GARDNER DENVER INC
Form 10-Q
November 09, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2005

OR

[ ] 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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

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

Number of shares outstanding of the registrant's Common Stock, par value $0.01 per share, as of November 1, 2005: 25,965,813 shares.

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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,	
	2005	2004	2005	2004
REVENUES	$ 356,095	$ 182,616	$ 845,265	$ 498,341
COSTS AND EXPENSES:				
Cost of sales	240,535	123,296	569,449	336,457
Depreciation and amortization	11,335	5,925	25,816	16,074
Selling and administrative	71,082	37,461	175,245	106,031
Interest expense	10,358	2,491	19,642	5,949
Other expense (income), net	(1,016)	332	(4,338)	(1,756)
TOTAL COSTS AND EXPENSES	332,294	169,505	785,814	462,755
INCOME BEFORE INCOME TAXES	23,801	13,111	59,451	35,586
PROVISION FOR INCOME TAXES	7,140	4,457	17,835	12,099
NET INCOME	$ 16,661	$ 8,654	$ 41,616	$ 23,487
BASIC EARNINGS PER SHARE	$ 0.64	$ 0.44	$ 1.79	$ 1.26
DILUTED EARNINGS PER SHARE	$ 0.63	$ 0.43	$ 1.75	$ 1.23

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

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

ASSETS	(UNAUDITED) SEPTEMBER 30, 2005
Current assets	
Cash and equivalents	$ 114,556
Receivables (net of allowances of $11,939 at September 30, 2005 and $7,543 at December 31, 2004)	228,578

Inventories, net	214,033
Deferred income taxes	25,653
Other current assets	12,029
Total current assets	594,849
Property, plant and equipment, net	286,001
Goodwill	622,839
Other intangibles, net	205,614
Other assets	24,452
Total assets	$ 1,733,755
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	
Short term borrowings and current maturities of long-term debt	$ 31,332
Accounts payable	96,643
Accrued liabilities	188,498
Total current liabilities	316,473
Long-term debt, less current maturities	596,581
Postretirement benefits other than pensions	30,662
Deferred income taxes	76,198
Other long-term liabilities	75,878
Total liabilities	1,095,792
Stockholders' equity	
Common stock, $0.01 par value; 50,000,000 shares authorized; 25,956,654 shares issued and outstanding at September 30, 2005, and 19,947,570 issued and outstanding at December 31, 2004	277
Capital in excess of par value	469,343
Treasury stock at cost, 1,807,776 shares at September 30, 2005, and 1,739,661 at December 31, 2004	(29,257)
Retained earnings	181,046
Accumulated other comprehensive income	16,554
Total stockholders' equity	637,963
Total liabilities and stockholders' equity	$ 1,733,755

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

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

	NINE MONTHS ENDED SEPTEMBER 30, 2005	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 41,616	$ 23,487
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,816	16,074
Unrealized foreign currency transaction gain, net	(108)	(1,235)
Net loss (gain) on asset dispositions	146	(11)
Stock issued for employee benefit plans	2,496	1,768
Deferred income taxes	(1,874)	1,291
Changes in assets and liabilities:		
Receivables	(7,638)	(638)
Inventories	(4,316)	(8,324)
Accounts payable and accrued liabilities	(8,609)	(8,746)
Other assets and liabilities, net	5,298	(1,413)
Net cash provided by operating activities	52,827	22,253
CASH FLOWS FROM INVESTING ACTIVITIES		
Business acquisitions, net of cash acquired	(480,421)	(292,108)
Capital expenditures	(22,650)	(12,301)
Disposals of property, plant and equipment	536	315
Other	(2,148)	(126)
Net cash used in investing activities	(504,683)	(304,220)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on short-term debt	(23,380)	-
Proceeds from short-term debt	16,663	-
Principal payments on long-term debt	(467,328)	(200,998)
Proceeds from issuance of long-term debt	786,150	315,959
Proceeds from issuance of common stock	199,318	79,557
Proceeds from stock options	5,498	3,475
Purchase of treasury stock	(2,810)	(399)
Debt issuance costs	(7,789)	(1,846)
Net cash provided by financing activities	506,322	195,748
Effect of exchange rate changes on cash and equivalents	(4,511)	1,471
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	49,955	(84,748)
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	64,601	132,803
CASH AND EQUIVALENTS, END OF PERIOD	$ 114,556	$ 48,055

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

GARDNER DENVER, INC.
NOTES TO CONDENSED 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 condensed 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.

The financial information presented as of any date other than December 31 has been prepared from the books and records without audit. The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete 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.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto incorporated by reference in Gardner Denver's Annual Report on Form 10-K for the year ended December 31, 2004.

The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for the full year.

Stock-Based Compensation Plans

As allowed under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," the Company measures its compensation cost of equity instruments issued under employee stock-based compensation plans using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees," and related interpretations. Stock options granted during the three and nine months ended September 30, 2005 and 2004 were exercisable at prices equal to the fair market value of the Company's common stock on the dates the options were granted; and accordingly, no compensation expense has been recognized. If the Company had accounted for stock-based compensation using the fair value recognition provisions of SFAS No. 123 and related amendments, net income and basic and diluted earnings per share would have been as follows:

THREE MONTHS

	ENDED SEPTEMBER 30,		
	2005	2004	
Net income, as reported	$ 16,661	$ 8,654	$
Less: Total stock-based employee compensation expense determined under fair value method, net of related tax effects	$ 439	$ 363	$
Pro forma net income	$ 16,222	$ 8,291	$
Basic earnings per share, as reported	$ 0.64	$ 0.44	$
Basic earnings per share, pro forma	$ 0.63	$ 0.42	$
Diluted earnings per share, as reported	$ 0.63	$ 0.43	$
Diluted earnings per share, pro forma	$ 0.62	$ 0.41	$

Changes in Accounting Principles and Effects of New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs - an amendment to ARB No. 43, Chapter 4." This Statement amends previous guidance and requires expensing for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). In addition, the Statement requires that allocation of fixed production overheads to inventory be based on the normal capacity of production facilities. SFAS No. 151 is effective for inventory costs incurred during annual periods beginning after June 15, 2005. The Company is currently evaluating the impact of SFAS No. 151 on its future consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"), which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB 25 and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be expensed based on their fair values.

On April 14, 2005, the Securities and Exchange Commission ("SEC") adopted a rule that delayed the effective date of SFAS No. 123(R), which required adoption no later than July 1, 2005. The SEC rule allows companies to implement SFAS No. 123(R) at the beginning of their next fiscal year that begins after June 15, 2005. The new SEC rule does not change the accounting required by SFAS No. 123(R). Gardner Denver plans to adopt SFAS No. 123(R) on January 1, 2006, using the modified-prospective method, which requires the recognition of compensation costs beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.

