GARDNER DENVER INC
Form 10-Q
November 09, 2006

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

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

For the quarterly period ended September 30, 2006

OR

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

Commission File Number 1-13215

GARDNER DENVER, INC.

(Exact name of registrant as specified in its charter)

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

1800 Gardner Expressway
Quincy, Illinois 62305
(Address of principal executive offices and Zip Code)
(217) 222-5400
(Registrant s telephone number, including area code)

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 52,506,354 shares of Common Stock, par value $0.01 per share, as of October 29, 2006.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GARDNER DENVER, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues	$ 414,028	$ 356,095	$ 1,229,634	$ 845,265
Costs and expenses:				
Cost of sales (excluding depreciation and amortization)	271,549	240,535	800,438	569,449
Depreciation and amortization	13,000	11,335	39,527	25,816
Selling and administrative expenses	73,783	71,082	220,531	175,245
Interest expense	8,762	10,358	28,574	19,642
Other income, net	(1,015)	(1,016)	(2,155)	(4,338)
Total costs and expenses	366,079	332,294	1,086,915	785,814
Income before income taxes	47,949	23,801	142,719	59,451
Provision for income taxes	15,832	7,140	47,106	17,835
Net income	$ 32,117	$ 16,661	$ 95,613	$ 41,616
Basic earnings per share	$ 0.61	$ 0.32	$ 1.83	$ 0.90
Diluted earnings per share	$ 0.60	$ 0.32	$ 1.79	$ 0.88

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

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

	September 30, 2006 (unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and equivalents	$ 86,024	$ 110,906
Accounts receivable (net of allowances of $10,333 at September 30, 2006 and $9,605 at December 31, 2005)	271,677	229,467
Inventories, net	228,555	207,326
Deferred income taxes	27,270	25,754
Other current assets	16,544	12,814
Total current assets	630,070	586,267
Property, plant and equipment, net	266,533	282,591
Goodwill	679,042	620,244
Other intangibles, net	197,511	203,516
Other assets	21,775	22,442
Total assets	$ 1,794,931	$ 1,715,060
Liabilities and Stockholders Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 32,034	$ 26,081
Accounts payable	102,733	103,028
Accrued liabilities	198,252	184,735
Total current liabilities	333,019	313,844
Long-term debt, less current maturities	459,197	542,641
Postretirement benefits other than pensions	31,863	31,387
Deferred income taxes	83,551	86,171
Other liabilities	89,648	82,728
Total liabilities	997,278	1,056,771
Stockholders equity:		
Common stock, $0.01 par value; 100,000,000 shares authorized; 52,501,169 and 51,998,704 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	562	278

Capital in excess of par value	487,131	472,825
Retained earnings	301,994	206,381
Accumulated other comprehensive income	39,608	8,124
Treasury stock at cost, 3,733,095 and 3,618,052 shares at September 30, 2006 and December 31, 2005, respectively	(31,642)	(29,319)
Total stockholders equity	797,653	658,289
Total liabilities and stockholders equity	$ 1,794,931	$ 1,715,060

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

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

	Nine Months Ended September 30,	
	2006	**2005**
Cash Flows From Operating Activities		
Net income	$ 95,613	$ 41,616
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,527	25,816
Unrealized foreign currency transaction loss (gain), net	354	(108)
Net loss on asset dispositions	51	146
Stock issued for employee benefit plans	2,767	2,496
Excess tax benefits from stock-based compensation	(2,925)	
Deferred income taxes	(4,787)	(1,874)
Changes in assets and liabilities:		
Receivables	(32,639)	(7,638)
Inventories	(16,581)	(4,316)
Accounts payable and accrued liabilities	(2,212)	(8,609)
Other assets and liabilities, net	7,572	5,298
Net cash provided by operating activities	86,740	52,827
Cash Flows From Investing Activities		
Net cash paid in business combinations	(20,057)	(480,421)
Capital expenditures	(26,277)	(22,650)
Disposals of property, plant and equipment	11,436	536
Other, net		(2,148)
Net cash used in investing activities	(34,898)	(504,683)
Cash Flows From Financing Activities		
Principal payments on short-term borrowings	(7,997)	(23,380)
Proceeds from short-term borrowings	8,293	16,663
Principal payments on long-term debt	(210,376)	(467,328)
Proceeds from long-term debt	120,922	786,150
Proceeds from issuance of common stock		199,318
Proceeds from stock options	4,593	5,498
Excess tax benefits from stock-based compensation	2,925	
Purchase of treasury stock	(1,222)	(2,810)
Debt issuance costs	(540)	(7,789)
Other	(158)	
Net cash (used in) provided by financing activities	(83,560)	506,322

Effect of exchange rate changes on cash and equivalents	6,836	(4,511)
(Decrease) increase in cash and equivalents	(24,882)	49,955
Cash and equivalents, beginning of year	110,906	64,601
Cash and equivalents, end of period	$ 86,024	$ 114,556

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

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

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Gardner Denver, Inc. and those subsidiaries that are majority-owned or over which Gardner Denver, Inc. exercises control (referred to herein as Gardner Denver or the Company). In consolidation, all significant intercompany transactions and accounts have been eliminated. Current and prior year per share amounts in this report on Form 10-Q reflect the effect of a two-for-one stock split (in the form of a 100% stock dividend) that was completed on June 1, 2006 (see Note 3).

The financial information presented as of any date other than December 31, 2005 has been prepared from the books and records of the Company without audit. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of such financial statements, have been included.

The unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Gardner Denver s Annual Report on Form 10-K for the year ended December 31, 2005.

The results of operations for the nine-month period ended September 30, 2006 are not necessarily indicative of the results to be expected for the full year. The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

Other than as specifically indicated in the Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, the Company has not materially changed its significant accounting policies from those disclosed in its Form 10-K for the year ended December 31, 2005.

In the first quarter of 2006, the Company made certain organizational changes that resulted in a realignment of its reportable segments. The operations of the Company s line of specialty bronze and high alloy pumps for the general industrial and marine markets (acquired in July 2005 as part of Thomas Industries Inc. (Thomas)) (see Note 2) and the operations of its line of self-sealing couplings (acquired in January 2004 as part of Syltone plc (Syltone)) were transferred from the Compressor and Vacuum Products segment to the Fluid Transfer Products segment. Accordingly, reportable segment information for these two operations has been included in the Fluid Transfer Products segment results. Results for the three and nine-month periods ended September 30, 2005 have been restated to reflect this realignment. In addition, operating results of the Todo Group (Todo), a manufacturer of self-sealing couplings that was acquired in January 2006 (see Note 2) have been included in the Fluid Transfer Products segment from the date of acquisition.

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Changes in Accounting Principles and Effects of New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). SFAS No. 123(R) supersedes Accounting Principals Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and amends SFAS No. 95, *Statement of Cash Flows.* The Company adopted the provisions of SFAS No. 123(R) effective January 1, 2006. Disclosures related to the Company s stock-based compensation plans are included in Note 9.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 in the first quarter of 2007. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. Management has commenced the process of evaluating the expected effect of FIN 48 on the Company s consolidated financial statements and related disclosure requirements.

In June 2006, the Emerging Issues Task Force reached a consensus on the income statement presentation of various types of taxes. The new guidance, Emerging Issues Task Force Issue 06-3 *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* (EITF 06-3) applies to any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes. The presentation of taxes within the scope of this issue on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to APB Opinion No. 22, *Disclosure of Accounting Policies.* The EITF s decision on gross versus net presentation requires that any such taxes reported on a gross basis be disclosed on an aggregate basis in interim and annual financial statements, for each period for which an income statement is presented, if those amounts are significant. EITF 06-3 is effective for fiscal years beginning after December 15, 2006. Management has commenced the process of evaluating the expected effect of EITF 06-3 on the Company s disclosure requirements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. SFAS No. 157 applies whenever other statements require or permit assets or liabilities to be measured at fair value. This statement is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact the adoption of SFAS No. 157 will have on the Company s consolidated financial statements and related disclosure requirements.

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In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS No. 158), which requires companies to recognize a net liability or asset and an offsetting adjustment to accumulated other comprehensive income to report the funded status of defined benefit pension and other postretirement benefit plans. SFAS No.158 requires prospective application, and the recognition and disclosure requirements are effective for fiscal years ending after December 15, 2006. Additionally, this statement requires companies to measure plan assets and obligations at their year-end balance sheet date. This requirement is effective for fiscal years ending after December 15, 2008. Management has commenced the process of evaluating the expected effect of SFAS No. 158 on the Company s consolidated financial statements and related disclosure requirements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB No. 108), which addresses the diversity in practice in quantifying financial statement misstatements and provides interpretive guidance regarding the consideration given to prior year misstatements when determining materiality in current year financial statements. SAB No. 108 is effective for fiscal years ending after November 15, 2006. Management is currently evaluating the impact the adoption of SAB No. 108 will have on the Company s consolidated financial statements and related disclosure requirements.

Note 2. Business Combinations

Service marks, trademarks and/or tradenames and related designs or logotypes owned by Gardner Denver, Inc. or its subsidiaries are shown in italics.

The following table presents summary information with respect to acquisitions completed by Gardner Denver during 2005:

Date of Acquisition	Acquired Entity	Net Transaction Value
June 1, 2005	Bottarini S.p.A.	8.0 million (approximately $10.0 million)
July 1, 2005	Thomas Industries Inc.	$483.5 million

During the nine-month period ended September 30, 2006, the Company also made cash acquisition payments of approximately $4.0 million, primarily consisting of payments to former stockholders and transaction-related costs in connection with Thomas, and reflected in the above transaction value.

On January 9, 2006, the Company completed the acquisition of the Todo Group (Todo) for a purchase price of 126.2 million Swedish kronor (approximately $16.1 million), net of debt and cash acquired. Todo, with assembly operations in Sweden and the United Kingdom, and a central European sales and distribution operation in the Netherlands, has an extensive offering of dry-break couplers. *Todo-Matic* self-sealing couplings are used by oil, chemical and gas companies to transfer their products. The Todo acquisition extends the Company s product line of *Emco Wheaton* couplers, added as part of the Syltone plc (Syltone) acquisition in 2004.

All acquisitions have been accounted for by the purchase method and, accordingly, their results are included in the Company s consolidated financial statements from the respective dates of acquisition. Under the purchase method, the purchase price is allocated based on the fair value of assets received and liabilities assumed as of the acquisition date.

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Acquisition of Thomas Industries Inc.

Under the purchase method of accounting, the assets and liabilities of Thomas were recorded at their estimated respective fair values as of July 1, 2005. The initial allocation of the purchase price was subsequently adjusted when preliminary valuation estimates were finalized. The following table summarizes the nature and amount of such adjustments recorded in 2006:

Thomas Industries Inc.
Purchase Price Allocation and Adjustments
September 30, 2006

Total intangible assets recorded as of December 31, 2005	$ 360,373
Purchase accounting adjustments recorded in 2006:	
Fair value of current assets and liabilities, net	9,090
Fair value of property, plant and equipment, net	2,893
Termination benefits and other related liabilities	(2,872)
Income taxes, net	4,865
Other, net	1,951
Total intangible assets recorded as of September 30, 2006	$ 376,300
Goodwill	$ 276,955
Identifiable intangible assets	99,345
Total	$ 376,300

Finalization of the fair value of the Thomas tangible and amortizable intangible assets resulted in a cumulative $5.5 million pre-tax charge to depreciation expense and a cumulative $3.2 million pre-tax credit to amortization expense in the second quarter of 2006.

