted by its subsidiaries outside of the U.S. in currencies other than the USD. 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 USD, the EUR, British pound sterling (GBP), and Chinese yuan (CNY) are the principal currencies in which the Company and its subsidiaries enter into transactions. The Company is exposed to the impacts of changes in foreign currency exchange rates on the translation of its non-U.S. subsidiaries' assets, liabilities, and earnings into USD. 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 USD.

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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. These contracts for the sale or purchase of European and other currencies generally mature within one year.

In accordance with FASB ASC 815, *Derivatives and Hedging* (FASB ASC 815), the Company records its derivatives as assets or liabilities on the balance sheet at fair value. Changes in the fair value of derivatives are recognized either in net income or in other comprehensive income (OCI), depending on the designated purpose of the derivative. All cash flows associated with derivatives are classified as operating cash flows in the Condensed Consolidated Statements of Cash Flows. It is the Company's policy not to speculate in derivative instruments.

Fluctuations due to changes in foreign currency exchange rates in the value of non-USD borrowings that have been designated as hedges of the Company's net investment in foreign operations are included in other comprehensive income.

The following tables summarize the notional amounts, fair values and classification of the Company's outstanding derivatives by risk category and instrument type within the Condensed Consolidated Balance Sheets:

	June 30, 2010			
	Balance Sheet Location	Notional Amount (1)	Asset Derivatives	Liability Derivatives
Fair Value (1)			Fair Value (1)	
Derivatives designated as hedging instruments under FASB ASC 815				
Interest rate swap contracts	Other liabilities	\$74,459	\$	\$ 1,658
Derivatives not designated as hedging instruments under FASB ASC 815				
Foreign currency forwards	Other current assets	\$ 104,784	\$ 2,048	\$ 1,005

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	December 31, 2009			
	Balance Sheet Location	Notional Amount (1)	Asset Derivatives Fair Value (1)	Liability Derivatives Fair Value (1)
Derivatives designated as hedging instruments under FASB ASC 815				
Interest rate swap contracts	Other assets	\$ 132,320	\$	\$ 479
Derivatives not designated as hedging instruments under FASB ASC 815				
Foreign currency forwards	Accrued liabilities	\$ 3,049	\$ 6	\$ 128
Foreign currency forwards	Other current assets	\$ 119,738	\$ 1,603	\$ 11

(1) Notional amounts represent the gross contract amounts of the outstanding derivatives excluding the total notional amount of positions that have been effectively closed through offsetting positions. The net gains and net losses associated with positions that have been effectively closed through offsetting positions but not yet settled are included in the

asset and liability derivatives fair value columns, respectively.

Gains and losses on derivatives designated as cash flow hedges in accordance with FASB ASC 815 included in the Condensed Consolidated Statement of Operations for the three and six-month periods ended June 30, 2010 and 2009, respectively, are as presented in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest rate swap contracts ⁽¹⁾				
Amount of gain or (loss) recognized in AOCI on derivatives (effective portion)	\$(825)	\$ 207	\$(1,912)	\$ 207
Amount of gain or (loss) reclassified from AOCI into income (effective portion)	(330)	(159)	(711)	(159)
Amount of gain or (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)	(5)		(5)	

(1) Losses on derivatives reclassified from accumulated other comprehensive income (AOCI) into income (effective portion) were included in the interest expense line on the face of the Condensed Consolidated Statements of Operations.

At June 30, 2010, the Company is the fixed rate payor on three interest rate swap contracts that effectively fix the LIBOR-based index used to determine the interest rates charged on a total of \$50.0 million and 20.0 million of the Company's LIBOR-based variable rate borrowings. These contracts carry fixed rates ranging from 1.8% to 2.2% and have expiration dates ranging from 2012 to 2013. These swap agreements qualify as hedging instruments and have been designated as cash flow hedges of forecasted LIBOR-based interest payments. Based on LIBOR-based swap yield curves as of June 30, 2010, the Company expects to reclassify losses of \$1.0 million out of AOCI into earnings during the next 12 months. The Company's LIBOR-based variable rate borrowings outstanding at June 30, 2010 were \$94.0 million and 60.3 million.