As permitted by SFAS No. 123, Gardner Denver currently accounts for share-based payments to employees using the intrinsic value method prescribed by APB 25 and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of the fair value method in

SFAS No. 123(R) will have an impact on Gardner Denver's result of operations, although it will have no impact on Gardner Denver's overall financial position. Management currently expects that the adoption of SFAS No. 123(R) will result in approximately $0.12 to $0.14 reduction in diluted earnings per share for 2006. This estimate is based on the Company's historical stock-based compensation practices and may change based on the actual level of stock-based compensation granted in the future. Additionally, Gardner Denver's stock option grants contain a provision that accelerates vesting of options for holders that retire and have met retirement eligibility requirements. Currently, as part of the pro forma disclosures required by SFAS No. 123, Gardner Denver records a pro forma expense for the unrecognized compensation cost in the period that the accelerated vesting occurs. However, upon adoption of SFAS No. 123(R), Gardner Denver will recognize compensation expense based on retirement eligibility dates for all options which contain an accelerated vesting provision. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption.

In March 2005, the SEC staff issued Staff Accounting Bulletin No. 107 ("SAB 107") to assist preparers with the implementation of SFAS No. 123(R). SAB 107 recognizes that considerable judgment will be required by preparers to successfully implement SFAS No. 123(R), (specifically when valuing employee stock options); and that reasonable individuals, acting in good faith, may conclude differently on the fair value of employee stock options. Gardner Denver will apply the principles of SAB 107 in conjunction with its adoption of SFAS No. 123(R).

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," ("SFAS No. 154"), which requires retrospective application for reporting a voluntary change in accounting principle, unless it is impracticable to do so. SFAS No. 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and also addresses the reporting of a correction of error by restating previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company will adopt SFAS No. 154 as required, and management does not believe the adoption will have a material effect on the Company's results of operations or financial position.

NOTE 2. BUSINESS COMBINATIONS

Consummated Acquisitions

On July 1, 2005, the Company acquired Thomas Industries Inc. ("Thomas"), previously a New York Stock Exchange listed company trading under the ticker symbol "TII." Thomas is a worldwide leader in the design, manufacture and marketing of precision engineered pumps, compressors and blowers. Thomas' products are complementary to the Compressor and Vacuum Products segment's existing product portfolio. The agreed-upon purchase price of $40.00 per share for all outstanding shares and share equivalents (approximately $734.2 million) was paid in the form of cash and the assumption of $7.6 million of long-term capitalized lease obligations. As of June 30, 2005, Thomas had $265.3 million in cash and equivalents. The net transaction value, including assumed debt of $7.6 million (net of cash acquired) and direct acquisition costs, was approximately

$483.5 million.

The balance sheet accounts and results of operations of Thomas were included in Gardner Denver's Consolidated Financial Statements beginning on July 1, 2005. The estimated fair values of the significant asset balances acquired and significant liabilities assumed in connection with the acquisition of Thomas are as follows: receivables ($59,834); inventory ($76,277); property, plant and equipment ($126,539); intangible assets ($354,612); other assets ($9,381); accounts payable and accrued liabilities ($90,738); net deferred income tax liabilities ($28,495) and other liabilities ($23,911), based on their estimated fair values on the date of acquisition. This allocation reflects the Company's preliminary estimates of the purchase price allocation and is subject to change upon completion of appraisals in 2006. Further, other assets and liabilities may be identified to which a portion of the purchase price could be allocated.

The following unaudited pro forma financial information for the three and nine months ended September 30, 2005 and 2004 assumes that the Thomas acquisition occurred as of January 1, 2004. This unaudited pro forma financial information is subject to change upon finalization of the purchase price allocation of Thomas. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations which may occur in the future or that would have occurred had the Thomas acquisition been consummated on the date indicated.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
Revenues	$ 356,095	$ 326,304	$1,066,184	$ 964,529
Net income (1)	$ 16,661	$ 97,283	$ 46,764	$ 125,111
Diluted earnings per share (1)	$ 0.63	$ 3.76	$ 1.78	$ 5.07

(1) Net income and diluted earnings per share for the three-month and nine-month periods ended September 30, 2004, include a one-time gain of $160.4 million, pre-tax, related to Thomas' sale of its equity interest in the Genlyte Thomas Group LLC. Excluding the effect of the gain, diluted pro forma earnings per share for the three-month and nine-month periods ended September 30, 2004, would have been $0.45 and $1.29, respectively.

In June 2005, the Company acquired the outstanding shares of Bottarini S.p.A. ("Bottarini"), a packager of industrial air compressors located near Milan, Italy. Bottarini's products are complementary to the Compressor and Vacuum Products segment's existing product portfolio. The purchase price of $10.1 million, including assumed bank debt (net of cash acquired) and direct acquisition costs, was paid in cash and the assumption of Bottarini's outstanding debt ($1.2 million). The size of this acquisition was not material in relation to Gardner Denver.

On September 1, 2004, the Company acquired nash_elmo Holdings, LLC ("Nash Elmo"), a leading global manufacturer of industrial vacuum pumps. Nash Elmo is primarily split between two businesses, liquid ring pumps and side channel blowers. Both businesses' products are complementary to the Compressor and Vacuum Products segment's existing product portfolio. Nash Elmo, previously headquartered in Trumbull, CT, has primary manufacturing facilities located in Bad Neustadt and Nuremberg, Germany; Zibo, China; and Campinas, Brazil. The purchase price of $224.6 million, including assumed bank debt (net of cash acquired) and direct acquisition costs, was paid in the form of cash and the assumption of certain of Nash Elmo's existing debt ($10.4 million). There are no additional contingent payments or commitments related to this acquisition. During the third quarter of 2005, the Company finalized the allocation of the Nash Elmo purchase price.

On January 2, 2004, the Company acquired the outstanding shares of Syltone plc ("Syltone"), previously a publicly traded company listed on the London Stock Exchange. Syltone, previously headquartered in Bradford, United Kingdom ("U.K."), is one of the world's largest manufacturers of equipment used for loading and unloading liquid and dry bulk products on commercial transportation vehicles. This equipment includes compressors, blowers and other ancillary products that are complementary to the Company's product lines. Syltone is also one of the world's largest manufacturers of fluid transfer equipment (including loading arms, swivel joints, couplers and valves) used to load and unload ships, tank trucks and rail cars. The purchase price of British pound 63.0 million (or approximately $112.5 million), including assumed bank debt (net of cash acquired) and direct acquisition costs, was paid in the form of cash (British pound 46.3 million), new loan notes (British pound 5.2 million) and the assumption of Syltone's existing bank debt, net of cash acquired (British pound 11.5 million). There are no additional contingent payments or commitments related to this acquisition.

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.

Exit Costs for Thomas Headquarters Office

In connection with the consummation of the Thomas acquisition, Gardner Denver decided to close Thomas' Headquarters office located in Louisville, Kentucky. The Company recorded a liability primarily related to estimated severance costs and other personnel-related costs. In accordance with Emerging Issues Task Force ("EITF") No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," the amount of the liability was included in the allocation of Thomas' acquisition cost. The Company expects to complete all exit activities by the end of the second quarter of 2006. The following table summarizes activity with respect to the exit liability.