In connection with the acquisition of Thomas, the Company initiated plans to close and consolidate certain former Thomas facilities, primarily in the U.S. and Europe. These plans include 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 are expected to be substantively completed during the next nine months. A liability of $17,500 was included in the allocation of the Thomas purchase price for the estimated cost of these actions at July 1, 2005 in accordance with EITF No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*. Based on finalization of these plans, an estimated total cost of $16,862 has been included in the allocation of the Thomas purchase price. The cost of these plans is comprised of the following:

Voluntary and involuntary employee termination and relocation	$ 14,718
Lease termination and related costs	1,007
Other	1,137
Total	$ 16,862

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The following table summarizes the activity in the associated accrual account. All additional amounts accrued, net, were recorded as adjustments to the cost of acquiring Thomas.

	Termination Benefits	Other	Total
Established at July 1, 2005	$ 16,814	$ 686	$ 17,500
Amounts paid	(8,157)		(8,157)
Balance at December 31, 2005	8,657	686	9,343
Additional amounts accrued (reversed), net	(2,096)	1,458	(638)
Amounts paid	(3,096)	(527)	(3,623)
Balance at September 30, 2006	$ 3,465	$ 1,617	$ 5,082

Note 3. Stockholders Equity and Stock Split

On May 2, 2006, the Company s stockholders approved an increase in the number of authorized shares of common stock from 50 million to 100 million. This increase in shares allowed the Company to complete the previously announced two-for-one stock split (in the form of a 100% stock dividend). Stockholders of record at the close of business on May 11, 2006 received a stock dividend of one share of the Company s common stock for each share owned. The stock dividend was paid after the close of business on June 1, 2006. All shares reserved for issuance pursuant to the Company s stock option, retirement savings and stock purchase plans were automatically increased by the same proportion pursuant to the Company s Long-Term Incentive Plan and retirement savings plan. In addition, shares subject to outstanding options or other rights to acquire the Company s stock and the exercise price for such shares were adjusted proportionately. The Company transferred $0.3 million to common stock from additional paid-in capital, representing the aggregate par value of the shares issued under the stock split. Current and prior year share and per share amounts in this report on Form 10-Q reflect the effect of the two-for-one stock split (in the form of a 100% stock dividend) that was completed on June 1, 2006.

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Note 4. Inventories

	September 30, 2006	December 31, 2005
Raw materials, including parts and subassemblies	$ 104,212	$ 95,855
Work-in-process	39,653	37,230
Finished goods	95,493	80,494
	239,358	213,579
Excess of FIFO costs over LIFO costs	(10,803)	(6,253)
Inventories, net	$ 228,555	$ 207,326

Note 5. 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, 2006, and the year ended December 31, 2005, are presented in the table below. The adjustments to goodwill recorded in 2006 reflect the finalization of the purchase price allocations for the Thomas and Bottarini S.p.A. (Bottarini) acquisitions.

	Compressor & Vacuum Products	Fluid Transfer Products	Total
Balance as of December 31, 2004	$ 336,075	$ 38,084	$ 374,159
Acquisitions	256,942		256,942
Adjustments to goodwill	4,332		4,332
Foreign currency translation	(13,908)	(1,281)	(15,189)
Balance as of December 31, 2005	583,441	36,803	620,244
Acquisitions		12,409	12,409
Adjustments to goodwill	24,724		24,724
Foreign currency translation	20,093	1,572	21,665
Balance as of September 30, 2006	$ 628,258	$ 50,784	$ 679,042

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

	September 30, 2006		December 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists and relationships	$ 63,290	$ (7,793)	$ 105,896	$ (7,389)
Acquired technology	37,691	(18,652)	30,802	(13,164)
Other	11,758	(4,376)	13,453	(3,558)
Unamortized intangible assets:				
Trademarks	115,593		77,476	

Total other intangible assets	$ 228,332	$	(30,821)	$ 227,627	$	(24,111)

Amortization of intangible assets for the three and nine-month periods ended September 30, 2006, was $2.6 million and $5.8 million, respectively. Finalization of the fair value of the Thomas amortizable intangible assets resulted in a cumulative $3.2 million pre-tax credit to amortization expense in the second quarter of 2006. Amortization of intangible assets for the three and nine-month periods

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ended September 30, 2005, was $2.9 million and $6.6 million, respectively. Amortization of intangible assets is anticipated to be approximately $8.0 to $9.0 million annually in 2006 through 2010, based upon existing intangible assets with finite useful lives as of September 30, 2006.

Note 6. Accrued Product Warranty

The following table summarizes the activity in the Company s product warranty accrual for the three and nine-month periods ended September 30, 2006 and 2005, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Balance at beginning of period	$ 17,048	$ 10,861	$ 15,254	$ 10,671
Product warranty accruals	3,101	3,464	10,985	7,374
Settlements	(3,961)	(3,235)	(10,709)	(6,700)
Other (acquisitions and foreign currency translation)	747	5,872	1,405	5,617
Balance at end of period	$ 16,935	$ 16,962	$ 16,935	$ 16,962

Note 7. 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, 2006 and 2005, respectively:

	Three Months Ended September 30,					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Service cost	$ 857	$ 1,346	$ 1,342	$ 1,342	$ 33	$ 28
Interest cost	993	1,025	2,120	2,008	390	409
Expected return on plan assets	(1,087)	(1,150)	(2,367)	(1,901)		
Amortization of prior-service cost	(18)	(2)			(27)	11
Amortization of net loss (gain)	124	136	122	56	(56)	(139)
Net periodic benefit expense	$ 869	$ 1,355	$ 1,217	$ 1,505	$ 340	$ 309

	Nine Months Ended September 30,					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Service cost	$ 2,571	$ 2,552	$ 4,026	$ 3,815	$ 99	$ 28
Interest cost	2,979	2,801	6,360	5,948	1,170	1,169
Expected return on plan assets	(3,261)	(3,100)	(7,101)	(5,935)		
	(54)	(52)			(81)	(39)

Amortization of prior-service cost						
Amortization of net loss (gain)	372	356	366	135	(168)	(439)
Net periodic benefit expense	$ 2,607	$ 2,557	$ 3,651	$ 3,963	$ 1,020	$ 719

During the third quarter of 2006, the Company announced changes to certain of its defined pension benefit plans, effective November 1, 2006. See Note 16, Subsequent Event.

Note 8. Debt

The Company s debt is summarized as follows:

	September 30, 2006	December 31, 2005
Short-term debt	$ 201	$ 1,860
Long-term debt:		
Credit Line, due 2010 (1)	$ 140,261	$ 158,900
Term Loan, due 2010 (2)	194,000	255,000
Senior Subordinated Notes at 8%, due 2013	125,000	125,000
Secured Mortgages (3)	9,543	8,892
Variable Rate Industrial Revenue Bonds, due 2018 (4)	8,000	8,000
Capitalized leases and other long-term debt	14,226	11,070
Total long-term debt, including current maturities	491,030	566,862
Current maturities of long-term-debt	31,833	24,221
Total long-term debt, less current maturities	$ 459,197	$ 542,641

(1) The loans under this facility may be denominated in U.S. dollars or several foreign currencies. At September 30, 2006, the outstanding balance consisted of U.S. dollar borrowings of $45,500, Euro borrowings of 60,000 and British pound borrowings of £10,000. The interest rates under the facility are based on prime and/or LIBOR for the applicable currency. The

weighted-average interest rates were 6.2%, 4.0% and 5.8% as of September 30, 2006 for the U.S. dollar, Euro and British pound loans, respectively. The interest rates averaged 6.2%, 4.1% and 6.1% during the first nine months of 2006 for the U.S. dollar, Euro and British pound loans, respectively.

(2) The interest rate varies with prime and/or LIBOR. At September 30, 2006, this rate was 6.4% and averaged 6.4% during the first nine months of 2006.

(3) This amount consists of two fixed-rate commercial loans assumed in the 2004 acquisition of nash_elmo Holdings, LLC (Nash Elmo) with an outstanding balance of 7,530 at September 30, 2006. The loans are secured by the Company s facility in Bad Neustadt, Germany.

(4)

The interest rate varies with market rates for tax-exempt industrial revenue bonds. At September 30, 2006, this rate was 3.8% and averaged 3.5% during the first nine months of 2006. These industrial revenue bonds are secured by an $8,100 standby letter of credit. The proceeds from the bonds were used to construct the Company s Peachtree City, Georgia facility.

Note 9. Stock-Based Compensation Plans

On January 1, 2006, Gardner Denver adopted SFAS No. 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. SFAS No. 123(R) supersedes the Company s previous accounting under APB 25*,* for periods beginning in fiscal 2006. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) to assist preparers with their implementation of SFAS No. 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

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The Company adopted SFAS No. 123(R) using the modified prospective transition method. Under this method, the Company s consolidated financial statements as of and for the nine-month period ended September 30, 2006, reflect the impact of SFAS No. 123(R), while the consolidated financial statements for periods prior to January 1, 2006 have not been restated to reflect, and do not include, the impact of SFAS No. 123(R). Stock-based compensation expense recognized under SFAS No. 123(R) was $1.0 million and $4.6 million, respectively, for the third quarter and first nine months of 2006, which consisted of: (1) compensation expense for all unvested share-based awards outstanding as of December 31, 2005, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS No. 123, and (2) compensation expense for share-based awards granted subsequent to adoption based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that are ultimately expected to vest. SFAS No. 123(R) amends SFAS No. 95 to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid, which is included within operating cash flows. The following table shows the impact of the adoption of SFAS No. 123(R) on the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows.

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
Selling and administrative expenses	$	953	$	4,559
Total stock-based compensation expense included in operating expenses		953		4,559
Income before income taxes		(953)		(4,559)
Provision for income taxes		260		(1,311)
Net income	$	(693)	$	(3,248)
Basic and diluted earnings per share	$	(0.01)	$	(0.06)
Net cash provided by operating activities	$	(643)	$	(2,925)
Net cash used in financing activities	$	643	$	2,925

Plan Descriptions

Under the Company s Long-Term Incentive Plan (the Incentive Plan), designated employees are eligible to receive awards in the form of stock options, stock appreciation rights, restricted stock awards or performance shares, as determined by the Management Development and Compensation Committee of the Board of Directors. The Company s Incentive Plan is intended to assist the Company in recruiting and retaining employees and directors, and to associate the interests of eligible participants with those of the Company and its shareholders. An aggregate of 8,500,000 shares of common stock has been authorized for issuance under the Incentive Plan. Under the Incentive Plan, the grant price of an option is determined by the Management Development and Compensation Committee, but must not be less than the average of the high price and low price of the Company s common stock on the date of grant. The Incentive Plan provides that the term of any option granted may not exceed ten years. Under the terms of existing awards, one-third of employee options granted become vested and exercisable on each of the first three anniversaries of the date of grant (or upon retirement, death or cessation of service due to disability, if earlier). The options granted to employees in 2006, 2005 and 2004 expire seven years after the date of grant.

