GARDNER DENVER INC
Form 10-Q
November 07, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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

1500 Liberty Ridge Drive, Suite 3000

Wayne, Pennsylvania 19087

(Address of principal executive offices and Zip Code)

(610) 249-2000

(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 x 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 x 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 50,586,370 shares of Common Stock, par value $0.01 per share, as of October 28, 2011.

Table of Contents

GARDNER DENVER, INC.

Table of Contents

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 September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues	$ 614,682	$ 493,449	$ 1,757,228	$ 1,365,132
Cost of sales	409,197	333,127	1,157,019	919,403
Gross profit	205,485	160,322	600,209	445,729
Selling and administrative expenses	94,179	91,070	295,209	270,509
Other operating expense, net	4,726	1,253	12,425	3,170
Operating income	106,580	67,999	292,575	172,050
Interest expense	2,898	5,651	12,179	17,829
Other income, net	(138)	(1,110)	(821)	(1,747)
Income before income taxes	103,820	63,458	281,217	155,968
Provision for income taxes	29,543	16,610	79,345	38,943
Net income	74,277	46,848	201,872	117,025
Less: Net income attributable to noncontrolling interests	694	273	1,690	1,158
Net income attributable to Gardner Denver	$ 73,583	$ 46,575	$ 200,182	$ 115,867
Net earnings per share attributable to Gardner Denver common stockholders				
Basic earnings per share	$ 1.43	$ 0.89	$ 3.85	$ 2.22
Diluted earnings per share	$ 1.42	$ 0.88	$ 3.82	$ 2.20
Cash dividends declared per common share	$ 0.05	$ 0.05	$ 0.15	$ 0.15

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

3

Table of Contents

GARDNER DENVER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

(Unaudited)

	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 143,944	$ 157,029
Accounts receivable (net of allowance of $11,051 at September 30, 2011 and $11,531 at December 31, 2010)	459,090	369,860
Inventories, net	282,794	241,485
Deferred income taxes	37,039	34,628
Other current assets	33,723	25,535
Total current assets	956,590	828,537
Property, plant and equipment (net of accumulated depreciation of $356,134 at September 30, 2011 and $338,010 at December 31, 2010)	280,166	286,563
Goodwill	570,004	571,796
Other intangibles, net	278,383	289,588
Other assets	45,893	50,614
Total assets	$ 2,131,036	$ 2,027,098
Liabilities and Stockholders Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 38,540	$ 37,228
Accounts payable	195,251	143,331
Accrued liabilities	228,485	179,041
Total current liabilities	462,276	359,600
Long-term debt, less current maturities	218,597	250,682
Postretirement benefits other than pensions	12,914	13,678
Deferred income taxes	63,735	62,157
Other liabilities	135,317	151,308
Total liabilities	892,839	837,425
Stockholders equity:		
Common stock, $0.01 par value; 100,000,000 shares authorized; 50,577,340 and 52,181,335 shares outstanding at September 30, 2011 and December 31, 2010, respectively	597	595
Capital in excess of par value	597,802	591,988
Retained earnings	898,023	705,699
Accumulated other comprehensive income	55,028	61,425
Treasury stock at cost; 9,122,052 and 7,268,653 shares at September 30, 2011 and December 31, 2010, respectively	(315,279)	(182,544)

Total Gardner Denver stockholders equity	1,236,171	1,177,163
Noncontrolling interests	2,026	12,510
Total stockholders equity	1,238,197	1,189,673
Total liabilities and stockholders equity	$ 2,131,036	$ 2,027,098

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

Table of Contents

GARDNER DENVER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash Flows From Operating Activities		
Net income	$ 201,872	$ 117,025
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,073	44,801
Foreign currency transaction loss, net	2,614	1,132
Net loss on asset dispositions	1,524	996
Stock issued for employee benefit plans	924	2,780
Stock-based compensation expense	5,320	4,125
Excess tax benefits from stock-based compensation	(2,537)	(2,385)
Deferred income taxes	(2,647)	(6,409)
Changes in assets and liabilities:		
Receivables	(91,265)	(40,368)
Inventories	(42,116)	(10,044)
Accounts payable and accrued liabilities	105,836	36,998
Other assets and liabilities, net	(13,082)	4,516
Net cash provided by operating activities	211,516	153,167
Cash Flows From Investing Activities		
Capital expenditures	(38,491)	(19,744)
Disposals of property, plant and equipment	2,439	1,477
Net cash paid in business combinations	(2,326)	(11,810)
Net cash used in investing activities	(38,378)	(30,077)
Cash Flows From Financing Activities		
Principal payments on short-term borrowings	(15,063)	(22,613)
Proceeds from short-term borrowings	10,264	19,369
Principal payments on long-term debt	(241,084)	(61,488)
Proceeds from long-term debt	214,585	8,025
Proceeds from stock option exercises	5,658	15,974
Excess tax benefits from stock-based compensation	2,537	2,385
Purchase of treasury stock	(132,578)	(17,942)
Cash dividends paid	(7,853)	(7,866)
Purchase of shares from noncontrolling interests	(18,806)	
Other	(1,024)	(993)
Net cash used in financing activities	(183,364)	(65,149)
Effect of exchange rate changes on cash and cash equivalents	(2,859)	(1,081)
Net (decrease) increase in cash and cash equivalents	(13,085)	56,860
Cash and cash equivalents, beginning of year	157,029	109,736