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There were 41 foreign currency forward contracts outstanding as of June 30, 2010 with notional amounts ranging from \$0.1 million to \$10.7 million. The Company has not designated any forward contracts as hedging instruments. The majority of these contracts are used to hedge the change in fair value of recognized foreign currency denominated assets or liabilities caused by changes in foreign currency exchange rates. The changes in the fair value of these contracts generally offset the changes in the fair value of a corresponding amount of the hedged items, both of which are included in the other operating expense, net, line on the face of the Condensed Consolidated Statements of Operations. The Company recorded net gains of \$2.2 million and net losses of \$20.1 million during the three-month periods ended June 30, 2010 and 2009, respectively, relating to foreign currency forward contracts outstanding during all or part of each period. During the six-month periods ended June 30, 2010 and 2009, the Company recorded net gains of \$5.4 million and net losses of \$13.9 million, respectively, relating to foreign currency forward contracts outstanding during all or part of each period. Total net foreign currency gains or losses reported in other operating expense, net, were losses of \$0.4 million and \$1.8 million for the three-month periods ended June 30, 2010 and 2009, respectively, and a net gain of \$0.6 million and a loss of \$1.6 million in the six-month periods ended June 30, 2010 and 2009, respectively.

As of June 30, 2010, the Company has designated a portion of its term loan denominated in EUR of approximately 16.0 million as a hedge of the Company's net investment in subsidiaries with EUR functional currencies. Accordingly, changes in the fair value of this debt due to changes in the USD to EUR exchange rate are recorded through other comprehensive income. During the three-month periods ended June 30, 2010 and 2009, the Company recorded gains of \$1.6 million and losses of \$5.5 million, net of tax, respectively, through other comprehensive income. During the six-month periods ended June 30, 2010 and 2009, the Company recorded gains of \$2.6 million and losses of \$0.4 million, net of tax, respectively, through other comprehensive income. As of June 30, 2010 and 2009, the net balances of such gains and losses included in accumulated other comprehensive income were losses of \$2.8 million and \$3.6 million, net of tax, respectively.

Fair Value Measurements

The Company's financial instruments consist primarily of cash equivalents, trade receivables, trade payables, deferred compensation assets and obligations, derivatives and debt instruments. The book values of these instruments, other than the Senior Subordinated Notes, are a reasonable estimate of their respective fair values.

The Senior Subordinated Notes outstanding are carried at cost. Their estimated fair value was approximately \$127.5 million as of June 30, 2010 based upon non-binding market quotations that were corroborated by observable market data (Level 2).

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, 2010:

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	Level 1	Level 2	Level 3	Total
Financial Assets				
Foreign currency forwards ⁽¹⁾	\$	\$2,048	\$	\$ 2,048
Trading securities held in deferred compensation plan ⁽²⁾	8,515			8,515
Total	\$8,515	\$2,048	\$	\$10,563
Financial Liabilities				
Foreign currency forwards ⁽¹⁾	\$	\$1,005	\$	\$ 1,005
Interest rate swaps ⁽³⁾		1,658		1,658
Phantom stock plan ⁽⁴⁾		3,330		3,330
Deferred compensation plan ⁽⁵⁾	8,515			8,515
Total	\$8,515	\$5,993	\$	\$14,508

(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 FASB ASC 710, *Compensation General*, are classified as Trading securities and accounted for using the mark-to-market method.

(3) Measured as the present value of all expected future cash flows based on the

LIBOR-based swap yield curve as of June 30, 2010. The present value calculation uses discount rates that have been adjusted to reflect the credit quality of the Company and its counterparties.

- (4) Based on the price of the Company's common stock.
- (5) Based on the fair value of the investments in the deferred compensation plan.

Note 12. Income Taxes

As of June 30, 2010, the total balance of unrecognized tax benefits was \$5.5 million compared with \$5.2 million at December 31, 2009. The increase in the balance was primarily related to an increase in tax reserves related to the tax audits in Germany and the State of Wisconsin, net of a Canadian settlement. The unrecognized tax benefits at June 30, 2010 include \$5.5 million of uncertain tax positions that would affect the Company's effective tax rate if recognized, of which \$2.6 million would be offset by a reduction of a corresponding deferred tax asset. The Company does not expect any significant changes to its unrecognized tax benefits within the next twelve months.

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, 2010 include approximately \$1.3 million of accrued interest and \$0.3 million of penalties.

The Company's U.S. federal income tax returns for the tax years 2005 to 2007 are under examination by the Internal Revenue Service. As of the date of this report, the examination has not identified any material changes. The statutes of limitations for the U.S. state tax returns are open beginning with the 2006 tax year, except for four states for which the statutes have been extended, beginning with the 2003 tax year for one state, the 2004 tax year for one state and the 2005 tax year for two states.

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The Company is subject to income tax in approximately 30 jurisdictions outside the U.S. The statute of limitations varies by jurisdiction. The Company's significant operations outside the U.S. are located in China, the United Kingdom and Germany. In Germany, six subsidiaries are under audit for the tax years beginning with the 2003 tax year, two subsidiaries beginning with the 2004 tax year, six subsidiaries beginning with the 2005 tax year and one subsidiary beginning with the 2006 tax year. As of the date of this report, the examinations have not identified any material changes. In China and the United Kingdom, tax years prior to 2006 are closed. In addition, audits are being conducted in other various countries. To date, no material adjustments have been proposed as a result of these audits.