	OPENING BALANCE AT JULY 1, 2005	AMOUNT PAID	ENDING BALANCE AT SEPTEMBER 30, 2005

Exit Liability	$ 8,500	$ (8,091)	$ 409

NOTE 3. INVENTORIES

	SEPTEMBER 30, 2005	DECEMBER 31, 2004
Raw materials, including parts and subassemblies	$ 97,268	$ 62,477
Work-in-process	37,787	23,405
Finished goods	85,513	57,321
	220,568	143,203
Excess of FIFO costs over LIFO costs	(6,535)	(4,817)
Inventories, net	$ 214,033	$ 138,386

NOTE 4. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill attributable to each business segment for the nine months ended September 30, 2005, and the year ended December 31, 2004, are as follows:

	COMPRESSOR & VACUUM PRODUCTS	FLUID TRANSFER PRODUCTS	TOTAL
BALANCE AS OF DECEMBER 31, 2003	$ 179,854	$ 25,634	$ 205,488
Acquisitions	148,842	11,609	160,451
Foreign currency translation	7,379	841	8,220
BALANCE AS OF DECEMBER 31, 2004	336,075	38,084	374,159
Acquisitions	258,127	-	258,127
Foreign currency translation	(6,173)	(3,274)	(9,447)
BALANCE AS OF SEPTEMBER 30, 2005	$ 588,029	$ 34,810	$ 622,839

The following table presents the gross carrying amounts and accumulated amortization for Gardner Denver's identifiable intangible assets subject to amortization at the dates presented:

	SEPTEMBER 30, 2005		DECEMBER 31, 2004	
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Amortized intangible assets:				
Customer lists and relationships	$105,070	$ (4,853)	$ 53,855	$ (2,153)
Acquired technology	30,338	(12,160)	19,218	(9,732)
Other	13,418	(3,244)	11,352	(2,508)
Unamortized intangible assets:				
Trademarks	77,045	-	40,141	-
Total other intangible assets	$225,871	$(20,257)	$124,566	$(14,393)

Amortization of intangible assets for the three and nine months ended September 30, 2005, was $2.9 million and $6.6 million, respectively. Amortization of intangible assets for the three and nine months ended September 30, 2004, was $1.3 million and $3.3 million, respectively. Amortization of intangible assets is anticipated to be approximately $11 million to $12 million per year for 2005 through 2009, based upon existing intangible assets with finite useful lives as of September 30, 2005. This estimate is subject to change based upon the finalization of the allocation of the Thomas purchase price.

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NOTE 5. ACCRUED PRODUCT WARRANTY

The following is a roll forward of the Company's product warranty accrual for the three and nine months ended September 30, 2005 and 2004.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
Balance at beginning of period	$ 10,861	$ 7,808	$ 10,671	$ 6,635
Product warranty expense	3,464	2,284	7,374	6,012
Settlements	(3,235)	(1,948)	(6,700)	(5,978)
Other (acquisitions and foreign currency translation)	5,872	3,059	5,617	4,534
Balance at end of period	$ 16,962	$ 11,203	$ 16,962	$ 11,203

NOTE 6. PENSION AND OTHER POSTRETIREMENT BENEFITS

The following table summarizes the components of net periodic benefit expense for the Company's defined benefit pension plans and other postretirement benefit plans recognized for the three-month and nine-month periods ended September 30, 2005 and 2004, respectively:

	THREE MONTHS ENDED SEPTEMBER 30,				
	PENSION BENEFITS				
	U.S. PLANS		NON-U.S. PLANS		POSTR
	2005	2004	2005	2004	20
Service cost	$ 1,346	$ 528	$ 1,342	$ 858	$
Interest cost	1,025	831	2,008	1,453	
Expected return on plan assets	(1,150)	(925)	(1,901)	(1,328)	
Amortization of transition liability	1	-	-	-	
Amortization of prior-service cost	(2)	(20)	-	5	
Amortization of net loss (gain)	136	57	56	61	(
Net periodic benefit expense	$ 1,356	$ 471	$ 1,505	$ 1,049	$

	NINE MONTHS ENDED SEPTEMBER 30				
	PENSION BENEFITS				
	U.S. PLANS		NON-U.S. PLANS		POSTRE
	2005	2004	2005	2004	200
Service cost	$ 2,552	$ 1,583	$ 3,815	$ 2,424	$
Interest cost	2,801	2,493	5,948	4,057	1,
Expected return on plan assets	(3,100)	(2,776)	(5,935)	(3,885)	
Amortization of transition liability	1	-	-	-	
Amortization of prior-service cost	(52)	(61)	-	15	
Amortization of net loss (gain)	356	170	135	183	(
Net periodic benefit expense	$ 2,558	$ 1,409	$ 3,963	$ 2,794	$

NOTE 7. DEBT

	SEPTEMBER 30, 2005	DECEMB
SHORT-TERM DEBT:		
Revolving Loans, due 2005 (1)	$ -	$
Other short-term debt	2,105	
Total short-term debt	$ 2,105	$
LONG-TERM DEBT:		
Credit Line, due 2009 (2)	$ 95,560	$
Term Loan, due 2010 (3,6)	375,250	
Senior Subordinated Notes at 8%, due 2013	125,000	
Secured Mortgages, due 2022 (4)	9,127	
Unsecured Senior Note at 7.3%, due 2006 (1)	-	
Variable Rate Industrial Revenue Bonds, due 2018 (5)	8,000	
Term Loan, due 2007 (1)	-	
Capitalized Leases and Other Long-term debt	12,871	
Total long-term debt, including current maturities	625,808	
Current maturities of long-term-debt	29,227	
Total long-term debt, less current maturities	$596,581	$

(1) The outstanding balance was paid during 2005.

(2) The loans under this facility may be denominated in U.S. dollars or several foreign currencies. At September 30, 2005, the outstanding balance consisted of U.S. dollar borrowings of $59,500 and euro borrowings of euro dollar 30,000. The interest rates under the facility are based on prime, federal funds and/or LIBOR for the applicable currency and were 5.5% and 3.8% as of September 30, 2005 for the U.S. dollar and Euro loans, respectively. The rates averaged 4.6% and 3.6% during the first nine months of 2005 for the U.S. dollar and Euro loans, respectively.

(3) The interest rate varies with prime, federal funds, and/or LIBOR. At September 30, 2005, this rate was 5.6% and averaged 5.0% for the first nine months of 2005.

(4) This amount consists of two commercial loans assumed in the 2004 acquisition of Nash Elmo with an outstanding balance of euro dollar 7,593 at September 30, 2005. The loans are secured by the Company's facility in Bad Neustadt, Germany and are net of unamortized discount of euro dollar 245. The interest rate of 4.6% is fixed until maturity.

(5) The interest rate varies with market rates for tax-exempt industrial revenue bonds. At December 31, 2004, this rate was 2.8% and averaged 2.4% during the first nine months of 2005.

(6) The term loan outstanding at December 31, 2004 was replaced with a new term loan on July 1, 2005 under the new 2005 Credit Agreement.

On July 1, 2005, the Company's $605.0 million amended and restated credit agreement (the "2005 Credit Agreement") became effective with 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. Proceeds from the 2005 Credit Agreement were used to fund the Thomas acquisition and retire $144.4 million of debt outstanding under the previously existing Term Loan.

The new Term Loan has a final maturity of July 1, 2010. The Term Loan requires quarterly principal payments aggregating $19 million, $38 million, $57 million, $95 million and $171 million in years one through five, respectively.

The Revolving Line of Credit matures on September 1, 2009. Loans under this facility may be denominated in U.S. Dollars or several foreign currencies. On September 30, 2005, the Revolving Line of Credit had an outstanding principal balance of $95.6 million, leaving $129.4 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, either the prime rate plus an applicable margin or LIBOR plus an applicable margin. The applicable margin percentages are adjustable quarterly, based upon financial ratio guidelines defined in 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.