Pursuant to the Incentive Plan, the Company also issues share-based awards to directors who are not employees of Gardner Denver or its affiliates. Since 2002, each nonemployee director has been granted options to purchase 9,000 shares of common stock on the day after the annual meeting of stockholders. These options are granted at the fair market value (the average of the high and low price) of the common stock on the date of grant, become exercisable on the first anniversary of the date of grant (or upon retirement, death or cessation of service due to disability, if earlier) and expire five years after the date of grant. The maximum allowable grant to a nonemployee director in any given year is an option to purchase 18,000 shares of common stock.

The Company also has an employee stock purchase plan (the Stock Purchase Plan), a qualified plan under the requirements of Section 423 of the Internal Revenue Code, and has reserved 2,300,000 shares for issuance under this plan. The Stock Purchase Plan requires participants to have the purchase price of their options withheld from their pay over a one-year period. No options were offered to employees under the Stock Purchase Plan in 2006, 2005 or 2004.

Stock Option Awards

The following summary presents information regarding outstanding stock options as of September 30, 2006 and changes during the nine-month period then ended (underlying shares in thousands):

	Shares	Outstanding Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life
Outstanding at December 31, 2005	2,665	$ 12.39		
Granted	362	$ 31.98		
Exercised	(483)	$ 9.52		
Forfeited or canceled	(25)	$ 24.45		
Outstanding at September 30, 2006	2,519	$ 15.63	$44,300	4.5 years
Exercisable at September 30, 2006	1,729	$ 11.60	$37,122	4.0 years

The weighted-average estimated grant-date fair values of employee and director stock options granted during the nine-month period ended September 30, 2006 was $10.31. No options were granted during the third quarter of 2006.

The total pre-tax intrinsic value of options exercised during the third quarter of 2006 and 2005, was $1.8 million and $5.5 million, respectively. The total pre-tax intrinsic value of options exercised during the first nine months of 2006 and 2005, was $11.7 million and $8.8 million, respectively. Pre-tax unrecognized compensation expense for stock options, net of estimated forfeitures, was $3.3 million as of September 30, 2006, and will be recognized as expense over a weighted-average period of 1.5 years.

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Restricted Stock Awards

The following summary presents information regarding outstanding restricted stock awards as of September 30, 2006 and changes during the nine-month period then ended (underlying shares in thousands):

	Shares	Weighted-Average Price
Nonvested at December 31, 2005	36	$ 8.85
Granted	50	$ 30.58
Vested	(36)	$ 8.85
Forfeited		$
Nonvested at September 30, 2006	50	$ 30.58

The restricted stock awards granted during the first nine months of 2006 cliff vest three years after the date of grant. The restricted share award grants were valued at the average of the high and low price of the Company s common stock on the date of grant. Pre-tax unrecognized compensation expense, net of estimated forfeitures, for nonvested restricted stock awards was $0.3 million as of September 30, 2006, which will be recognized as expense over a weighted-average period of 2.4 years. The total fair value of restricted stock awards that vested during the nine-month period ended September 30, 2006 was $1.1 million. No restricted stock awards vested during the nine-month period ended September 30, 2005.

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

The fair value of each stock option grant under the Company s Long-Term Incentive Plan was estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average assumptions for the periods indicated are noted in the table below. No stock options were granted during the three-month periods ended September 30, 2006 and 2005. Expected volatility is based on historical volatility of the Company s common stock calculated over the expected term of the option. The expected term for the majority of the options granted in the first nine months of 2006 was calculated in accordance with SAB 107 using the simplified method for plain-vanilla options. The expected terms for options granted to certain executives and non-employee directors that have similar historical exercise behavior were determined separately for valuation purposes. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the date of grant.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
Assumptions:				
Risk-free interest rate	N/A	N/A	4.7%	3.9%
Dividend yield	N/A	N/A		
Volatility factor	N/A	N/A	27	33
Expected life (in years)	N/A	N/A	4.8	4.4

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Pro Forma Net Earnings

In accordance with the modified prospective transition method, the Company s consolidated financial statements for prior periods have not been restated and do not include the impact of SFAS No. 123(R). Accordingly, no compensation expense related to stock option awards was recognized in the three and nine-month periods ending September 30, 2005, as all stock options granted had an exercise price equal to the fair market value of the underlying common stock on the date of grant. The following table provides pro forma net income and earnings per share as if the fair-value-based method of accounting had been applied to all outstanding and unvested stock option awards prior to the adoption of SFAS 123(R). For purposes of this pro forma disclosure, the estimated fair value of a stock option award is assumed to be expensed over the award s vesting periods using the Black-Scholes model.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income, as reported	$ 16,661	$ 41,616
Less: Total stock-based employee compensation expense determined under fair value method, net of related tax effects	(439)	(1,218)
Pro forma net income	$ 16,222	$ 40,398
Basic earnings per share, as reported	$ 0.32	$ 0.90
Basic earnings per share, pro forma	$ 0.31	$ 0.87
Diluted earnings per share, as reported	$ 0.32	$ 0.88
Diluted earnings per share, pro forma	$ 0.31	$ 0.85

For stock option awards with accelerated vesting provisions that are granted to retirement-eligible employees and to employees that become eligible for retirement subsequent to the grant date, the Company previously followed the guidance of APB 25 and SFAS No. 123, which allowed compensation costs to be recognized ratably over the vesting period of the award. SFAS No. 123(R) requires compensation costs to be recognized over the requisite service period of the award instead of ratably over the vesting period stated in the grant. For awards granted prior to adoption, the Securities and Exchange Commission clarified that companies should continue to follow the vesting method they had previously been using. As a result, for awards granted prior to adoption, the Company will continue to recognize compensation costs ratably over the vesting period with accelerated recognition of the unvested portion upon actual retirement. The Company will follow the guidance of SFAS No. 123(R) for stock option awards granted subsequent to the adoption date. Therefore, the proforma information presented in the above table is not comparable to the amounts recognized by the Company over the same respective periods of 2006.

The Company s income taxes currently payable have been reduced by the tax benefits from employee stock option exercises and the vesting of restricted stock awards. These benefits totaled $0.6 million and $1.2 million for the three-month periods ended September 30, 2006 and 2005, respectively, and $2.9 million and $2.0 million for the nine-month periods of 2006 and 2005, respectively, and were recorded as an increase to additional paid-in capital.

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Note 10. Earnings Per Share

The following table details the calculation of basic and diluted earnings per share (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Basic Earnings Per Share:				
Net income	$ 32,117	$ 16,661	$ 95,613	$ 41,616
Shares:				
Weighted average number of common shares outstanding	52,436	51,742	52,258	46,438
Basic earnings per common share	$ 0.61	$ 0.32	$ 1.83	$ 0.90
Diluted Earnings Per Share:				
Net income	$ 32,117	$ 16,661	$ 95,613	$ 41,616
Shares:				
Weighted average number of common shares outstanding	52,436	51,742	52,258	46,438
Assuming conversion of dilutive stock options issued and outstanding	1,112	1,000	1,147	1,082
Weighted average number of common shares outstanding, as adjusted	53,548	52,742	53,405	47,520
Diluted earnings per common share	$ 0.60	$ 0.32	$ 1.79	$ 0.88

For the quarters ended September 30, 2006 and 2005, respectively, antidilutive options to purchase 208 thousand and 580 thousand weighted-average shares of common stock were outstanding. For the nine months ended September 30, 2006 and 2005, respectively, antidilutive options to purchase 196 thousand and 460 thousand weighted-average shares of common stock were outstanding. Antidilutive options outstanding were not included in the computation of diluted earnings per share.

Note 11. Comprehensive Income

For the three-month periods ended September 30, 2006 and 2005, comprehensive income was $37.7 million and $18.1 million, respectively. For the nine-month periods ended September 30, 2006 and 2005, comprehensive income was $127.1 million and $28.0 million, respectively. Items impacting the Company s comprehensive income, but not included in net income, consist of foreign currency translation adjustments, including realized and unrealized gains and losses (net of income taxes) on foreign currency hedges of the Company s investment in foreign subsidiaries, fair market value adjustments of interest rate swaps and additional minimum pension liability (net of income taxes).

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Note 12. Supplemental Cash Flow Information

In the nine-month periods of 2006 and 2005, the Company paid $51.3 million and $11.7 million, respectively, to various taxing authorities for income taxes. Interest paid for the nine- month periods of 2006 and 2005, was $24.9 million and $14.1 million, respectively.

Note 13. 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 an increasing number of asbestos personal injury lawsuits. The Company has also been named as a defendant in an increasing number of silicosis personal injury lawsuits. The plaintiffs in these suits allege exposure to asbestos or silica from multiple sources and typically the Company is one of approximately 25 or more named defendants. In the Company s experience, the vast majority of the plaintiffs are not impaired with a disease for which the Company bears any responsibility.

Predecessors to the Company 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 used in the Products were enclosed within the subject Products.

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

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

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

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Note 14. Segment Results

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

In the first quarter of 2006, the Company made certain organizational changes that resulted in a realignment of its reportable segments. The operations of the Company s line of specialty bronze and high alloy pumps for the general industrial and marine markets (acquired in July 2005 as part of Thomas) and the operations of its line of self-sealing couplings (acquired in January 2004 as part of Syltone) were transferred from the Compressor and Vacuum Products segment to the Fluid Transfer Products segment. Accordingly, the results of these two operations have been included in the Fluid Transfer Products segment results. Results for the three and nine-month periods ended September 30, 2005 have been restated to reflect this realignment. In addition, operating results of Todo, a manufacturer of self-sealing couplings that was acquired in January 2006 (see Note 2) have been included in the Fluid Transfer Products segment from the date of acquisition.

The following table provides financial information by business segment for the three and nine-month periods ended September 30, 2006 and 2005:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Compressor and Vacuum Products				
Revenues	$ 326,094	$ 295,185	$ 969,929	$ 681,683
Operating earnings	33,332	22,944	102,891	51,617
Operating earnings as a percentage of revenues	10.2%	7.8%	10.6%	7.6%
Fluid Transfer Products				
Revenues	$ 87,934	$ 60,910	$ 259,705	$ 163,582
Operating earnings	22,364	10,199	66,247	23,138
Operating earnings as a percentage of revenues	25.4%	16.7%	25.5%	14.1%
Reconciliation of Segment Results to Consolidated Results				
Total segment operating earnings	$ 55,696	$ 33,143	$ 169,138	$ 74,755
Interest expense	8,762	10,358	28,574	19,642
Other income, net	(1,015)	(1,016)	(2,155)	(4,338)
Consolidated income before income taxes	$ 47,949	$ 23,801	$ 142,719	$ 59,451

The following table provides financial information by business segment for the years ended December 31, 2005, 2004 and 2003 reflecting the organizational change described above. Segment disclosures in 2003, which are included in the table for comparative purposes, were not affected by the reorganization because the relevant operations were acquired by the Company in 2004 and 2005:

	Year Ended December 31,		
	2005	2004	2003
Compressor and Vacuum Products			
Revenues	$ 982,476	$ 572,181	$ 369,023
Operating earnings	83,093	42,398	27,792
Operating earnings as a percentage of revenues	8.5%	7.4%	7.5%
Fluid Transfer Products			
Revenues	$ 232,076	$ 167,358	$ 70,507
Operating earnings	37,542	19,352	4,093
Operating earnings as a percentage of revenues	16.2%	11.6%	5.8%
Reconciliation of Segment Results to Consolidated Results			
Total segment operating earnings	$ 120,635	$ 61,750	$ 31,885
Interest expense	30,433	10,102	4,748
Other income, net	(5,442)	(638)	(3,221)
Consolidated income before income taxes	$ 95,644	$ 52,286	$ 30,358
LIFO Liquidation Income			
Compressor and Vacuum Products	$	$ 132	$ 316
Fluid Transfer Products			50
Total	$	$ 132	$ 366
Depreciation and Amortization Expense			
Compressor and Vacuum Products	$ 33,705	$ 17,414	$ 11,739
Fluid Transfer Products	4,617	4,487	2,827
Total	$ 38,322	$ 21,901	$ 14,566
Capital Expenditures			
Compressor and Vacuum Products	$ 30,588	$ 15,221	$ 8,864
Fluid Transfer Products	4,930	4,329	3,086
Total	$ 35,518	$ 19,550	$ 11,950
Identifiable Assets as of December 31			
Compressor and Vacuum Products	$ 1,422,119	$ 811,290	$ 375,376
Fluid Transfer Products	156,281	143,253	72,528
General corporate (unallocated)	136,660	74,066	141,829
Total assets	$ 1,715,060	$ 1,028,609	$ 589,733

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 presented 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.