The provision for income taxes was \$22.3 million for the six-month period ended June 30, 2010, compared to \$7.4 million for the six-month period ended June 30, 2009. The provision in the six-month period of 2009 reflected the reversal of deferred tax liabilities totaling \$11.6 million associated with a portion of the net goodwill and all of the trade name impairment charges recorded in the second quarter of 2009. Deferred tax liabilities were recorded when the trade name was established and as tax deductible goodwill was amortized, a corresponding deferred tax liability was established. A portion of the goodwill for which the impairment charge was taken was not amortizable for tax purposes and, accordingly, deferred tax liabilities were not recorded when the goodwill was established and a corresponding tax benefit did not arise upon the impairment of that portion of goodwill. In addition, a \$3.6 million credit for the reversal of an income tax reserve and the related interest associated with the completion of a foreign tax examination was recorded in the six-month period of 2009. These benefits were partially offset by an \$8.6 million valuation allowance against deferred tax assets related to net operating losses recorded in connection with the acquisition of CompAir based on revised financial projections.

Note 13. Supplemental Information

The components of other operating expense, net, and supplemental cash flow information are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Other Operating Expense, Net				
Foreign currency losses (gains), net	\$ 373	\$ 1,774	\$ (628)	\$ 1,563
Restructuring charges ⁽¹⁾	1,342	19,755	2,696	27,619
Other, net	1,553	(1,150)	(151)	(627)
Total other operating expense, net	\$ 3,268	\$ 20,379	\$ 1,917	\$ 28,555

Supplemental Cash Flow Information

Cash taxes paid	\$ 25,381	\$ 18,968
Interest paid	11,329	13,624

⁽¹⁾ See Note 2
Restructuring.

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

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personal injury lawsuits. The Company has also been named as a defendant in a number of silica 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.

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, if any, 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 silica lawsuits. The Company also believes some of the potential liabilities regarding these lawsuits are covered by indemnity agreements with other parties.

The Company believes that the pending and future asbestos and silica 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 that 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. 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,

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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.

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**Condensed Consolidating Statement of Operations
Three Months Ended June 30, 2010**

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ 92,973	\$ 101,229	\$ 341,020	\$ (85,703)	\$ 449,519
Cost of sales	66,178	70,709	245,592	(84,560)	297,919
Gross profit	26,795	30,520	95,428	(1,143)	151,600
Selling and administrative expenses	24,049	10,145	57,551		91,745
Other operating (income) expense, net	(4,661)	2,519	5,410		3,268
Operating income	7,407	17,856	32,467	(1,143)	56,587
Interest expense (income)	5,713	(3,394)	3,743		6,062
Other expense (income), net	230	(20)	(212)		(2)
Income before income taxes	1,464	21,270	28,936	(1,143)	50,527
Provision for income taxes	1,201	10,942	767	(307)	12,603
Net income	263	10,328	28,169	(836)	37,924
Less: Net income attributable to noncontrolling interests			590		590
Net income attributable to Gardner Denver	\$ 263	\$ 10,328	\$ 27,579	\$ (836)	\$ 37,334

**Condensed Consolidating Statement of Operations
Three Months Ended June 30, 2009**

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ 86,637	\$ 84,884	\$ 329,404	\$ (64,876)	\$ 436,049
Cost of sales	64,067	60,795	247,254	(66,603)	305,513
Gross profit	22,570	24,089	82,150	1,727	130,536
Selling and administrative expenses	16,845	9,752	60,573		87,170
Other operating expense (income), net	4,457	(7,319)	23,241		20,379
Impairment charges	47,990	11,503	(63,428)		(3,935)
Operating (loss) income	(46,722)	10,153	61,764	1,727	26,922
Interest expense (income)	2,400	(4,212)	8,423		6,611
Other income, net	(944)	(3)	(296)		(1,243)
	(48,178)	14,368	53,637	1,727	21,554

(Loss) income before income taxes

Provision for income taxes	(5,449)	9,088	(10,632)	500	(6,493)
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Net (loss) income

Net (loss) income	(42,729)	5,280	64,269	1,227	28,047
Less: Net income attributable to noncontrolling interests			648		648

Net (loss) income attributable to Gardner Denver

	\$ (42,729)	\$ 5,280	\$ 63,621	\$ 1,227	\$ 27,399
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**Condensed Consolidating Statement of Operations
Six Months Ended June 30, 2010**