During May 2005, the Company repaid the outstanding balance on its revolving lines of credit ($144.2 million) from proceeds received from its offering of common stock (see Note 8). The Company also received proceeds of $125.0 million from an offering of its 8% Senior Subordinated Notes (the "Notes") in May 2005. The Company used the proceeds from the Notes, plus funds available under its 2005 Credit Agreement, to finance its acquisition of Thomas on July 1, 2005.

The Notes have a fixed annual interest rate of 8% and are guaranteed by certain of the Company's domestic subsidiaries. At any time prior to May 1, 2009, the Company may redeem all or part of the Notes issued under the Indenture at a redemption price equal to 100% of the principal amount of the Notes redeemed plus an applicable premium in the range of 1% to 4% of the principal amount, and accrued and unpaid interest and liquidated damages, if any. In addition, at any time prior to May 1, 2008, the Company may, on one or more occasions, redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 108% of the principal amount, plus accrued and unpaid interest and liquidated damages, if any, with the net cash proceeds of one or more equity offerings, subject to certain conditions. On or after May 1, 2009, the Company may redeem all or a part of the Notes at varying redemption prices, plus accrued and unpaid interest and liquidated damages, if any. Upon a change of control, as defined in the Indenture, the Company is required to offer to purchase all of the Notes then outstanding for cash at 101% of the principal amount thereof plus accrued and unpaid interest and liquidated damages, if any. The Indenture contains events of default and affirmative, negative and financial covenants customary for such financings, including, among other things, limits on incurring additional debt and restricted payments.

NOTE 8. STOCKHOLDERS' EQUITY

During May 2005, the Company completed an offering of 5,658,000 million shares of its common stock (including shares purchased by underwriters to cover over-allotments) for net proceeds of approximately $199.3 million. A portion of the proceeds was used to repay certain indebtedness (see Note 7). The remaining proceeds were invested in short-term securities prior to being used to finance the Company's acquisition of Thomas on July 1, 2005 (see Note 2).

NOTE 9. EARNINGS PER SHARE

The following table details the calculation of basic and diluted earnings per share:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
BASIC EARNINGS PER SHARE				
Net income	$16,661	$ 8,654	$41,616	$23,487
Shares				
Weighted average number of common shares outstanding	25,871	19,806	23,219	18,645
Basic earnings per common share	$ 0.64	$ 0.44	$ 1.79	$ 1.26
DILUTED EARNINGS PER SHARE				
Net income	$16,661	$ 8,654	$41,616	$23,487
Shares				
Weighted average number of common shares outstanding	25,871	19,806	23,219	18,645
Assuming conversion of dilutive stock options issued and outstanding	500	382	541	387
Weighted average number of common shares outstanding, as adjusted	26,371	20,188	23,760	19,032
Diluted earnings per common share	$ 0.63	$ 0.43	$ 1.75	$ 1.23

There were no outstanding antidilutive options to purchase shares of common stock in either the three-month or nine-month periods ended September 30,

2005.

NOTE 10. COMPREHENSIVE INCOME

For the three months ended September 30, 2005 and 2004, comprehensive income was $18.1 million and $11.9 million, respectively. For the nine months ended September 30, 2005 and 2004, comprehensive income was $28.0 million and $25.8 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 the foreign currency hedge of the Company's investment in foreign subsidiaries, fair market value adjustments of interest rate swaps and additional minimum pensions liability (net of income taxes).

NOTE 11. SUPPLEMENTAL CASH FLOW INFORMATION

In the first nine months of 2005 and 2004, the Company paid $11.7 million and $11.5 million, respectively, to various taxing authorities for income taxes. Interest paid for the first nine months of 2005 and 2004, was $14.1 million and $5.4 million, respectively.

NOTE 12. 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, 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 cause 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; 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 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.

NOTE 13. SEGMENT RESULTS

As a result of the July 1, 2005 acquisition of Thomas, certain changes were made to Gardner Denver's organizational structure. The Company's new organizational structure is still fundamentally based on the products and services it offers. Thomas' business consisted of the original Thomas business (prior to Thomas Industries' 2002 acquisition of Werner Rietschle Holding GmbH, a privately held company based in Germany) and the Rietschle business. The original Thomas business is a leader in the production of oil-free compressors, vacuum pumps and liquid pumps for original equipment manufacturers. The Rietschle products primarily include dry running and oil-lubricated vacuum pumps, compressors and pressure/vacuum pumps. These products utilize similar technologies and serve similar markets as those in the Blower Division. Due to these distinct similarities, the Rietschle business was combined with the Company's Blower Division. The original Thomas business will be operated and managed as a new Thomas Products operating division.

Subsequent to the acquisition of Thomas, Gardner Denver now has five operating divisions: Compressor, Blower, Liquid Ring Pump, Fluid Transfer and Thomas Products. These divisions comprise two reportable segments: Compressor and Vacuum Products (formerly Compressed Air Products) and Fluid Transfer Products. The Compressor, Blower, Liquid Ring Pump and Thomas Products Divisions are aggregated into one reportable segment (Compressor and Vacuum Products) since the long-term financial performance of these businesses are affected by similar economic conditions, coupled with the similar nature of their products, manufacturing processes and other business characteristics. During the third quarter of 2004, the Company's former Pump and Fluid Transfer Divisions were combined into one division, Fluid Transfer. These two divisions were previously aggregated into one reportable segment (Fluid Transfer Products) primarily due to the same factors noted above, and thus, there has been no change to the Fluid Transfer Products segment.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004

COMPRESSOR AND VACUUM PRODUCTS				
Revenues	$ 299,834	$ 147,148	$ 693,504	$ 396,1
Segment operating earnings	24,027	13,519	54,150	32,4
Segment operating earnings as a percentage of segment revenues	8.0%	9.2%	7.8%	8
FLUID TRANSFER PRODUCTS				
Revenues	$ 56,261	$ 35,468	$ 151,761	$ 102,1
Segment operating earnings	9,116	2,415	20,605	7,3
Segment operating earnings as a percentage of segment revenues	16.2%	6.8%	13.6%	7
RECONCILIATION OF SEGMENT RESULTS TO CONSOLIDATED RESULTS				
Total segment operating earnings	$ 33,143	$ 15,934	$ 74,755	$ 39,7
Interest expense	10,358	2,491	19,642	5,9
Other expense (income), net	(1,016)	332	(4,338)	(1,7
Consolidated income before income taxes	$ 23,801	$ 13,111	$ 59,451	$ 35,5

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Thomas Industries, Inc. Acquisition

On July 1, 2005, the Company acquired Thomas Industries Inc. ("Thomas"), previously a New York Stock Exchange listed company trading under the ticker symbol "TII." Thomas is a worldwide leader in the design, manufacture and marketing of precision engineered pumps, compressors and blowers. The agreed-upon purchase price of $40.00 per share for all outstanding shares and share equivalents (approximately $734.2 million) was paid in the form of cash and the assumption of $7.6 million of long-term capitalized lease obligations. As of June 30, 2005, Thomas had $265.3 million in cash and equivalents. The net transaction value, including assumed debt of $7.6 million (net of cash acquired) and direct acquisition costs, was approximately $483.5 million.