Cash and cash equivalents, end of period	$ 143,944	$ 166,596

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

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). Certain prior year balance sheet items have been reclassified to conform to the current year presentation. In consolidation, all significant intercompany transactions and accounts have been eliminated.

The financial information presented as of any date other than December 31, 2010 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, the condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of such financial statements.

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, 2010.

The results of operations for the nine-month period ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year. The balance sheet at December 31, 2010 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, 2010.

New Accounting Standards

Recently Adopted Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13, *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13). ASU 2009-13 updates the existing multiple-element revenue arrangements guidance currently included under FASB Accounting Standards

Table of Contents

Codification (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 was effective for fiscal years beginning on or after June 15, 2010. Adoption of this guidance in the first quarter of 2011 did not have a material effect on the Company s results of operations, financial position and cash flows.

In January 2010, the FASB issued 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 were effective for interim and annual reporting periods beginning after December 15, 2009, except for the reconciliation of Level 3 activity, which was effective for the Company in the first quarter of 2011. 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.

Recently Issued Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income* (ASU 2011-05). This update requires that the components of net income, the components of other comprehensive income and the total of comprehensive income be presented as a single continuous financial statement or in two separate but consecutive statements. The option of presenting other comprehensive income in the statement of stockholders equity is eliminated. This update also requires the presentation on the face of the financial statements of reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

In September 2011, the FASB issued ASU No. 2011-08, *Testing for Goodwill Impairment* (ASU 2011-08). ASU 2011-08 amends existing guidance by giving an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the performance of the two-step goodwill impairment test, as currently prescribed by ASC Topic 350, is required. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted.

Table of Contents

Note 2. Restructuring

In 2008, 2009 and 2010, the Company announced 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, (iii) integration of CompAir Holdings Limited (CompAir) into its existing operations and (iv) additional cost reductions and margin improvement initiatives. These plans included the closure and consolidation of manufacturing facilities in Europe and the U.S., and various voluntary and involuntary employee termination and relocation programs. Execution of these plans was substantively completed during 2010. The Company recorded additional charges during the nine-month period of 2011 in connection with the continued rationalization of facilities and other cost reduction initiatives. Charges recorded in connection with these plans, in accordance with FASB ASC 420, *Exit or Disposal Cost Obligations* and FASB ASC 712, *Compensation-Nonretirement Postemployment Benefits*, are included in Other operating expense, net in the Condensed Consolidated Statements of Operations, and are summarized for the fiscal years ended December 31, 2009 and 2010 and the nine-month period ended September 30, 2011 by reportable segment as follows:

	Industrial Products Group	Engineered Products Group	Total
Fiscal year 2009	$ 25,791	$ 20,335	$ 46,126
Fiscal year 2010	3,687	(1,491)	2,196
Nine months ended September 30, 2011	5,261	1,327	6,588
Total	$ 34,739	$ 20,171	$ 54,910

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

	Termination Benefits	Other	Total
Balance as of December 31, 2010	$ 4,593	$ 1,450	$ 6,043
Charged to expense	4,873	1,715	6,588
Paid	(5,260)	(1,498)	(6,758)
Other, net	400	(25)	375
Balance as of September 30, 2011	$ 4,606	$ 1,642	$ 6,248

Table of Contents

Note 3. Inventories

Inventories as of September 30, 2011 and December 31, 2010 consisted of the following:

	September 30, 2011	December 31, 2010
Raw materials, including parts and subassemblies	$ 186,864	$ 163,192
Work-in-process	49,781	38,419
Finished goods	62,262	54,898
	298,907	256,509
Excess of FIFO costs over LIFO costs	(16,113)	(15,024)
Inventories, net	$ 282,794	$ 241,485