The consolidating balance sheet at December 31, 2005 has been revised from what had been previously reported. The amount of the adjustments was not material to the consolidated financial statements and did not affect the Consolidated Statements of Operations, Consolidated Balance Sheets and Consolidated Statements of Cash Flows. These adjustments were made to properly reflect the amount of a certain intercompany investment of the Guarantor Subsidiaries and the reclassification of certain intercompany investments from long-term inter-company (receivable) payable to investments in affiliates and capital in excess of par value. This classification is consistent with the consolidating balance sheet presentation at September 30, 2006. The tables below present the balance sheet items affected by the changes as revised and as previously reported, and a reconciliation of the changes.

Selected Consolidating Balance Sheet Line Items
December 31, 2005
AS REVISED

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Investments in affiliates	$ 838,050	$ 215,061	$ 32	$ (1,053,111)	$ 32
Other assets	21,287	(5,973)	5,503	1,593	22,410
Total assets	1,083,204	589,617	1,099,051	(1,056,812)	1,715,060
Liabilities and Stockholders Equity					
Long-term inter-company (receivable) payable	(40,242)	(136,952)	191,276	(14,082)	
Total liabilities	537,447	(48,738)	578,471	(10,409)	1,056,771
Stockholders equity:					
Capital in excess of par value	472,334	609,499	443,971	(1,052,979)	472,825
Total stockholders equity	545,757	638,355	520,580	(1,046,403)	658,289
Total liabilities and stockholders equity	$ 1,083,204	$ 589,617	$ 1,099,051	$ (1,056,812)	$ 1,715,060

Selected Consolidating Balance Sheet Line Items
December 31, 2005
AS PREVIOUSLY REPORTED

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Investments in affiliates	$ 671,182	$ 40,645	$ 32	$ (711,791)	$ 68
Other assets	21,287	(5,973)	5,503	1,557	22,374
Total assets	916,336	415,201	1,099,051	(715,528)	1,715,060
Liabilities and Stockholders Equity					

Long-term inter-company (receivable) payable	(207,110)	(98,395)	319,587	(14,082)	
Total liabilities	370,579	(10,181)	706,782	(10,409)	1,056,771
Stockholders equity:					
Capital in excess of par value	472,334	396,526	315,660	(711,695)	472,825
Total stockholders equity	545,757	425,382	392,269	(705,119)	658,289
Total liabilities and stockholders equity	$ 916,336	$ 415,201	$ 1,099,051	$ (715,528)	$ 1,715,060

RECONCILIATION OF THE CHANGES

Parent Company	Investment In Affiliates	Other Assets	Long-term inter-company (receivable) payable	Capital in excess of par value
December 31, 2005 balance as previously reported	$ 671,182	$ 21,287	$ (207,110)	$ 472,334
Reclassification of Investment in Guarantor Subsidiaries from Long-term inter-company (receivable) payable	212,973		212,973	
Reclassification of Investment in Non-guarantor Subsidiaries from Long-term inter-company (receivable) payable	(46,105)		(46,105)	
December 31, 2005 balance as revised	$ 838,050	$ 21,287	$ (40,242)	$ 472,334

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Guarantor Subsidiaries	Investment In Affiliates	Other Assets	Long-term inter-company (receivable) payable	Capital in excess of par value
December 31, 2005 balance as previously reported	$ 40,645	$ (5,973)	$ (98,395)	$ 396,526
Reclassification of Investment in Non-guarantor Subsidiaries from Long-term inter-company (receivable) payable	174,416		174,416	
Reclassification of Capital in excess of par from Long-term inter-company (receivable) payable			(212,973)	212,973
December 31, 2005 balance as revised	$ 215,061	$ (5,973)	$ (136,952)	$ 609,499

Non-Guarantor Subsidiaries	Investment In Affiliates	Other Assets	Long-term inter-company (receivable) payable	Capital in excess of par value
December 31, 2005 balance as previously reported	$ 32	$ 5,503	$ 319,587	$ 315,660
Reclassification of Capital in excess of par from Long-term inter-company (receivable) payable			(128,311)	128,311
December 31, 2005 balance as revised	$ 32	$ 5,503	$ 191,276	$ 443,971

Eliminations	Investment In Affiliates	Other Assets	Long-term inter-company (receivable) payable	Capital in excess of par value

December 31, 2005 balance as previously reported	$ (711,791)	$ 1,557	$ (14,082)	$ (711,695)
Reclassification of Investment in Guarantor Subsidiaries from Long-term inter-company (receivable) payable	(212,973)		(212,973)	
Reclassification of Investment in Non-guarantor Subsidiaries from Long-term inter-company (receivable) payable	(128,311)		(128,311)	
Reclassification of Capital in excess of par from Long-term inter-company (receivable) payable			341,284	(341,284)
Other	(36)	36		
December 31, 2005 balance as revised	$ (1,053,111)	$ 1,593	$ (14,082)	$ (1,052,979)

Consolidating Statement of Operations
Three Months Ended September 30, 2006

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$107,604	$107,625	$250,853	$(52,054)	$414,028
Costs and expenses:					
Cost of sales (excluding depreciation and amortization)	71,078	75,693	177,406	(52,628)	271,549
Depreciation and amortization	2,651	3,053	7,296		13,000
Selling and administrative expenses	19,516	13,367	40,900		73,783
Interest expense	8,800	(2,457)	2,419		8,762
Other (income) expense, net	(1,036)	(2,064)	2,149	(64)	(1,015)
Total costs and expenses	101,009	87,592	230,170	(52,692)	366,079
Income before income taxes	6,595	20,033	20,683	638	47,949
Provision for income taxes	2,506	7,587	5,739		15,832
Net income	$ 4,089	$ 12,446	$ 14,944	$ 638	$ 32,117

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Consolidating Statement of Operations
Three Months Ended September 30, 2005

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$86,059	$84,045	$ 193,218	$(7,227)	$356,095
Costs and expenses:					
Cost of sales (excluding depreciation and amortization)	59,923	60,246	127,232	(6,866)	240,535
Depreciation and amortization	2,531	2,716	6,088		11,335
Selling and administrative expenses	18,238	13,658	39,186		71,082
Interest expense	9,896		462		10,358
Other (income) expense, net	(727)	(1,092)	802	1	(1,016)
Total costs and expenses	89,861	75,528	173,770	(6,865)	332,294
Income (loss) before income taxes	(3,802)	8,517	19,448	(362)	23,801
Provision for income taxes	(1,388)	3,109	5,419		7,140
Net income (loss)	$ (2,414)	$ 5,408	$ 14,029	$ (362)	$ 16,661

Consolidating Statement of Operations
Nine Months Ended September 30, 2006

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$326,989	$320,916	$ 717,879	$(136,150)	$1,229,634
Costs and expenses:					
Cost of sales (excluding depreciation and amortization)	214,663	224,013	497,831	(136,069)	800,438
Depreciation and amortization	7,791	9,561	22,175		39,527
Selling and administrative expenses	59,695	40,023	120,813		220,531
Interest expense	27,742	(6,900)	7,732		28,574
Other (income) expense, net	(2,439)	(4,591)	4,939	(64)	(2,155)
Total costs and expenses	307,452	262,106	653,490	(136,133)	1,086,915
Income (loss) before income taxes	19,537	58,810	64,389	(17)	142,719
Provision for income taxes	7,424	22,348	17,334		47,106
Net income (loss)	$ 12,113	$ 36,462	$ 47,055	$ (17)	$ 95,613

Consolidating Statement of Operations
Nine Months Ended September 30, 2005

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$249,309	$175,085	$442,654	$(21,783)	$845,265
Costs and expenses:					
Cost of sales (excluding depreciation and amortization)	173,346	127,261	291,120	(22,278)	569,449
Depreciation and amortization	7,525	4,543	13,748		25,816
Selling and administrative expenses	53,691	29,366	92,188		175,245
Interest expense	18,347		1,295		19,642
Other (income) expense, net	(2,952)	(3,187)	908	893	(4,338)
Total costs and expenses	249,957	157,983	399,259	(21,385)	785,814
Income (loss) before income taxes	(648)	17,102	43,395	(398)	59,451
Provision for income taxes	(237)	6,242	11,830		17,835
Net income (loss)	$ (411)	$ 10,860	$ 31,565	$ (398)	$ 41,616

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Consolidating Balance Sheet
September 30, 2006

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and equivalents	$ 4,604	$ (1,323)	$ 82,743	$	$ 86,024
Accounts receivable, net	90,276	50,251	131,150		271,677
Inventories, net	34,409	59,214	138,029	(3,097)	228,555
Deferred income taxes	7,664	14,164	6,646	(1,204)	27,270
Other current assets	741	3,274	9,800	2,729	16,544
Total current assets	137,694	125,580	368,368	(1,572)	630,070
Intercompany (payable) receivables	(102,957)	97,641	(10,765)	16,081	
Investments in affiliates	838,050	215,061	28	(1,053,111)	28
Property, plant and equipment, net	53,477	48,815	164,241		266,533
Goodwill	113,441	197,014	368,587		679,042
Other intangibles, net	8,390	44,633	144,488		197,511
Other assets	16,767	831	4,149		21,747
Total assets	$1,064,862	$729,575	$1,039,096	$(1,038,602)	$1,794,931
Liabilities and Stockholders Equity					
Short-term borrowings and current maturities of long-term debt	$ 23,595	$	$ 8,439	$	$ 32,034
Accounts payable and accrued liabilities	86,906	55,627	167,214	(8,762)	300,985
Total current liabilities	110,501	55,627	175,653	(8,762)	333,019
Long-term intercompany (receivable) payable	(38,866)	(47,741)	94,746	(8,139)	
Long-term debt, less current maturities	386,927	77	72,193		459,197
Deferred income taxes	(4,141)	32,520	56,009	(837)	83,551
Other liabilities	46,566	9,056	50,371	15,518	121,511
Total liabilities	500,987	49,539	448,972	(2,220)	997,278
Stockholders equity:					
Common stock	562				562