Thomas is a leading supplier of pumps, compressors and blowers to the original equipment manufacturer (OEM) market in such applications as medical equipment, gasoline vapor and refrigerant recovery, automotive and transportation applications, printing, packaging, tape drives and laboratory equipment. Thomas designs, manufactures, markets, sells and services these products through worldwide operations.

Thomas has wholly-owned operations in 21 countries on five continents. Its primary manufacturing facilities are located in Sheboygan, Wisconsin; Monroe, Louisiana; Skokie, Illinois; and Syracuse, New York; Schopfheim, Fahrnau, Puchheim and Memmingen, Germany; and Wuxi, China. The manufacturing operations in the United States produce rotary vane, linear, piston and diaphragm pumps and compressors, and various liquid pump products. These products are directly sold worldwide to OEM's, as well as through fluid power and industrial distributors. The German operations manufacture a complementary line of rotary vane, linear, diaphragm, gear, side channel, radial, claw, screw and rotary lobe pumps, compressors and blowers, as well as various liquid pump

products, and packaged systems. These products are also distributed worldwide. The manufacturing facility in China was constructed during late 2004 and began production in 2005.

Thomas' largest markets are Europe and the United States, which represented approximately 52% and 38% of its revenues in 2004, respectively. Of the total sales to Europe, approximately 61% were to Germany and 39% to other European countries. Approximately 10% of Thomas' 2004 revenues were generated in Asia Pacific. At July 1, 2005, Thomas employed approximately 2,300 people.

Syltone, Nash Elmo and Bottarini Acquisitions

On January 2, 2004, the Company acquired the outstanding shares of Syltone plc ("Syltone"), previously a publicly traded company listed on the London Stock Exchange. Syltone, previously headquartered in Bradford, United Kingdom ("U.K."), is one of the world's largest manufacturers of equipment used for loading and unloading liquid and dry bulk products on commercial transportation vehicles. This equipment includes compressors, blowers and other ancillary products that are complementary to the Company's product lines. Syltone is also one of the world's largest manufacturers of fluid transfer equipment (including loading arms, swivel joints, couplers and valves) used to load and unload ships, tank trucks and rail cars. The purchase price of British pound 63.0 million (or approximately $112.5 million), including assumed bank debt (net of cash acquired) and direct acquisition costs, was paid in the

form of cash (British pound 46.3 million), new loan notes (British pound 5.2 million) and the assumption of Syltone's existing bank debt, net of cash acquired (British pound 11.5 million). There are no additional contingent payments or commitments related to this acquisition.

On September 1, 2004, the Company acquired nash_elmo Holdings, LLC ("Nash Elmo"), a leading global manufacturer of industrial vacuum pumps. Nash Elmo is primarily split between two businesses, liquid ring pumps and side channel blowers. Both businesses' products are complementary to the Compressor and Vacuum Products segment's existing product portfolio. Nash Elmo, previously headquartered in Trumbull, CT, has primary manufacturing facilities located in Bad Neustadt and Nuremberg, Germany; Zibo, China; and Campinas, Brazil. The purchase price of $224.6 million, including assumed bank debt (net of cash acquired) and direct acquisition costs, was paid in the form of cash and the assumption of certain of Nash Elmo's existing debt ($10.4 million). There are no additional contingent payments or commitments related to this acquisition.

In June 2005, the Company acquired the outstanding shares of Bottarini S.p.A. ("Bottarini"), a packager of industrial air compressors located near Milan, Italy. The purchase prices of $10.1 million, including assumed bank debt (net of cash acquired) and direct acquisition costs, was paid in cash and the assumption of Bottarini's outstanding debt ($1.2 million).

Operating Segments

As a result of the July 1, 2005 acquisition of Thomas, certain changes were made to Gardner Denver's organizational structure. The Company's new organizational structure is still fundamentally based on the products and services it offers. Thomas' business consisted of the original Thomas business (prior to Thomas' 2002 acquisition of Werner Rietschle Holding GmbH, a privately

held company based in Germany) and the Rietschle business. The original Thomas business is a leader in the production of oil-free compressors and vacuum pumps for original equipment manufacturers. The Rietschle products primarily include dry running and oil-lubricated vacuum pumps, compressors and pressure/vacuum pumps. Due to the distinct similarity in products and markets served, the Rietschle business was combined with the Company's Blower Division. The original Thomas business will be operated and managed as a new Thomas Products operating division.

Subsequent to the acquisition of Thomas, the Company now has five operating divisions: Compressor, Blower, Liquid Ring Pump, Fluid Transfer and Thomas Products. These divisions comprise two reportable segments: Compressor and Vacuum Products (formerly Compressed Air Products) and Fluid Transfer Products. The Compressor, Blower, Liquid Ring Pump and Thomas Products Divisions are aggregated into one reportable segment (Compressor and Vacuum Products) since the long-term financial performance of these businesses are affected by similar economic conditions, coupled with the similar nature of their products, manufacturing processes and other business characteristics. During the third quarter of 2004, the Company's former Pump and Fluid Transfer Divisions were combined into one division, Fluid Transfer. These two divisions were previously aggregated into one reportable segment (Fluid Transfer Products) primarily due to the same factors noted above, and thus, there has been no change to the Fluid Transfer Products segment.

RESULTS OF OPERATIONS

PERFORMANCE IN THE QUARTER ENDED SEPTEMBER 30, 2005 COMPARED WITH THE QUARTER ENDED SEPTEMBER 30, 2004

Revenues

Revenues increased $173.5 million (95%) to $356.1 million for the three months ended September 30, 2005, compared to the same period of 2004. This increase was primarily due to the acquisitions of Thomas, Nash Elmo and Bottarini, which contributed approximately $143.0 million of additional revenues, compared to 2004. Increased shipments of drilling and well stimulation pumps, compressors and blowers, combined with price increases, also contributed to the growth in revenues.

For the three months ended September 30, 2005, revenues for the Compressor and Vacuum Products segment increased $152.7 million (104%) to $299.8 million, compared to the same period of 2004. This increase was primarily due to the acquisitions of Thomas, Nash Elmo and Bottarini, and higher volumes of compressor and blower shipments in the U.S., Europe and China (100%), and improved pricing (4%).

Fluid Transfer Products segment revenues increased $20.8 million (59%) to $56.3 million for the three months ended September 30, 2005, compared to the same period of 2004. This improvement was primarily due to increased volume of shipments of drilling and well stimulation pumps, water jetting systems and related aftermarket parts (53%), and price increases (6%).

Costs and Expenses

Gross margin (defined as revenues less cost of sales) for the three

months ended September 30, 2005 increased $56.2 million (95%) to $115.6 million compared to the same period of 2004, primarily due to the increase in revenues. Gross margin as a percentage of revenues (gross margin percentage) was 32.5% in the three-month periods of 2005 and 2004. Increased volume and pricing in both segments and the related positive impact of increased leverage of fixed and semi-fixed costs over a higher revenue base contributed favorably. These positive factors were offset by the impact of recording the Thomas inventory at fair value on the acquisition date ($3.9 million) and by higher material costs due to surcharges stemming from increases in scrap iron and other metal prices.