Note 4. 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, 2011, and the year ended December 31, 2010, and cumulative impairment charges are presented in the table below:

	Industrial Products Group	Engineered Products Group	Total
Balance as of December 31, 2009	$ 256,824	$ 321,190	$ 578,014
Acquisitions		5,202	5,202
Foreign currency translation	(6,740)	(4,680)	(11,420)
Balance as of December 31, 2010	250,084	321,712	571,796
Foreign currency translation	(1,154)	(638)	(1,792)
Balance as of September 30, 2011	$ 248,930	$ 321,074	$ 570,004
Cumulative goodwill impairment charges [(1)]	$ 252,533	$	$ 252,533

(1) Based on exchange rates at the date of the charge.

The $5.2 million increase in goodwill related to acquisitions in 2010 was associated with the valuation of ILMVAC GmbH (ILMVAC).

9

Table of Contents

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

	September 30, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists and relationships	$ 117,868	$ (35,000)	$ 118,844	$ (29,973)
Acquired technology	97,698	(57,730)	94,689	(53,224)
Trade names	54,292	(10,068)	55,320	(8,621)
Other	6,796	(3,943)	7,344	(3,424)
Unamortized intangible assets:				
Trade names	108,470		108,633	
Total other intangible assets	$ 385,124	$ (106,741)	$ 384,830	$ (95,242)

Amortization of intangible assets for the three and nine-month periods ended September 30, 2011 and 2010 was as follows:

	0000000000	0000000000	0000000000	0000000000
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Intangible asset amortization expense	$ 3,869	$ 4,007	$ 12,720	$ 12,795

Amortization of intangible assets held as of September 30, 2011 is anticipated to be approximately $16.5 million annually in 2012 through 2015 based upon exchange rates as of September 30, 2011. The increase in the gross carrying amount of identifiable assets other than goodwill between December 31, 2010 and September 30, 2011 was due primarily to the effect of changes in foreign currency exchange rates and the acquisition of certain technology during the second quarter of 2011.

Note 5. Accrued Liabilities

Accrued liabilities as of September 30, 2011 and December 31, 2010 consisted of the following:

	September 30, 2011	December 31, 2010
Salaries, wages and related fringe benefits	$ 60,456	$ 50,540
Taxes	54,360	25,367
Advance payments on sales contracts	41,871	39,026
Product warranty	23,006	19,100
Other	48,792	45,008
Total accrued liabilities	$ 228,485	$ 179,041

Table of Contents

A reconciliation of the changes in the accrued product warranty liability for the three and nine-month periods ended September 30, 2011 and 2010 is as follows:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Balance at beginning of period	$ 23,531	$ 17,006	$ 19,100	$ 19,312
Product warranty accruals	6,487	7,164	21,453	18,114
Settlements	(6,242)	(6,361)	(17,514)	(18,346)
Acquisitions		133		133
Effect of foreign currency translation	(770)	896	(33)	(375)
Balance at end of period	$ 23,006	$ 18,838	$ 23,006	$ 18,838

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 nine-month periods ended September 30, 2011 and 2010:

	Three Months Ended September 30, Pension Benefits U.S. Plans		Non-U.S. Plans		Other Postretirement Benefits	
	2011	2010	2011	2010	2011	2010
Service cost	$	$	$ 272	$ 257	$ 7	$ 9
Interest cost	897	904	3,024	2,896	193	194
Expected return on plan assets	(1,054)	(916)	(2,794)	(2,597)		
Recognition of:						
Unrecognized prior service cost			10	6	(15)	(39)
Unrecognized net actuarial loss (gain)	308	310	221	248	(318)	(398)
FASB ASC 715-30 curtailment gain						
Total net periodic benefit cost (income)	$ 151	$ 298	$ 733	$ 810	$ (133)	$ (234)

	Nine Months Ended September 30, Pension Benefits U.S. Plans		Non-U.S. Plans		Other Postretirement Benefits	
	2011	2010	2011	2010	2011	2010
Service cost	$	$	$ 810	$ 781	$ 22	$ 17
Interest cost	2,691	2,834	9,060	8,668	579	692
Expected return on plan assets	(3,162)	(2,686)	(8,380)	(7,731)		
Recognition of:						
Unrecognized prior service cost			29	18	(45)	(89)
Unrecognized net actuarial loss (gain)	924	1,028	664	742	(954)	(1,048)
FASB ASC 715-30 curtailment gain				(837)		
Total net periodic benefit cost (income)	$ 453	$ 1,176	$ 2,183	$ 1,641	$ (398)	$ (428)