Capital in excess of par value	486,735	609,499	444,008	(1,053,111)	487,131
Retained earnings	103,130	65,930	116,205	16,729	301,994
Accumulated other comprehensive income	5,090	4,607	29,911		39,608
Treasury stock, at cost	(31,642)				(31,642)
Total stockholders equity	563,875	680,036	590,124	(1,036,382)	797,653
Total liabilities and stockholders equity	$1,064,862	$729,575	$1,039,096	$(1,038,602)	$1,794,931

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Consolidating Balance Sheet
December 31, 2005

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and equivalents	$ 5,557	$ (369)	$ 105,718	$	$ 110,906
Accounts receivable, net	68,006	41,944	119,517		229,467
Inventories, net	35,684	54,867	114,009	2,766	207,326
Deferred income taxes	4,377	4,308	22,987	(5,918)	25,754
Other current assets	(716)	2,846	10,684		12,814
Total current assets	112,908	103,596	372,915	(3,152)	586,267
Intercompany (payable) receivables	(68,284)	53,141	17,285	(2,142)	
Investments in affiliates	838,050	215,061	32	(1,053,111)	32
Property, plant and equipment, net	57,167	49,397	176,027		282,591
Goodwill	113,441	144,864	361,939		620,244
Other intangibles, net	8,635	29,531	165,350		203,516
Other assets	21,287	(5,973)	5,503	1,593	22,410
Total assets	$1,083,204	$ 589,617	$1,099,051	$(1,056,812)	$1,715,060
Liabilities and Stockholders Equity					
Short-term borrowings and current maturities of long-term debt	$ 19,616	$	$ 6,465	$	$ 26,081
Accounts payable and accrued liabilities	86,776	73,930	135,382	(8,325)	287,763
Total current liabilities	106,392	73,930	141,847	(8,325)	313,844
Long-term intercompany (receivable) payable	(40,242)	(136,952)	191,276	(14,082)	
Long-term debt, less current maturities	428,854	78	113,709		542,641
Deferred income taxes		4,380	85,311	(3,520)	86,171
Other liabilities	42,443	9,826	46,328	15,518	114,115
Total liabilities	537,447	(48,738)	578,471	(10,409)	1,056,771
Stockholders equity:					
Common stock	278				278

Capital in excess of par value	472,334	609,499	443,971	(1,052,979)	472,825
Retained earnings	89,449	33,420	78,947	4,565	206,381
Accumulated other comprehensive income (loss)	13,015	(4,564)	(2,338)	2,011	8,124
Treasury stock, at cost	(29,319)				(29,319)
Total stockholders equity	545,757	638,355	520,580	(1,046,403)	658,289
Total liabilities and stockholders equity	$1,083,204	$ 589,617	$1,099,051	$(1,056,812)	$1,715,060

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Consolidating Condensed Statement of Cash Flows
Nine Months Ended September 30, 2006

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$ 43,819	$(7,910)	$ 77,980	$(27,149)	$ 86,740
Cash flows from investing activities:					
Net cash paid in business combinations	(3,397)		(16,660)		(20,057)
Capital expenditures	(6,901)	(3,331)	(16,045)		(26,277)
Disposals of property, plant and equipment	2,888	955	7,593		11,436
Other, net	20	(20)			
Net cash used in investing activities	(7,390)	(2,396)	(25,112)		(34,898)
Cash flows from financing activities:					
Net change in long-term intercompany receivables/payables	(2,455)	9,371	(34,065)	27,149	
Principal payments on short-term borrowings			(7,997)		(7,997)
Proceeds from short-term borrowings			8,293		8,293
Principal payments on long-term debt	(156,501)		(53,875)		(210,376)
Proceeds from long-term debt	116,000		4,922		120,922
Proceeds from stock options	4,593				4,593
Excess tax benefits from stock-based compensation	2,925				2,925
Purchase of treasury stock	(1,222)				(1,222)
Debt issuance costs	(540)				(540)
Other	(158)				(158)
Net cash (used in) provided by financing activities	(37,358)	9,371	(82,722)	27,149	(83,560)
Effect of exchange rate changes on cash and equivalents	(24)	(19)	6,879		6,836
Decrease in cash and equivalents	(953)	(954)	(22,975)		(24,882)
Cash and equivalents, beginning of year	5,557	(369)	105,718		110,906

Cash and equivalents, end of period	$ 4,604	$(1,323)	$ 82,743	$	$ 86,024

Consolidating Condensed Statement of Cash Flows
Nine Months Ended September 30, 2005

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$ 33,611	$ (20,624)	$ 37,982	$ 1,858	$ 52,827
Cash flows from investing activities:					
Net cash paid in business combinations	(737,394)	222,053	34,920		(480,421)
Capital expenditures	(10,825)	(3,233)	(8,592)		(22,650)
Disposals of property, plant and equipment		2	534		536
Other, net	83		(2,231)		(2,148)
Net cash (used in) provided by investing activities	(748,136)	218,822	24,631		(504,683)
Cash flows from financing activities:					
Net change in long-term intercompany receivables/payables	196,952	(200,305)	5,211	(1,858)	
Principal payments on short-term borrowings			(23,380)		(23,380)
Proceeds from short-term borrowings			16,663		16,663
Principal payments on long-term debt	(459,318)		(8,010)		(467,328)
Proceeds from long-term debt	786,119		31		786,150
Proceeds from issuance of common stock	199,318				199,318
Proceeds from stock options	5,498				5,498
Purchase of treasury stock	(2,810)				(2,810)
Debt issuance costs	(7,789)				(7,789)
Other					
Net cash provided by (used in) financing activities	717,970	(200,305)	(9,485)	(1,858)	506,322
Effect of exchange rate changes on cash and equivalents	(133)		(4,378)		(4,511)
Increase (decrease) in cash and equivalents	3,312	(2,107)	48,750		49,955
	2,857	2,612	59,132		64,601

Cash and equivalents, beginning of year					
Cash and equivalents, end of period	$ 6,169	$ 505	$ 107,882	$	$ 114,556

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Note 16. Subsequent Event

During the third quarter of 2006, the Company notified most of its U.S. employees that it would implement certain revisions to the Gardner Denver, Inc. Pension Plan (the Pension Plan) effective November 1, 2006. Future service credits under the Pension Plan (a form of defined benefit retirement plan) will cease, effective October 31, 2006. Benefits under the Pension Plan will not be less than the amount of each participant s accrued and vested benefits as of such date. If a participant is not fully vested in his or her accrued benefit under the Pension Plan, the participant will continue to earn time toward vesting based on continued service.

The Company also notified these same U.S. employees that, in connection with the revisions to the Pension Plan, it would increase future Company contributions to certain Company-sponsored defined contribution savings plans, which are qualified plans under the requirements of Section 401-(k) of the Internal Revenue Code.

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

The following management s discussion and analysis of financial condition and results of operations should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2005, including the financial statements and accompanying notes, and the interim consolidated financial statements and accompanying notes included in this Report on Form 10-Q.

Consummated Acquisitions

On January 9, 2006, the Company completed the acquisition of Todo. The total purchase price was 126.2 million Swedish kronor (approximately $16.1 million), net of debt and cash acquired. Todo, with assembly operations in Sweden and the United Kingdom, and a central European sales and distribution operation in the Netherlands, has an extensive offering of dry-break couplers. *Todo-Matic* self-sealing couplings are used by oil, chemical and gas companies to transfer their products. The Todo acquisition extends the Company s product line of *Emco Wheaton* couplers, added as part of the Syltone acquisition in 2004.

Operating Segments

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

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In the first quarter of 2006, the Company made certain organizational changes that resulted in a realignment of its reportable segments. The operations of the Company s line of specialty bronze and high alloy pumps for the general industrial and marine markets (acquired in July 2005 as part of Thomas) and the operations of its line of self-sealing couplings (acquired in January 2004 as part of Syltone) were transferred from the Compressor and Vacuum Products segment to the Fluid Transfer Products segment. Accordingly, the results of these two operations have been included in the Fluid Transfer Products segment results. Results for the three and nine-month periods ended September 30, 2005 have been restated to reflect this realignment. In addition, operating results of Todo have been included in the Fluid Transfer Products segment from the date of acquisition.

The Company evaluates the performance of its reportable segments based on income before interest expense, other income, net, and income taxes. Reportable segment operating earnings (defined as revenues less cost of sales (excluding depreciation and amortization), depreciation and amortization, and selling and administrative expenses) and segment operating margin (defined as segment operating earnings divided by revenues) are indicative of short-term operating performance and ongoing profitability. Management closely monitors the operating earnings of its reportable segments to evaluate past performance, management performance and compensation, and actions required to improve profitability.

Stock Split

On May 2, 2006, the Company s stockholders approved an increase in the number of authorized shares of common stock from 50 million to 100 million. This increase in shares allowed the Company to complete the previously announced two-for-one stock split (in the form of a 100% stock dividend). Refer to Note 3 in the Notes to Consolidated Financial Statements. Current and prior year share and per share amounts appearing in this Management s Discussion and Analysis of Financial Condition and Results of Operations reflect the effect of this stock split.

Non-GAAP Financial Measures

To supplement Gardner Denver s financial information presented in accordance with U.S. generally accepted accounting principles (GAAP), management, from time to time, uses additional measures to clarify and enhance understanding of past performance and prospects for the future. These measures may exclude, for example, the impact of unique and infrequent items or items outside of management s control (e.g. foreign currency exchange rates).

Results of Operations

Performance in the Quarter Ended September 30, 2006 Compared with the Quarter Ended September 30, 2005

Revenues

Revenues increased $57.9 million (16%) to $414.0 million for the three-month period ended September 30, 2006, compared to the same period of 2005. Stronger demand for drilling and well servicing pumps, compressors and blowers, combined with price increases, accounted for approximately $47.1 million of the increase. Favorable changes in foreign currency exchange rates and the acquisition of Todo also contributed to the growth in revenues. The Company also implemented certain manufacturing and supply chain improvements in late 2005 and in 2006 that resulted in increased production output to meet the improved demand for its products.

For the three-month period ended September 30, 2006, revenues in the Compressor and Vacuum Products segment increased $30.9 million (10%) to $326.1 million, compared to the same period of 2005. This increase was primarily due to higher compressor and blower shipments in the U.S., Europe and China (4%), improved pricing (3%), and favorable changes in foreign currency exchange rates (3%).

Fluid Transfer Products segment revenues increased $27.0 million (44%) to $87.9 million for the three-month period ended September 30, 2006, compared to the same period of 2005. This improvement was primarily due to volume increases (30%) which were primarily attributable to stronger demand for oil and natural gas well drilling and servicing pumps, manufacturing and supply chain improvements and incremental shipments as a result of increased outsourcing, price increases (9%) and the incremental effect of the Todo acquisition (4%). Favorable changes in foreign currency exchange rates (1%) also contributed to the increase in revenues.

Costs and Expenses

Cost of sales (excluding depreciation and amortization) as a percentage of revenues improved to 65.6% in the three-month period ended September 30, 2006, from 67.5% in the same period of 2005. This improvement was attributable to cost reduction initiatives and leveraging fixed and semi-fixed costs over higher production volume. Favorable sales mix also contributed to the year-over-year improvement. The third quarter of 2006 included a higher percentage of drilling pump and replacement pump parts shipments compared with the third quarter of 2005. These products have cost of sales (excluding depreciation and amortization) percentages below the Company s average. Cost of sales (excluding depreciation and amortization) for the three-month period of 2005 was negatively impacted by approximately $3.9 million of non-recurring costs attributable to the sales of inventory of acquired businesses recorded at fair value. Decreases in manufacturing productivity related to product line relocations associated with acquisition integration projects in 2006 and material and other cost increases partially offset these improvements.