Depreciation and amortization for the three months ended September 30, 2005 increased $5.4 million (91%) to $11.3 million, compared to the same period of 2004, primarily due to the Thomas and Nash Elmo acquisitions. The current quarter results include an amortization reduction of approximately $0.7 million as a result of the finalization of the allocation of the Nash Elmo purchase price.

Selling and administrative expenses increased $33.6 million (90%) in the third quarter of 2005 to $71.1 million, compared to the same period of 2004. This increase was primarily attributable to the acquisitions of Thomas, Nash Elmo and Bottarini, which contributed approximately $31.0 million of additional selling and administrative expenses compared to 2004. Higher compensation and fringe benefit costs, and expenses associated with a new compressor packaging facility in China also contributed to this increase. However, as a percentage of revenues, selling and administrative expenses decreased from 20.5% in the third quarter of 2004 to 20.0% in the third quarter of 2005 as acquisitions are integrated.

The Compressor and Vacuum Products segment generated operating earnings (defined as revenues, less cost of sales, depreciation and amortization, and selling and administrative expenses) as a percentage of revenues (operating margin) of 8.0% in the three-month period ended September 30, 2005, compared to operating margin of 9.2% for the same period of 2004 (see Note 13 to the Condensed Consolidated Financial Statements). The decline in operating margin was primarily attributable to higher material and selling and administrative costs as noted above, and the impact of recording the Thomas Industries inventory at fair value on the acquisition date, partially offset by the positive impact of increased leverage of the segment's fixed and semi-fixed costs over a higher revenue base. Operating margin from Compressor and Vacuum Products segment businesses that existed prior to the incremental effect of the acquisitions of Thomas Industries, Nash Elmo and Bottarini was approximately 9.5% and 9.0% for the three-month periods ended September 30, 2005 and 2004, respectively.

The Fluid Transfer Products segment generated operating margin of 16.2% for the three-month period ended September 30, 2005, compared to 6.8% for the same period of 2004 (see Note 13 to the Condensed Consolidated Financial Statements). This increase is primarily due to the positive impact of increased leverage of the segment's fixed and semi-fixed costs over a higher revenue base, and price increases. Improved productivity, benefits from capital investments and favorable mix associated with a higher proportion of drilling pump shipments also contributed to the increase.

Interest expense increased $7.9 million to $10.4 million in the third quarter of 2005, compared to the third quarter of 2004. This increase was primarily due to additional funds borrowed to finance the acquisition of Thomas

Industries and higher interest rates. The weighted average interest rate, including the amortization of debt issuance costs, for the three-month period ended September 30, 2005 was 7.1%, compared to 5.6% in the comparable prior year period. The higher weighted average interest rate for the current quarter was primarily attributable to increases in market rates on floating rate debt and the issuance of $125.0 million of 8% Senior Subordinated Notes (the "Notes") in the second quarter of 2005.

Income before income taxes increased $10.7 million (82%) to $23.8 million for the three months ended September 30, 2005, compared to the same period of 2004. This increase is primarily due to increased volume in both segments as a result of recent acquisitions and internal growth, and the related positive impact of increased leverage of fixed and semi-fixed costs over a higher revenue base. These positive factors were partially offset by higher interest expense.

The provision for income taxes increased by $2.7 million to $7.1 million for the current quarter, compared to the prior year period, as a result of higher pretax income, partially offset by a lower effective tax rate. The Company's effective tax rate for the three months ended September 30, 2005 decreased to 30% compared to 34% in the prior year period, principally due to a higher proportion of earnings being derived from lower-taxed non-U.S. jurisdictions and tax planning initiatives.

Net income for the three months ended September 30, 2005 increased $8.0 million (93%) to $16.7 million, compared to $8.7 million for same period of 2004. This improvement in net income resulted primarily from the combination of higher income before taxes and the lower effective tax rate in 2005, compared to 2004. On a diluted per share basis, earnings for the three months ended September 30, 2005 were $0.63, compared to $0.43 for the same period of 2004. Diluted earning per share for the current quarter reflect the impact of the issuance of 5,658,000 shares of Gardner Denver's common stock during the second quarter of 2005.

PERFORMANCE IN THE NINE MONTHS ENDED SEPTEMBER 30, 2005 COMPARED WITH THE NINE MONTHS ENDED SEPTEMBER 30, 2004

Revenues

Revenues increased $346.9 million (70%) to $845.3 million for the nine months ended September 30, 2005, compared to the same period of 2004. This increase was primarily due to the acquisitions of Thomas, Nash Elmo and Bottarini, which contributed approximately $272.3 million of additional revenues compared to 2004. Increased shipments of drilling and well stimulation pumps, replacement parts, compressors and blowers, combined with price increases and favorable changes in currency exchange rates, also contributed to the growth in revenues.

For the nine months ended September 30, 2005, revenues for the Compressor and Vacuum Products segment increased $297.3 million (75%) to $693.5 million, compared to the same period of 2004. This increase was primarily due to the acquisitions of Thomas, Nash Elmo and Bottarini and, higher volumes of compressor and blower shipments in the U.S., Europe and China (71%), price increase (3%) and favorable changes in currency exchange rates (1%).

Fluid Transfer Products segment revenues increased $49.6 million (49%) to $151.8 million for the nine months ended September 30, 2005, compared to the

same period of 2004. This improvement was primarily attributable to increased volume of shipments of drilling and well stimulation pumps, water jetting systems and related aftermarket parts (44%), and price increases (5%).

Costs and Expenses

Gross margin for the nine months ended September 30, 2005 increased $113.9 million (70%) to $275.8 million, compared to the same period of 2004, primarily due to the increase in revenues. Gross margin percentage improved slightly to 32.6% in the nine-month period of 2005 from 32.5% in the same period of 2004, despite the inclusion of $3.9 million in non-recurring inventory step-up adjustment in the current year relating to recording Thomas inventory at fair value on the acquisition date. This improvement was primarily attributable to the acquisition of Nash Elmo, which had a higher gross margin percentage than the Company's previously existing businesses, and to increased volume and price increases in both segments. These positive factors were partially offset by higher material costs due to surcharges stemming from increases in scrap iron and other metal prices and inefficiencies stemming from delays in material availability and increasing levels of production.

Depreciation and amortization for the nine months ended September 30, 2005 increased $9.7 million (61%) to $25.8 million, compared to the same period of 2004, primarily due to the Thomas and Nash Elmo acquisitions. The year-to-date results include an amortization reduction of approximately $0.7 million as a result of the finalization of the allocation of the Nash Elmo purchase price.

Selling and administrative expenses increased $69.2 million (65%) in the first nine months of 2005 to $175.2 million, compared to the same period of 2004. This increase was primarily attributable to the acquisitions of Thomas, Nash Elmo and Bottarini, which contributed approximately $62.8 million of additional selling and administrative expenses compared to 2004. Higher compensation and fringe benefit costs, unfavorable changes in currency exchange rates and expenses associated with a new compressor packaging facility in China also contributed to this increase. However, as a percentage of

revenues, selling and administrative expenses decreased from 21.3% for the first nine months of 2004 to 20.7% for the first nine months of 2005, as acquisitions are integrated and revenue volume increases are leveraged.