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ 167,425	\$ 199,299	\$ 669,363	\$ (164,404)	\$ 871,683
Cost of sales	120,982	144,155	483,739	(162,600)	586,276
Gross profit	46,443	55,144	185,624	(1,804)	285,407
Selling and administrative expenses	43,798	20,159	115,482		179,439
Other operating (income) expense, net	(6,989)	4,744	4,162		1,917
Operating income	9,634	30,241	65,980	(1,804)	104,051
Interest expense (income)	11,593	(7,164)	7,749		12,178
Other income, net	(175)	(24)	(438)		(637)
(Loss) income before income taxes	(1,784)	37,429	58,669	(1,804)	92,510
Provision for income taxes	457	16,469	5,936	(529)	22,333
Net (loss) income	(2,241)	20,960	52,733	(1,275)	70,177
Less: Net income attributable to noncontrolling interests			885		885
Net (loss) income attributable to Gardner Denver	\$ (2,241)	\$ 20,960	\$ 51,848	\$ (1,275)	\$ 69,292

**Condensed Consolidating Statement of Operations
Six Months Ended June 30, 2009**

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ 179,871	\$ 195,175	\$ 662,387	\$ (138,904)	\$ 898,529
Cost of sales	131,209	141,082	496,208	(141,117)	627,382
Gross profit	48,662	54,093	166,179	2,213	271,147
Selling and administrative expenses	38,309	22,520	120,924		181,753
Other operating (income) expense, net	(1,840)	(2,249)	32,644		28,555
Impairment charges	47,990	11,503	201,572		261,065
Operating (loss) income	(35,797)	22,319	(188,961)	2,213	(200,226)
Interest expense (income)	6,077	(8,427)	16,618		14,268
Other income, net	(880)	(8)	(543)		(1,431)

(Loss) income before income taxes	(40,994)	30,754	(205,036)	2,213	(213,063)
Provision for income taxes	(3,256)	15,369	(5,569)	818	7,362
Net (loss) income	(37,738)	15,385	(199,467)	1,395	(220,425)
Less: Net income attributable to noncontrolling interests			1,345		1,345
Net (loss) income attributable to Gardner Denver	\$ (37,738)	\$ 15,385	\$ (200,812)	\$ 1,395	\$ (221,770)

Table of Contents**Condensed Consolidating Balance Sheet
June 30, 2010**

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$ 3,963	\$ 1	\$ 107,174	\$	\$ 111,138
Accounts receivable, net	53,604	56,694	232,452		342,750
Inventories, net	32,650	52,614	151,677	(16,861)	220,080
Deferred income taxes	20,173		5,468	3,650	29,291
Other current assets	2,920	2,806	14,087		19,813
Total current assets	113,310	112,115	510,858	(13,211)	723,072
Intercompany					
(payable) receivable	(91,832)	77,451	14,381		
Investments in affiliates	972,966	186,314	72,856	(1,232,136)	
Property, plant and equipment, net	52,265	44,391	174,002		270,658
Goodwill	76,680	190,010	276,247		542,937
Other intangibles, net	8,247	44,160	221,414		273,821
Other assets	27,704	304	6,237	(12,115)	22,130
Total assets	\$ 1,159,340	\$ 654,745	\$ 1,275,995	\$ (1,257,462)	\$ 1,832,618
Liabilities and Stockholders Equity					
Current liabilities:					
Short-term borrowings and current maturities of long-term debt	\$ 26,776	\$	\$ 8,021	\$	\$ 34,797
Accounts payable and accrued liabilities	54,703	59,493	162,375	(1,183)	275,388
Total current liabilities	81,479	59,493	170,396	(1,183)	310,185
Long-term intercompany payable (receivable)	183,908	(299,352)	115,444		
Long-term debt, less current maturities	266,361	75	12,550		278,986
Deferred income taxes		24,239	43,644	(12,115)	55,768
Other liabilities	64,829	741	73,950		139,520
Total liabilities	596,577	(214,804)	415,984	(13,298)	784,459
Stockholders' equity:					

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Common stock	591				591
Capital in excess of par value	574,176	607,693	625,641	(1,232,136)	575,374
Retained earnings	141,953	257,119	219,594	(11,372)	607,294
Accumulated other comprehensive (loss) income	(3,157)	4,737	3,857	(656)	4,781
Treasury stock, at cost	(150,800)				(150,800)
Total Gardner Denver stockholders equity	562,763	869,549	849,092	(1,244,164)	1,037,240
Noncontrolling interests			10,919		10,919
Total stockholders equity	562,763	869,549	860,011	(1,244,164)	1,048,159
Total liabilities and stockholders equity	\$ 1,159,340	\$ 654,745	\$ 1,275,995	\$ (1,257,462)	\$ 1,832,618