Depreciation and amortization for the three-month period ended September 30, 2006 increased $1.7 million (15%) to $13.0 million, compared to the same period of the prior year, primarily due to the incremental depreciation and amortization associated with capital investments and the effect of finalizing the fair market value of the Thomas tangible and amortizable intangible assets.

Selling and administrative expenses as a percentage of revenues improved to 17.8% in the third quarter of 2006 from 20.0% in the third quarter of 2005 as a result of cost reduction initiatives and leveraging these expenses over higher revenues. Compared to the third quarter of 2005, selling and administrative expenses increased $2.7 million (4%) in 2006 to $73.8 million. This increase was primarily attributable to severance and integration costs ($1.1 million), the incremental effect of stock-based compensation expense associated with the implementation of SFAS No. 123(R) ($1.0 million) and salary and benefit expense increases. SFAS No. 123(R), which became effective on January 1, 2006, requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. The above increases were partially offset by cost reductions realized through completed integration activities, net of inflationary factors such as salary increases.

The Compressor and Vacuum Products segment generated operating margin of 10.2% in the three-month period ended September 30, 2006, compared to 7.8% for the same period of 2005 (see Note 14 to the Consolidated Financial Statements for a reconciliation of segment operating earnings to consolidated income before income taxes). Cost reductions and favorable sales mix accounted for the majority of the improvement. These positive factors were partially offset by increased material costs and compensation-related expenses. The operating margin in the three-month period of 2005 was also impacted by the non-recurring costs attributable to the sales of inventory of acquired businesses recorded at fair value as mentioned previously.

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The Fluid Transfer Products segment operating margin increased to 25.4% for the three-month period ended September 30, 2006, compared to 16.7% for the same period of 2005 (see Note 14 to the Consolidated Financial Statements for a reconciliation of segment operating earnings to consolidated income before income taxes). This improvement was primarily due to the positive impact of increased leverage of the segment s fixed and semi-fixed costs over additional production volume and price increases. Improved productivity, benefits from capital investments, favorable sales mix associated with a higher proportion of drilling pump and replacement pump parts shipments, and the acquisition of Todo also contributed to the increase.

Interest expense decreased $1.6 million to $8.8 million in the third quarter of 2006, compared to the third quarter of 2005. This decrease was primarily due to debt repayments over the previous twelve months, partially offset by increases in market interest rates on floating rate debt.

Income before income taxes increased $24.1 million (101%) to $47.9 million for the three-month period ended September 30, 2006, compared to the same period of 2005. This increase was primarily due to increased sales volume in both segments as a result of internal growth, favorable sales mix from increased drilling pump sales, cost reductions and price improvements. These positive factors were partially offset by increased stock-based compensation expense, inflation, and higher depreciation and amortization expenses.

The provision for income taxes increased $8.7 million to $15.8 million in the third quarter of 2006, compared to the prior year period, as a result of higher pre-tax income and a higher effective income tax rate. The Company s effective tax rate for the three-month period ended September 30, 2006 increased to 33% compared to 30% in the same period of 2005. This increase occurred primarily as a result of incremental pre-tax income generated by the Company s operations in the United States and Germany in 2006, which is taxed at higher rates than the Company s effective tax rate in 2005. In addition, the Company s income tax planning strategies generally provide a fixed rate of return resulting in a reduced effective tax rate benefit as pre-tax earnings increase.

Net income for the three-month period ended September 30, 2006 increased $15.5 million (93%) to $32.1 million, compared to $16.7 million for the same period of 2005. This improvement was the result of higher income before taxes, partially offset by the increased provision for income taxes. On a diluted per share basis, earnings for the three-month period ended September 30, 2006 were $0.60, compared to $0.32 for the same period of 2005, representing an 88% increase.

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Performance in the Nine Months Ended September 30, 2006 Compared with the Nine Months Ended September 30, 2005

Revenues

Revenues increased $384.3 million (45%) to $1.2 billion for the nine-month period ended September 30, 2006, compared to the same period of 2005. This increase was primarily due to the acquisitions of Thomas, Bottarini and Todo, which contributed approximately $229.4 million (27%) of additional revenues. Increased shipments of oil and natural gas well drilling and servicing pumps, compressors and blowers, combined with price increases, contributed the other 18% growth in revenues compared to 2005. The Company also implemented certain manufacturing and supply chain improvements in late 2005 and in 2006 that resulted in increased production output to meet the improved demand for its products. Changes in foreign currency exchange rates did not have a material effect on the comparison of year-over-year revenues.

For the nine-month period ended September 30, 2006, revenues in the Compressor and Vacuum Products segment increased $288.2 million (42%) to $969.9 million, compared to the same period of 2005. This increase was primarily due to the incremental effect of the acquisitions of Thomas and Bottarini in the third and second quarters of 2005, respectively, (32%), higher compressor and blower shipments, primarily in the U.S., Europe and China (7%), and improved pricing (3%).

Fluid Transfer Products segment revenues increased $96.1 million (59%) to $259.7 million for the nine-month period ended September 30, 2006, compared to the same period of 2005. This improvement was due to volume increases (39%), which were primarily attributable to stronger demand for oil and natural gas well drilling and servicing pumps, water jetting systems and related aftermarket parts, price increases (13%), and the incremental effect of the Thomas and Todo acquisitions (7%).

Costs and Expenses

Cost of sales (excluding depreciation and amortization) as a percentage of revenues improved to 65.1% in the nine-month period ended September 30, 2006, from 67.4% in the same period of 2005. This improvement was attributable to cost reduction initiatives and leveraging fixed and semi-fixed costs over higher production volume. Favorable sales mix also contributed to the year-over-year improvement. The nine-month period of 2006 included a higher percentage of drilling pump and replacement pump parts shipments compared with the nine-month period of 2005. These products have cost of sales (excluding depreciation and amortization) percentages below the Company s average. Cost of sales (excluding depreciation and amortization) for the nine-month period of 2005 was negatively impacted by approximately $3.9 million of non-recurring costs attributable to the sales of inventory of acquired businesses recorded at fair value. Decreases in manufacturing productivity related to product line relocations associated with acquisition integration projects in 2006 and material and other cost increases partially offset these improvements.

Depreciation and amortization for the nine-month period ended September 30, 2006 increased $13.7 million (53%) to $39.5 million, compared to the same period of the prior year, primarily due to the incremental effect of acquisitions in the second and third quarters of 2005. The year over year increase reflects a $2.3 million net charge to depreciation and amortization recorded in the second quarter of 2006 as a result of the finalization of the fair value of the Thomas tangible and amortizable intangible assets, of which $1.0 million was associated with the six-month period ended December 31, 2005.

Selling and administrative expenses as a percentage of revenues improved to 17.9% in the first nine months of 2006 from 20.7% in the first nine months of 2005 due to increased leverage of these expenses over additional volume and the completion of various integration activities and cost reduction initiatives. Compared to the nine-month period of 2005, selling and administrative expenses increased $45.3 million (26%) in the same period of 2006 to $220.5 million. This increase was primarily attributable to the incremental effect of acquisitions, which contributed approximately $41.2 million of additional selling and administrative expenses, and $4.6 million of incremental stock-based compensation expense associated with the implementation of SFAS No. 123(R) effective January 1, 2006. The above increases were partially offset by cost reductions realized through integration activities, net of inflationary factors such as salary increases.

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The Compressor and Vacuum Products segment generated operating margin of 10.6% during the nine-month period ended September 30, 2006, compared to 7.6% for the same period of 2005 (see Note 14 to the Consolidated Financial Statements for a reconciliation of segment operating earnings to consolidated income before income taxes). Contributions from acquisitions (net of cost reductions realized) with operating margins higher than the Company s previously existing businesses, cost reductions and favorable sales mix accounted for the majority of the improvement. These positive factors were partially offset by increased material costs and compensation-related expenses. The operating margin in the nine-month period of 2005 was also reduced by the non-recurring costs attributable to the sales of inventory of acquired businesses recorded at fair value as mentioned previously.

The Fluid Transfer Products segment operating margin increased to 25.5% for the nine-month period ended September 30, 2006, compared to 14.1% for the same period of 2005 (see Note 14 to the Consolidated Financial Statements for a reconciliation of segment operating earnings to consolidated income before income taxes). This improvement was primarily due to the positive impact of increased leverage of the segment s fixed and semi-fixed costs over additional production volume and price increases. Improved productivity, benefits from capital investments, favorable sales mix associated with a higher proportion of drilling pump and replacement pump parts shipments, and the acquisition of Todo also contributed to the increase.

Interest expense increased $8.9 million to $28.6 million during the nine-month period of 2006, compared to the same period of 2005. This increase was primarily due to additional funds borrowed to finance recent acquisitions and higher short-term interest rates. The weighted average interest rate for the nine-month period of 2006 was 6.7%, compared to 6.5% in the comparable prior year period. The higher weighted average interest rate in 2006 was primarily attributable to increases in market interest rates on floating rate debt and the issuance of $125.0 million of 8% Senior Subordinated Notes in May 2005.

Other income, net, in the nine-month period of 2005 included approximately $0.7 million of interest income earned on the investment of financing proceeds, prior to their use to complete the Thomas acquisition, and proceeds from litigation-related settlements of $1.7 million. The additional interest income and litigation-related settlements were excluded from segment operating earnings because such transactions occur infrequently and are generally not controlled by operating management at the segment level.

Income before income taxes increased $83.3 million (140%) to $142.7 million for the nine-month period ended September 30, 2006, compared to the same period of 2005. This increase was primarily due to increased sales volume in both segments as a result of recent acquisitions, favorable sales mix and internal growth, cost reductions and price improvements. These positive factors were partially offset by increased stock-based compensation expense, higher depreciation and amortization expenses, and interest expense.

The provision for income taxes increased $29.3 million to $47.1 million for the nine-month period of 2006, compared to the prior year period, as a result of higher pre-tax income and a higher effective income tax rate. The Company s effective tax rate for the nine-month period ended September 30, 2006

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increased to 33% compared to 30% in the same period of 2005, primarily as a result of incremental pre-tax income generated by the Company s operations in the United States and Germany in 2006, which is taxed at higher rates than the Company s effective tax rate in 2005. In addition, the Company s income tax planning strategies generally provide a fixed rate of return resulting in a reduced effective tax rate benefit as pre-tax earnings increase.

Net income for the nine-month period ended September 30, 2006 increased $54.0 million (130%) to $95.6 million, compared to $41.6 million for the same period of 2005. This improvement was the result of higher income before taxes, partially offset by the increased provision for income taxes. On a diluted per share basis, earnings for the nine-month period ended September 30, 2006 were $1.79, compared to $0.88 in the prior year period, representing a 103% increase. Diluted earnings per share for the nine-month period of 2006 includes the impact of the issuance of 11,316,000 shares of the Company s common stock during May 2005 (adjusted for the two-for-one stock split in the form of a 100% stock dividend that was completed on June 1, 2006).