Table of Contents

Note 7. Debt

The Company s debt at September 30, 2011 and December 31, 2010 is summarized as follows:

	September 30, 2011	December 31, 2010
Short-term debt	$ 2,667	$ 7,440
Long-term debt:		
Credit Line, due 2013 (1)	$ 119,000	$
Term Loan, denominated in U.S. dollars (USD), due 2013 (2)	64,615	75,000
Term Loan, denominated in euros (EUR), due 2013 (3)	56,283	65,250
Senior Subordinated Notes at 8%, due 2013 (4)		125,000
Secured Mortgages (5)	7,027	7,322
Capitalized leases and other long-term debt	7,545	7,898
Total long-term debt, including current maturities	254,470	280,470
Current maturities of long-term debt	35,873	29,788
Total long-term debt, less current maturities	$ 218,597	$ 250,682

(1) The loans under this facility may be denominated in USD or several foreign currencies. The interest rates under the facility are based on prime and/or LIBOR for the applicable currency. At September 30, 2011, the applicable rate was 1.5% and averaged 1.9% for the nine-month period ended September 30, 2011.

(2) The interest rate for this loan varies with prime and/or LIBOR. At September 30, 2011, the applicable rate was 1.8% and averaged 2.2% for the nine-month period ended September 30, 2011.

(3) The interest rate for this loan varies with Euro LIBOR. At September 30, 2011, this rate was 2.8% and averaged 3.0% for the nine-month period ended September 30, 2011.

(4) On May 2, 2011, the Company redeemed all $125.0 million in aggregate principal amount outstanding of its Senior Subordinated Notes at 8%, plus accrued and unpaid interest. As a result, the Company wrote off $834 of unamortized debt issue cost.

(5) This amount consists of two fixed-rate commercial loans with an outstanding balance of 5,249 at September 30, 2011. The loans are secured by the Company s facility in Bad Neustadt, Germany.

Table of Contents

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 nine-month periods ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Selling and administrative expenses	$ 1,058	$ 1,103	$ 5,320	$ 4,125
Total stock-based compensation expense included in operating expenses	$ 1,058	$ 1,103	$ 5,320	$ 4,125
Income before income taxes	(1,058)	(1,103)	(5,320)	(4,125)
Provision for income taxes	279	327	1,511	1,291
Net income	$ (779)	$ (776)	$ (3,809)	$ (2,834)
Net cash provided by operating activities	$ (300)	$ (482)	$ (2,537)	$ (2,385)
Net cash used in financing activities	$ 300	$ 482	$ 2,537	$ 2,385

Stock Option Awards

A summary of the Company s stock option activity for the nine-month period ended September 30, 2011 is presented in the following table (underlying shares in thousands):

	Shares	Outstanding Weighted-Average Exercise Price (per share)	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life
Outstanding at December 31, 2010	863	$ 32.69		
Granted	183	$ 76.55		
Exercised	(186)	$ 30.49		
Forfeited	(49)	$ 47.22		
Expired or canceled		$		
Outstanding at September 30, 2011	811	$ 42.10	$ 19,554	4.3 years
Exercisable at September 30, 2011	447	$ 32.56	$ 13,880	3.3 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, 2011 multiplied by the number of in-the-money stock options. The following table presents certain other information about the Company s stock options:

Table of Contents

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Weighted-average estimated grant-date fair value of employee stock options granted (per share)	$ 29.70		$ 28.26	
Total pre-tax intrinsic value of stock options exercised	$ 1,306	$ 3,625	$ 8,741	$ 11,855
Pre-tax unrecognized compensation expense, net of estimated forfeitures as of September 30, 2011			$ 4,212	
Weighted-average period (in years) to be recognized as expense			2.0	

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 September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Assumptions:				
Risk-free interest rate	1.3%	1.6%	1.9%	2.3%
Dividend yield	0.2%	0.5%	0.3%	0.5%
Volatility factor	45	45	44	43
Expected life (in years)	3.8	4.4	4.3	4.7

Restricted Share Awards

A summary of the Company s restricted share award activity for the nine-month period ended September 30, 2011 is presented in the following table (underlying shares in thousands):

	Shares	Weighted-Average Grant-Date Fair Value (per share)
Nonvested at December 31, 2010	161	$ 35.13
Granted	44	$ 77.89
Vested	(51)	$ 38.27
Forfeited	(10)	$ 43.18
Nonvested at September 30, 2011	144	$ 46.55