The Compressor and Vacuum Products segment generated operating margin of 7.8% in the nine-month period ended September 30, 2005, a decrease from 8.2% for the same period of 2004 (see Note 13 to the Condensed Consolidated Financial Statements). The decline in operating margin was primarily attributable to higher material and selling and administrative costs as noted above, and the impact of recording the Thomas Industries inventory at fair value on the acquisition date, which were partially offset by the positive impact of increased leverage of the segment's fixed and semi-fixed costs over a higher revenue base. Operating margin from Compressor and Vacuum Products segment businesses that existed prior to the incremental effect of the acquisitions of Thomas Industries, Nash Elmo and Bottarini was approximately 7.6% and 8.1% for the nine-month periods ended September 30, 2005 and 2004, respectively.

The Fluid Transfer Products segment generated operating margin of 13.6% for the nine-month period ended September 30, 2005, compared to 7.2% for the same period of 2004 (see Note 13 to the Condensed Consolidated Financial

Statements). This increase is primarily due to the positive impact of increased leverage of the segment's fixed and semi-fixed costs over a higher revenue base, and pricing increases. Improved productivity, benefits from capital investments and favorable mix associated with a higher proportion of drilling pump shipments also contributed to the improvement.

Interest expense increased $13.7 million (230%) to $19.6 million for the nine months ended September 30, 2005, compared to the same period of 2004. The increase was primarily due to higher average borrowings stemming from acquisition-related financing and higher average interest rates. The weighted average interest rate, including the amortization of debt issuance costs, for the nine-month period ended September 30, 2005 was 6.5%, compared to 4.9% in the comparable prior year period. The higher weighted average interest rate for the first nine months of 2005 was primarily attributable to increases in market rates on floating rate debt and the issuance of the Notes in the second quarter of 2005.

Other income, net increased $2.6 million to $4.3 million for the nine months ended September 30, 2005, compared to the same period of 2004. This increase was primarily due to $1.7 million in litigation-related settlements received in 2005 and $0.7 million of interest income earned on the proceeds from the Notes, prior to their use to complete the Thomas acquisition. This increase was partially offset by a non-recurring $1.2 million foreign currency transaction gain recorded in the prior year, which related to the appreciation of U.S. dollar borrowings that were converted to British pounds prior to being used to consummate the Syltone acquisition.

Income before income taxes increased $23.9 million (67%) to $59.5 million for the nine months ended September 30, 2005, compared to the same period of 2004. This increase was primarily due to increased volume in both segments as a result of recent acquisitions and internal growth, and the related positive impact of increased leverage of fixed and semi-fixed costs over a higher revenue base. These positive factors were partially offset by higher interest expense and the non-recurring foreign currency gain recorded in the prior year.

The provision for income taxes increased by $5.7 million to $17.8 million for the nine-month period ended September 30, 2005, compared to the same period last year, as a result of incremental income before taxes, partially offset by a lower effective tax rate. The Company's effective tax rate for the nine months ended September 30, 2005 decreased to 30%, compared to 34% in the prior year period,

principally due to a higher proportion of earnings being derived from lower-taxed non-U.S. jurisdictions and tax planning initiatives.

Net income for the nine months ended September 30, 2005 increased $18.1 million (77%) to $41.6 million, compared to $23.5 million for same period of 2004. Recent acquisitions contributed approximately $7 million of the increase. In addition, the increase in net income was caused by higher revenue volume, price increases, litigation-related settlements and the lower effective tax rate in 2005. On a diluted per share basis, earnings for the nine months ended September 30, 2005 were $1.75, compared to $1.23 for the same period of 2004. Diluted earning per share reflect the impact of the issuance of 5,658,000 shares of Gardner Denver's common stock during the second quarter of 2005.

Outlook

In general, demand for compressor and vacuum products correlates to the rate of manufacturing capacity utilization and the rate of change of industrial production because compressed air is often used as a fourth utility in the manufacturing process. Over longer time periods, demand also follows the global economic growth patterns indicated by the rates of change in the Gross Domestic Product around the world. In the third quarter of 2005, orders for compressor and vacuum products were $300.5 million, compared to $146.5 million in the same period of 2004. Backlog for the Compressor and Vacuum Products segment was $294.1 million as of September 30, 2005, compared to $161.2 million as of September 30, 2004. The increase in orders and backlog for the Compressor and Vacuum Products segment compared to the prior year was primarily due to the Thomas and Bottarini acquisitions, which collectively contributed approximately $101.1 million and $89.8 million to orders and backlog, respectively. Excluding this impact, the growth in orders and backlog compared to the prior year for this segment was primarily due to modest improvement in industrial demand in the U.S. and Eastern Europe, combined with incremental market share gains in Europe and China, which were partially offset by unfavorable changes in currency exchange rates during the third quarter of 2005. The Company also experienced an increase in demand for positive displacement blowers used in transportation applications in the U.S.

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 $110.8 million in the third quarter of 2005, an increase of 120% compared to $50.4 million in the same period of 2004. Backlog for the Fluid Transfer segment was $149.0 million as of September 30, 2005, an increase of 189% compared to $51.6 million as of September 30, 2004. The significant increases in orders and backlog compared to the prior year were primarily due to higher demand for drilling pumps, well stimulation pumps and petroleum pump parts, as a result of continued high prices for oil and natural gas. Future increases in demand for these products will likely be dependent upon oil and natural gas prices and rig counts, which the Company cannot predict.

LIQUIDITY AND CAPITAL RESOURCES

Operating Working Capital

During the nine months ended September 30, 2005, operating working capital (defined as receivables plus inventories, less accounts payable and accrued liabilities) increased $61.2 million to $157.5 million. This increase primarily stems from the Thomas and Bottarini acquisitions.

Cash Flows

During the first nine months of 2005, cash provided by operating activities was $52.8 million, compared to $22.3 million in the prior year period. This increase was primarily due to higher net income. Improvements in days sales outstanding and inventory turnover also contributed to the increase. Net cash used in investing activities was $504.7 million during the first nine months of 2005, primarily due to the Thomas and Bottarini acquisitions, as well as higher capital expenditures. Net cash provided by financing activities was $506.3 million during the first nine months of 2005, primarily due to $199.3

million in net proceeds related to the Company's issuance of approximately 5.7 million shares of common stock and additional borrowings used to fund the Thomas acquisition. The cash flows provided by operating and financing activities and used in investing activities, combined with the effect of exchange rate changes, resulted in a net cash increase of $50.0 million during the first nine months of 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 expenditures of $22.6 million in the first nine months of 2005. This was $10.3 million higher than the level of capital expenditures in the comparable period in 2004, primarily due to the timing of capital projects and spending related to recent acquisitions. Commitments for capital expenditures at September 30, 2005 were approximately $18.3 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, Gardner Denver's Board of Directors authorized the repurchase of up to 1,600,000 shares of the Company's common stock to be used for general corporate purposes of which 210,300 shares remain available for repurchase under this program as of September 30, 2005. The Company has also established a Stock Repurchase Program for its executive officers to provide a means for them to sell Gardner Denver 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 Gardner Denver Board has authorized up to 400,000 shares for repurchase under this program and of this amount 208,258 shares remain available for repurchase as of September 30, 2005. As of September 30, 2005, a total of 1,581,442 shares have been repurchased at a cost of approximately $23.2 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 in connection with 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. Proceeds from the 2005 Credit Agreement were used to fund the Thomas acquisition and retire $144.4 million of debt outstanding under the previously existing Term Loan.