Outlook

In general, demand for compressor and vacuum products tends to correlate to the rate of manufacturing capacity utilization and the rate of change of industrial equipment production because air is often used as a fourth utility in the manufacturing process. Over longer time periods, demand also follows economic growth patterns indicated by the rates of change in the Gross Domestic Product around the world. Total industry capacity utilization in the U.S. has remained above the key threshold level of 80% since November 2005, which is a positive indicator of demand for the Company s compressor and vacuum products in this region.

Generally, demand for the Company s products used in industrial applications lags economic cycle changes by approximately six months. Therefore, management expects orders for industrial products to remain strong through the rest of 2006 and the rate of order growth for these products to begin to slow in 2007 from the current double-digit level. Demand for the Company s drilling and well servicing pumps also remains strong and, given the extended visibility in this portion of the Company s business as a result of existing order backlog, management expects demand to remain strong for these products at least through 2007. The Company was successful in improving revenues in the Fluid Transfer Products segment during 2006 through price increases and additional outsourcing of component production. Further revenue increases for oil and natural gas-related products will depend upon the Company s ability to identify additional outsourcing alternatives, implement incremental price increases and expand machining capacity through selective capital investment.

In the third quarter of 2006, orders for compressor and vacuum products were $339.9 million, compared to $294.5 million in the same period of 2005. Order backlog for the Compressor and Vacuum Products segment was $356.1 million as of September 30, 2006, compared to $290.0 million as of September 30, 2005. The increase in orders and backlog compared to the prior year was primarily due to stronger industrial demand, pricing and favorable changes in foreign currency exchange rates. The Company has also experienced increased demand for products used in environmental applications. The order growth was relatively broad-based, with no other specific market segment driving the improvement.

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Demand for petroleum-related fluid transfer products has historically corresponded to market conditions and expectations for oil and natural gas prices. Orders for fluid transfer products were $83.8 million in the third quarter of 2006, compared to $116.8 million in the same period of 2005. As management expected, orders for fluid transfer products decreased due to the timing of bookings for drilling pumps and loading arms. The level of orders in the third quarter of 2005 was unusually high and represented 192% of revenues for that quarter as customers for oil and gas products began securing future production capacities. Order backlog for the Fluid Transfer Products segment was $189.6 million at September 30, 2006, compared to $153.1 million at September 30, 2005, representing a 24% increase. The increase in backlog was primarily due to strong demand for drilling pumps, well servicing pumps and petroleum pump parts as a result of continued high prices for oil and natural gas and price increases. Future increases in demand for these products will likely be dependent upon rig counts and oil and natural gas prices, which the Company cannot predict. In response to current and expected future demand for fluid transfer products, the Company has made selective capital investments to improve production efficiency and outsourced certain machining operations to reduce the potential for manufacturing bottlenecks.

The Company has launched several initiatives aimed at integrating recent acquisitions and streamlining manufacturing operations.

The Company previously announced its plan to transfer the manufacturing of standard liquid ring pumps from a production facility in Nuremberg, Germany to other existing Company facilities in China and Brazil. Construction of the facility expansion in China was finished during the third quarter and management expects the transfer of production to be completed by the end of 2006.

In addition, management began rationalizing the Company s European blower product lines and manufacturing facilities. Through this project, the Company s separate blower manufacturing operations located in Schopfheim, Germany were merged, and the Company is currently in the process of relocating the mobile blower product line from Schopfheim to a Gardner Denver facility in the U.K., where other European mobile equipment is currently manufactured. As part of this project, management is also rationalizing the side-channel blower product lines acquired as part of the Nash Elmo and Thomas acquisitions and intends to centralize production of standard products in the Company s manufacturing facility in Bad Neustadt, Germany. These projects are scheduled to be completed by the fourth quarter of 2007.

The Company expects the costs associated with the integration projects discussed above to negatively impact financial results in the fourth quarter of 2006 and, to a lesser extent, in 2007. The impact of these costs on results in the fourth quarter of 2006 is currently estimated to be in the range of $2.0 million to $2.5 million before income taxes. Scheduled plant shut-downs at certain of the Company s facilities during the holiday period are also expected to negatively impact operating margins in both reportable segments in the fourth quarter of 2006.

Liquidity and Capital Resources

Operating Working Capital

During the nine-month period ended September 30, 2006, operating working capital (defined as accounts receivable plus inventories, less accounts payable and accrued liabilities) increased $50.2 million to $199.2 million. This increase was driven by higher accounts receivable resulting from the revenue growth during 2006 compared to 2005 and higher inventory levels required to support the current year increase in customer orders and backlog. These factors were partially offset by the realization of benefits from the implementation of lean manufacturing initiatives in 2005 and 2006. Inventory turnover and days sales outstanding in the third quarter of 2006 were comparable to the levels of the fourth quarter of 2005. Net working capital (defined as total current assets less total current liabilities) was $297.1 million at September 30, 2006, compared with $272.4 million at December 31, 2005.

Cash Flows

During the nine-month period of 2006, net cash provided by operating activities was $86.7 million, a 64% increase compared to $52.8 million generated during the comparable period of 2005. This increase was primarily due to higher net income and depreciation and amortization expense, partially offset by volume-related increases in accounts receivable and inventories. Net cash used in financing activities of $83.6 million during the nine-month period of 2006 primarily reflected the use of available cash and cash generated from operating activities to repay long-term borrowings. During the nine-month period ended September 30, 2006, the Company s net repayments of long-term borrowings totaled $89.5 million. On September 30, 2006, the Company s debt to total capital was 38.1%, compared to 46.4% on December 31, 2005.

Capital Expenditures and Commitments

Capital projects designed to increase operating efficiency and flexibility, expand production capacity and bring new products to market resulted in capital expenditures of approximately $26.3 million in the nine-month period of 2006. Capital spending in 2006 was $3.6 million higher than in the comparable period in 2005, primarily due to spending related to cost reduction initiatives and spending at acquired businesses. Commitments for capital expenditures at September 30, 2006 were approximately $35.1 million. Capital expenditures related to environmental projects have not been significant in the past and are not expected to be significant in the foreseeable future.

In October 1998, the Company s Board of Directors authorized the repurchase of up to 3,200,000 shares of the Company s common stock to be used for general corporate purposes, of which 420,600 shares remain available for repurchase under this program as of September 30, 2006. The Company has also established a Stock Repurchase Program for its executive officers to provide a means for them to sell the Company s common stock and obtain sufficient funds to meet income tax obligations which arise from the exercise or vesting of incentive stock options, restricted stock or performance shares. The Company s Board of Directors has authorized up to 800,000 shares for repurchase under this program, and of this amount, 405,916 shares remain available for repurchase as of September 30, 2006. As of September 30, 2006, a total of 3,173,484 shares have been repurchased at a cost of approximately $23.5 million under both repurchase programs.

Liquidity

On July 1, 2005, the Company s $605.0 million amended and restated credit agreement (the 2005 Credit Agreement) became effective with the completion of the Thomas acquisition. The 2005 Credit Agreement provided the Company with access to senior secured credit facilities, including a $380.0 million Term Loan, and restated its $225.0 million Revolving Line of Credit, in addition to superceding the Company s previously existing credit agreement.

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The Term Loan has a final maturity of July 1, 2010 and the outstanding principal balance at September 30, 2006 was $194.0 million. The Term Loan requires quarterly principal payments aggregating $5 million for the remainder of 2006 and $26 million, $42 million, $74 million and $47 million per year in 2007 through 2010, respectively.

The Revolving Line of Credit matures on July 1, 2010. Loans under this facility may be denominated in U.S. dollars or several foreign currencies and may be borrowed by the Company or two of its foreign subsidiaries as outlined in the 2005 Credit Agreement. On September 30, 2006, the Revolving Line of Credit had an outstanding principal balance of $140.3 million, leaving $84.7 million available for letters of credit or for future use, subject to the terms of the Revolving Line of Credit.

The interest rates applicable to loans under the 2005 Credit Agreement are variable and will be, at the Company s option, the prime rate plus an applicable margin or LIBOR plus an applicable margin. The applicable margin percentages are adjustable at the end of each quarter, based upon financial ratio guidelines defined in 2005 Credit Agreement.

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

Management currently expects the Company s future cash flows to be sufficient to fund its scheduled debt service and provide required resources for working capital and capital investments for at least the next twelve months.

Contractual Obligations and Commitments

The following table and accompanying disclosures summarize the Company s significant contractual obligations at September 30, 2006 and the effect such obligations are expected to have on its liquidity and cash flow in future periods:

		Payments Due by Period			
(dollars in millions)		**Balance**			**After**
Contractual Cash Obligations	**Total**	**of 2006**	**2007 - 2008**	**2009 - 2010**	**2010**
Debt	$484.0	$ 12.6	$ 69.5	$262.0	$139.9
Estimated interest payments [(1)]	96.5	7.3	43.4	24.2	21.6
Capital leases	7.2	0.1	0.5	0.5	6.1
Operating leases	44.5	3.5	18.2	9.4	13.4
Purchase obligations [(2)]	214.2	152.2	60.1	1.1	0.8
Total	$846.4	$175.7	$191.7	$297.2	$181.8

(1) Estimated interest payments for long-term debt were calculated as follows: for fixed-rate debt and term debt, interest was calculated based on applicable rates and payment dates;

for variable-rate debt and/or non-term debt, interest rates and payment dates were estimated based on management s determination of the most likely scenarios for each relevant debt instrument. Management expects to settle such interest payments with cash flows from operating activities and/or short-term borrowings.

(2) Purchase obligations consist primarily of agreements to purchase inventory or services made in the normal course of business to meet operational requirements. The purchase obligation amounts do not represent the entire anticipated purchases in the future, but represent only those items for which the Company is contractually obligated as of

September 30, 2006. For this reason, these numbers will not provide a complete and reliable indicator of the Company s expected future cash outflows.

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In accordance with SFAS No. 87, *Employers Accounting for Pensions,* and SFAS No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions,* the total accrued benefit liability for pension and other postretirement benefit plans recognized as of December 31, 2005, was $92.2 million. This amount excludes $5.9 million of deferred income taxes and $9.6 million of accumulated other comprehensive income relating to the Company s recognition of a minimum pension liability. The accrued liability for pension and other postretirement benefit plans is included in the consolidated balance sheet line items accrued liabilities, postretirement benefits other than pensions and other liabilities. This amount is impacted by, among other items, plan funding levels, changes in plan demographics and assumptions, and investment return on plan assets. Because the accrued liability does not represent expected liquidity needs, the Company did not include this amount in the contractual obligations table above.

The Company funds its U.S. qualified pension plans in accordance with Employee Retirement Income Security Act of 1974 regulations for the minimum annual required contribution and Internal Revenue Service regulations for the maximum annual allowable tax deduction. The Company is committed to making the required minimum contributions and expects to contribute a total of approximately $3.0 million to its U.S. qualified pension plans during 2006. Furthermore, the Company expects to contribute a total of approximately $2.5 million to the U.S. postretirement health care benefit plan during 2006. Future contributions are dependent upon various factors including the performance of the plan assets, benefit payment experience and changes, if any, to current funding requirements. Therefore, no amounts were included as a contractual obligation in the above table. The Company generally expects to fund all future contributions with cash flows from operating activities.

The Company s non-U.S. pension plans are funded in accordance with local laws and income tax regulations. The Company expects to contribute a total of approximately $4.2 million to its non-U.S. qualified pension plans during 2006. No amounts have been included in the contractual obligations table due to the same reasons noted above.