14

Table of Contents

The restricted shares granted in the nine-month period ended September 30, 2011 were valued at the market close price of the Company s common stock on the date of grant. The following table presents certain other information about the Company s restricted share awards:

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Total fair value of awards vested during the period	$ 3,828	$ 950
Pre-tax unrecognized compensation expense, net of estimated forfeitures as of September 30, 2011	$ 3,327	
Weighted-average period (in years) to be recognized as expense	2.0	

Note 9. Stockholders Equity and Earnings 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 nine-month period ended September 30, 2011, the Company repurchased 1.8 million shares under this program at a total cost of $126.1 million.

The following table details the calculation of basic and diluted earnings per common share, and antidilutive equity-based awards outstanding not included in the computation of diluted earnings per common share, for the three and nine-month periods ended September 30, 2011 and 2010 (shares in thousands):

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net income attributable to Gardner Denver	$ 73,583	$ 46,575	$ 200,182	$ 115,867
Weighted average shares of common stock outstanding:				
Basic	51,601	52,352	52,028	52,271
Effect of stock-based compensation awards	367	397	400	412
Diluted	51,968	52,749	52,428	52,683
Earnings Per Share:				
Basic	$ 1.43	$ 0.89	$ 3.85	$ 2.22
Diluted	$ 1.42	$ 0.88	$ 3.82	$ 2.20
Antidilutive equity-based awards outstanding	142	220	116	214

On April 20, 2011, the Company announced that it had reached an agreement with the minority shareholders of its two joint ventures in China, Shanghai CompAir Compressor Co. Ltd. and Shanghai CompAir-Dalong High Pressure Equipment Co. Ltd., to acquire all of their equity interests in these entities, representing 49 percent and 40 percent of the two entities, respectively. The purchase price of RMB 122.0 million ($18.8 million based on exchange rates at the date of payment) was placed by the Company into escrow with the Shanghai United Assets and Equity Exchange during the second quarter of 2011 pending finalization of certain Chinese governmental

Table of Contents

approvals. Requisite governmental approvals were received and transfer of the equity interests to the Company was completed during the third quarter of 2011. The share purchase was accounted for by the Company as an equity transaction. The cash payment was classified as a cash flow from financing activities in the consolidated statements of cash flows. The excess of the cash exchanged for the shares and the carrying value of the non-controlling interests was recorded as a charge to capital in excess of par value on the consolidated balance sheet and resulted in an $8.8 million reduction in stockholders equity attributable to Gardner Denver. The non-controlling interests associated with these two joint ventures were eliminated from the consolidated statements of operations and balance sheet as of the closing date.

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) realized and unrealized foreign currency gains and losses on intercompany notes of a long-term nature and certain hedges of foreign subsidiaries, (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.

Table of Contents

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

	Cumulative Currency Translation Adjustment [1]	Foreign Currency Gains (Losses)	Unrealized Gains (Losses) on Cash Flow Hedges	Pension and Postretirement Benefit Plans	Accumulated Other Comprehensive Income
Balance at December 31, 2009	$ 134,573	$ (21,319)	$ (250)	$ (30,490)	$ 82,514
Before tax (loss) income	(38,820)	8,920	(706)	287	(30,319)
Income tax effect		297	268	(84)	481
Other comprehensive (loss) income	(38,820)	9,217	(438)	203	(29,838)
Balance at March 31, 2010	95,753	(12,102)	(688)	(30,287)	52,676
Before tax (loss) income	(47,788)	664	(495)	260	(47,359)
Income tax effect		(649)	188	(75)	(536)
Other comprehensive (loss) income	(47,788)	15	(307)	185	(47,895)
Balance at June 30, 2010	47,965	(12,087)	(995)	(30,102)	4,781
Before tax income (loss)	29,526	31,850	(247)	82	61,211
Income tax effect		140	94	(6)	228
Other comprehensive income (loss)	29,526	31,990	(153)	76	61,439
Balance at September 30, 2010	$ 77,491	$ 19,903	$ (1,148)	$ (30,026)	$ 66,220
Balance at December 31, 2010	$ 69,282	$ 19,095	$ (933)	$ (26,019)	$ 61,425
Before tax income (loss)	31,245	3,524	404	(669)	34,504
Income tax effect		(434)	(154)	(71)	(659)
Other comprehensive income (loss)	31,245	3,090	250	(740)	33,845
Balance at March 31, 2011	100,527	22,185	(683)	(26,759)	95,270
Before tax income (loss)	17,711	(2,403)	(23)	136	15,421
Income tax effect		99	9	(34)	74
Other comprehensive income (loss)	17,711	(2,304)	(14)	102	15,495
Balance at June 30, 2011	118,238	19,881	(697)	(26,657)	110,765
Before tax (loss) income	(52,649)	(2,715)	83	1,109	(54,172)
Income tax effect		(734)	(31)	(800)	(1,565)
Other comprehensive (loss) income	(52,649)	(3,449)	52	309	(55,737)
Balance at September 30, 2011	$ 65,589	$ 16,432	$ (645)	$ (26,348)	$ 55,028

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

17

Table of Contents

The Company s comprehensive income (loss) for the three and nine-month periods ended September 30, 2011 and 2010 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income attributable to Gardner Denver	$ 73,583	$ 46,575	$ 200,182	$ 115,867
Other comprehensive (loss) income	(55,737)	61,439	(6,397)	(16,294)
Comprehensive income attributable to Gardner Denver	17,846	108,014	193,785	99,573
Net income attributable to noncontrolling interests	694	273	1,690	1,158
Other comprehensive (loss) income	(392)	347	(4)	(462)
Comprehensive income attributable to noncontrolling interests	302	620	1,686	696
Total comprehensive income	$ 18,148	$ 108,634	$ 195,471	$ 100,269

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 $257.1 million at September 30, 2011. 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. The USD, 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.

Table of Contents

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, 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:

		September 30, 2011		
	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 liabilities	$ 76,774	$	$ 1,087
Derivatives not designated as hedging instruments under FASB ASC 815				
Foreign currency forwards	Current assets	$ 75,320	$ 2,444	$ 386
Foreign currency forwards	Current liabilities	$ 10,693	$	$ 339

Table of Contents

		December 31, 2010		
	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 liabilities	$ 76,742	$	$ 1,560
Derivatives not designated as hedging instruments under FASB ASC 815				
Foreign currency forwards	Accrued liabilities	$ 113,871	$ 709	$ 1,884

(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 Statements of Operations for the three and nine-month periods ended September 30, 2011 and 2010, respectively, are as presented in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest rate swap contracts (1)				
Amount of gain or (loss) recognized in AOCI on derivatives (effective portion)	$ (174)	$ (543)	$ (344)	$ (2,455)
Amount of gain or (loss) reclassified from AOCI into income (effective portion)	(257)	(295)	(808)	(1,006)
Amount of gain or (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)	(2)		(3)	(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 September 30, 2011, 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 September 30, 2011, the Company expects to reclassify losses of $0.8 million out of AOCI into earnings during the next 12 months. The Company s LIBOR-based variable rate borrowings outstanding at September 30, 2011 were $183.6 million and 42.0 million.

Table of Contents

There were 50 foreign currency forward contracts outstanding as of September 30, 2011 with notional amounts ranging from $0.1 million to $10.9 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 s gains and (losses) on forward currency contracts outstanding and total net foreign currency gains and (losses) for the three and nine-month periods ended September 30, 2011 and 2010 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Foreign currency forward contracts	$ 2,747	$ (6,150)	$ 742	$ (790)
Total net foreign currency (losses) and gains [(1)]	(25)	(1,760)	(2,614)	(1,132)

(1) See Note 13 Supplemental Information

As of September 30, 2011, the Company had designated approximately 29.7 million of its term loan denominated in EUR as a hedge of its 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 have been recorded through other comprehensive income. The Company s gains and (losses), net of income tax, associated with changes in the fair value of this debt for the three and nine-month periods ended September 30, 2011 and 2010, and the net balance of such gains and losses at September 30, 2011 and 2010 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Gain (loss), net of income tax, recorded through other comprehensive income	$ 1,955	$ (974)	$ 1,638	$ 1,663
Balance included in accumulated other comprehensive income at September 30			(3,495)	(3,795)

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 are a reasonable estimate of their respective fair values.

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, 2011:

Table of Contents

	Level 1	Level 2	Level 3	Total
Financial Assets				
Foreign currency forwards (1)	$	$ 2,444	$	$ 2,444
Trading securities held in deferred compensation plan (2)	5,852			5,852
Total	$ 5,852	$ 2,444	$	$ 8,296
Financial Liabilities				
Foreign currency forwards (1)	$	$ 725	$	$ 725
Interest rate swaps (3)		1,087		1,087
Phantom stock plan (4)		5,548		5,548
Deferred compensation plan (5)	5,852			