As of December 31, 2005, the projected benefit obligation of the U.S. qualified pension plans was $74.9 million, and the fair value of plan assets was $56.8 million. As of December 31, 2005, the projected benefit obligation of the non-U.S. pension plans was $182.3 million, and the fair value of non-U.S. pension plan assets was $122.1 million. Disclosure of amounts in the above table regarding expected benefit payments in future years for the Company s pension plans and other postretirement benefit plans cannot be properly reflected due to the ongoing nature of the obligations of these plans. However, in order to inform the reader about expected benefit payments for these plans over the next several years, the Company anticipates annual benefit payments to be in the range of approximately $8.0 million to $9.0 million and $3.0 million to $4.0 million for the U.S. plans and the non-U.S. plans, respectively, in 2006 and remain at or near this annual level for the next several years. During the third quarter of 2006, the Company initiated certain revisions to the Gardner Denver, Inc. Pension Plan effective November 1, 2006. Refer to Note 16 Subsequent Event in the Notes to Consolidated Financial Statements.

Deferred income tax liabilities were $83.6 million as of September 30, 2006. This amount is not included in the total contractual obligations table because the Company believes this presentation would not be meaningful. Deferred income tax liabilities are calculated based on temporary differences between the tax basis of assets and liabilities and their book basis, which will result in taxable amounts in future years when the book basis is settled. The results of these calculations do not have a direct connection with the amount of cash taxes to be paid in any future periods. As a result, scheduling deferred income tax liabilities as payments due by period could be misleading, because this scheduling would not relate to liquidity needs.

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In the normal course of business, the Company or its subsidiaries may sometimes be required to provide surety bonds, standby letters of credit or similar instruments to guarantee its performance of contractual or legal obligations. As of September 30, 2006, the Company had $42.9 million in such instruments outstanding and had pledged $2.0 million of cash to the issuing financial institutions as collateral for such instruments.

Contingencies

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

Predecessors to the Company 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 used in the Products were enclosed within the subject Products.

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

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

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

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Changes in Accounting Principles and Effects of New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). SFAS No. 123(R) supersedes Accounting Principals Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and amends SFAS No. 95, *Statement of Cash Flows.* The Company adopted the provisions of SFAS No. 123(R) effective January 1, 2006. Disclosures related to the Company s stock-based compensation plans are included in Note 9.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 in the first quarter of 2007. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. Management has commenced the process of evaluating the expected effect of FIN 48 on the Company s consolidated financial statements and related disclosure requirements.

In June 2006, the Emerging Issues Task Force reached a consensus on the income statement presentation of various types of taxes. The new guidance, Emerging Issues Task Force Issue 06-3 *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* (EITF 06-3) applies to any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes. The presentation of taxes within the scope of this issue on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to APB Opinion No. 22, *Disclosure of Accounting Policies.* The EITF s decision on gross versus net presentation requires that any such taxes reported on a gross basis be disclosed on an aggregate basis in interim and annual financial statements, for each period for which an income statement is presented, if those amounts are significant. EITF 06-3 is effective for fiscal years beginning after December 15, 2006. Management has commenced the process of evaluating the expected effect of EITF 06-3 on the Company s disclosure requirements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. SFAS No. 157 applies whenever other statements require or permit assets or liabilities to be measured at fair value. This statement is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact the adoption of SFAS No. 157 will have on the Company s consolidated financial statements and related disclosure requirements.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS No. 158), which requires companies to recognize a net liability or asset and an offsetting adjustment to accumulated other comprehensive income to report the funded status of defined benefit pension and other postretirement benefit plans. SFAS No.158 requires prospective application, and the recognition and disclosure requirements are effective for fiscal years ending after December 15, 2006. Additionally, this statement requires companies to measure plan assets and obligations at their year-end balance sheet date. This requirement is effective for fiscal years ending after December 15, 2008. Management has commenced the process of evaluating the expected effect of SFAS No. 158 on the Company s consolidated financial statements and related disclosure requirements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB No. 108), which addresses the diversity in practice in quantifying financial statement misstatements and provides interpretive guidance regarding the consideration given to prior year misstatements when determining materiality in current year financial statements. SAB No. 108 is effective for fiscal years ending after November 15, 2006. Management is currently evaluating the impact the adoption of SAB No. 108 will have on the Company s consolidated financial statements and related disclosure requirements.

Critical Accounting Policies

Management has evaluated the accounting policies used in the preparation of the Company s financial statements and related notes and believes those policies to be reasonable and appropriate. Certain of these accounting policies require the application of significant judgment by management in selecting appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, trends in the industry, information provided by customers and information available from other outside sources, as appropriate. The most significant areas involving management judgments and estimates may be found in the Company s 2005 Annual Report on Form 10-K, filed on March 15, 2006, in the Critical Accounting Policies section of Management s Discussion and Analysis and in Note 1 to the Consolidated Financial Statements.

Cautionary Statements Regarding Forward-Looking Statements

All of the statements in Management s Discussion and Analysis of Financial Condition and Results of Operations , other than historical facts, are forward-looking statements made in reliance upon the safe harbor of the Private Securities Litigation Reform Act of 1995, including, without limitation, statements made under the caption Outlook. As a general matter, forward-looking statements are those focused upon anticipated events or trends, expectations, and beliefs relating to matters that are not historical in nature. Such forward-looking statements are subject to uncertainties and factors relating to the Company s operations and business environment, all of which are difficult to predict and many of which are beyond the control of the Company. These uncertainties and factors could cause actual results to differ materially from those matters expressed in or implied by such forward-looking statements.

The following uncertainties and factors, among others, including those set forth under Risk Factors in our Form 10-K for the fiscal year ended December 31, 2005, could affect future performance and cause actual results to differ materially from those expressed in or implied by forward-looking statements: (1) the ability to effectively integrate acquisitions, including product and manufacturing rationalization initiatives, and realize anticipated cost savings, synergies and revenue enhancements; (2) the risk that the Company may incur significant cash integration costs to achieve any such cost savings;

(3) the Company s exposure to economic downturns and market cycles, particularly the level of oil and natural gas prices and oil and gas drilling and production, which affect demand for the Company s petroleum products, and industrial production and manufacturing capacity utilization rates, which affect demand for the Company s compressor and vacuum products; (4) the risks of large or rapid increases in raw material costs or substantial decreases in their availability, and the Company s dependence on particular suppliers, particularly iron casting and other metal suppliers; (5) the risks associated with intense competition in the Company s markets, particularly the pricing of the Company s products; (6) the Company s ability to continue to identify and complete other strategic acquisitions and effectively integrate such acquisitions to achieve desired financial benefits; (7) economic, political and other risks associated with the Company s international sales and operations, including changes in currency exchange rates (primarily between the U.S. dollar, the Euro, the British pound and the Chinese yuan); (8) changes in the availability or costs of new financing to support the Company s operations and future investments; (9) the risks associated with pending asbestos and silicosis personal injury lawsuits, as well as other potential product liability and warranty claims due to the nature of the Company s products; (10) the risks associated with environmental compliance costs and liabilities; (11) the ability to attract and retain quality management personnel; (12) the ability to avoid employee work stoppages and other labor difficulties; (13) the risks associated with defending against potential intellectual property claims and enforcing intellectual property rights; (14) market performance of pension plan assets and changes in discount rates used for actuarial assumptions in pension and other postretirement obligation and expense calculations; (15) the risk of possible future charges if the Company determines that the value of goodwill or other intangible assets has been impaired; and (16) changes in laws and regulations, including accounting standards, tax requirements and related interpretations or guidance. The Company does not undertake, and hereby disclaims, any duty to update these forward-looking statements, although its situation and circumstances may change in the future.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk related to changes in interest rates, as well as certain European and other foreign currency exchange rates, and selectively uses derivative financial instruments, including forwards and swaps, to manage these risks. The Company does not hold derivatives for trading purposes. The value of market-risk sensitive derivatives and other financial instruments is subject to change as a result of movements in market rates and prices. Sensitivity analysis is one technique used to evaluate these impacts. As a result of recent acquisitions, a significant amount of the Company s net income is earned in foreign currencies. Therefore, a strengthening in the U.S. dollar across relevant foreign currencies, principally the Euro, British pound and Chinese yuan, would have a corresponding negative impact on the Company s future earnings.

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

To effectively manage interest costs, the Company uses interest rate swaps as cash flow hedges of variable rate debt. Including the impact of interest rate swaps outstanding, the interest rates on approximately 62% of the Company s total borrowings were effectively fixed as of September 30, 2006. Also as part of its hedging strategy, the Company periodically uses purchased option and forward exchange contracts as cash flow hedges to minimize the impact of currency fluctuations on transactions, future cash flows and firm commitments. These contracts for the sale or purchase of currencies generally mature within one year.

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Item 4. Controls and Procedures

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

In addition, the Company s management carried out an evaluation, as required by Rule 13a-15(d) of the Exchange Act, with the participation of the Chairman, President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, of changes in the Company s internal control over financial reporting. Based on this evaluation, the Chairman, President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer concluded that there were no changes in the Company s internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or that are reasonably likely to materially affect, the Company s internal control over financial reporting.

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

For information regarding factors that could affect the Company s results of operations, financial condition and liquidity, see the risk factors discussion provided under Part I, Item 1A of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005. See also Cautionary Statements Regarding Forward-Looking Statements included in Part I, Item 2 of this Quarterly Report on Form 10-Q. There has not been any material change in the risk factors since December 31, 2005.

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

Repurchases of equity securities during the three months ended September 30, 2006 are listed in the following table. All share and per share amounts reflect the effect of a two-for-one stock split (in the form of a 100% stock dividend) that was completed on June 1, 2006.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2006 July 31, 2006		N/A		826,516
August 1, 2006 August 31, 2006		N/A		826,516
September 1, 2006 September 30, 2006		N/A		826,516
Total		N/A		826,516

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

(2) In October 1998, Gardner Denver s Board of Directors authorized the

repurchase of up to 3,200,000 shares of the Company s Common Stock to be used for general corporate purposes and the repurchase of up to 800,000 shares of the Company s Common Stock under a Stock Repurchase Program for Gardner Denver s executive officers. Both authorizations remain in effect until all the authorized shares are repurchased unless modified by the Board of Directors.

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Item 6. Exhibits

11 Statement re: Computation of Earnings Per Share, filed herewith as Note 10.

12 Statements re: Computation of Ratio of Earnings to Fixed Charges.

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-15(e) or 15d-15(e) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-15(e) or 15d-15(e) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

	GARDNER DENVER, INC. (Registrant)
Date: November 8, 2006	By: /s/ Ross J. Centanni
	Ross J. Centanni Chairman, President & CEO
Date: November 8, 2006	By: /s/ Helen W. Cornell
	Helen W. Cornell Vice President, Finance & CFO
Date: November 8, 2006	By: /s/ David J. Antoniuk
	David J. Antoniuk Vice President and Corporate Controller (Principal Accounting Officer)

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GARDNER DENVER, INC.
EXHIBIT INDEX

Exhibit No.	Description
11	Statement re: Computation of Earnings Per Share, filed herewith as Note 10.
12	Statements re: Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-15(e) or 15d-15(e) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-15(e) or 15d-15(e) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.