The new Term Loan has a final maturity of July 1, 2010. The Term Loan requires quarterly principal payments aggregating $19 million, $38 million, $57 million, $95 million and $171 million in years one through five, respectively.

The Revolving Line of Credit matures on September 1, 2009. Loans under this facility may be denominated in U.S. Dollars or several foreign currencies. On September 30, 2005, the Revolving Line of Credit had an outstanding principal balance of $95.6 million, leaving $129.4 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, either 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.

Pursuant to its previously filed shelf registration with the Securities and Exchange Commission, the Company completed an offering of 5,658,000 shares of its common stock (including shares purchased by underwriters to cover over-allotments) for proceeds of approximately $199.3 million (net of direct costs associated with the offering) during May 2005. The Company also completed an offering of $125.0 million of its Notes in a private placement on May 4, 2005. The Company used the proceeds from the shares and Notes, plus funds available under the 2005 Credit Agreement, to finance its acquisition of Thomas and to repay certain indebtedness.

The Notes have a fixed annual interest rate of 8% and are guaranteed by certain of the Company's domestic subsidiaries. At any time prior to May 1, 2009, the Company may redeem all or part of the Notes issued under the Indenture at a redemption price equal to 100% of the principal amount of the Notes redeemed plus an applicable "make-whole" premium, and accrued and unpaid interest and liquidated damages, if any. In addition, at any time prior to May 1, 2008, the Company may, on one or more occasions, redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 108% of the principal amount, plus accrued and unpaid interest and liquidated damages, if any, with the net cash proceeds of one or more equity offerings, subject to certain conditions. On or after May 1, 2009, the Company may redeem all or a part of the Notes at varying redemption prices, plus accrued and unpaid interest and liquidated damages, if any. Upon a change of control, as defined in the Indenture, the Company is required to offer to purchase all of the Notes then outstanding for cash at 101% of the principal amount thereof plus accrued and unpaid interest and liquidated damages, if any. The Indenture contains events of default and affirmative, negative and financial covenants customary for such financings, including, among other things, limits on incurring additional debt and restricted payments.

Management currently expects the Company's future cash flows 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.

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, 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 cause 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; 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 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.

Changes in Accounting Principles and Effects of New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs - an amendment to ARB No. 43, Chapter 4." This statement amends previous guidance and requires expensing for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). In addition, the statement requires that allocation of fixed production overheads to inventory be based on the normal capacity of production facilities. SFAS No. 151 is effective for inventory costs incurred during annual periods beginning after June 15, 2005. The Company is currently evaluating the impact of SFAS No. 151 on its future consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"), which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB 25 and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be expensed based on their fair values.

On April 14, 2005, the Securities and Exchange Commission ("SEC") adopted a rule that delayed the effective date of SFAS No. 123(R), which required adoption no later than July 1, 2005. The SEC rule allows companies to implement SFAS No. 123(R) at the beginning of their next fiscal year that begins after June 15, 2005. The new SEC rule does not change the accounting required by SFAS No. 123(R). Gardner Denver plans to adopt SFAS No. 123(R) on January 1, 2006, using the modified-prospective method, which requires the recognition of compensation costs beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.

As permitted by SFAS No. 123, Gardner Denver currently accounts for share-based payments to employees using the intrinsic value method prescribed by APB 25 and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of the fair value method in SFAS No. 123(R) will have an impact on Gardner Denver's result of operations, although it will have no impact on Gardner Denver's overall financial position. Management currently expects that the adoption of SFAS No. 123(R) will result in approximately $0.12 to $0.14 reduction in diluted earnings per share for 2006. This estimate is based on the Company's historical stock-based compensation practices and may change based on the actual level of stock-based compensation granted in the future. Additionally, Gardner Denver's stock option grants contain a provision that accelerates vesting of options for holders that retire and have met retirement eligibility requirements. Currently, as part of the pro forma disclosures required by SFAS No. 123, Gardner Denver records a pro forma expense for the unrecognized compensation cost in the period that the accelerated vesting occurs. However, upon adoption of SFAS No. 123(R), Gardner Denver will recognize compensation expense based on retirement eligibility dates for all options which contain an accelerated vesting provision. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption.

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In March 2005, the SEC staff issued Staff Accounting Bulletin No. 107 ("SAB 107") to assist preparers with the implementation of SFAS No. 123(R). SAB 107 recognizes that considerable judgment will be required by preparers to successfully implement SFAS No. 123(R), (specifically when valuing employee stock options); and that reasonable individuals, acting in good faith, may conclude differently on the fair value of employee stock options. Gardner Denver will apply the principles of SAB 107 in conjunction with its adoption of SFAS No. 123(R).

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," ("SFAS No. 154"), which requires retrospective application for reporting a voluntary change in accounting principle, unless it is impracticable to do so. SFAS No. 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and also addresses the reporting of a correction of error by restating previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

The Company will adopt SFAS No. 154 as required, and management does not believe the adoption will have a material effect on the Company's results of operations or financial position.

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 2004 Annual Report on Form 10-K, filed on March 15, 2005, 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 the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section, 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.

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The following uncertainties and factors, among others, 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 the Thomas, Nash Elmo and Bottarini acquisitions 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 risks associated with the reduced liquidity generated by the substantial additional indebtedness incurred to complete the Thomas acquisition, including reduced liquidity for working capital and other purposes, increased vulnerability to general economic conditions and floating interest rates, and reduced financial and operating flexibility due to increased covenant and other restrictions in the Company's credit facilities and indentures; (4) 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 industrial capacity utilization rates, which affect demand for the Company's compressor and vacuum products; (5) the risks associated with intense competition in the Company's markets, particularly the pricing of the Company's products; (6) 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; (7) the Company's ability to continue to identify and complete other strategic acquisitions and effectively integrate such

acquisitions to achieve desired financial benefits; (8) 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); (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 interpretations or guidance related to the American Jobs Creation Act of 2004. 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 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 49% of the Company's total borrowings were effectively fixed as of September 30, 2005. 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.

ITEM 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15 of the Exchange Act, the Company has carried out an evaluation 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. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Chairman, President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer. Based upon that 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 to provide reasonable assurance that information required to be disclosed in the Company's periodic SEC reports is recorded, processed, summarized, and reported as and when required. In addition, they concluded that there were no changes in the Company's internal control over financial reporting that occurred during the period covered by this report 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.

The Company completed the acquisition of Thomas on July 1, 2005. For the year ended December 31, 2004, Thomas' revenues were $410.1 million. This significant business is a separate control environment. The evaluation of disclosure controls and procedures referred to in the paragraph above included Thomas. However, the Company will exclude this business from management's report on internal controls over financial reporting, as permitted by SEC guidance, to be included in our Form 10-K for the year ended December 31, 2005.

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" contained in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" section herein.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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)

JULY 1, 2005- JULY 31, 2005	8,631	$ 41.16	4,500
AUGUST 1, 2005 - AUGUST 31, 2005	32,847	$ 41.36	--
SEPTEMBER 1, 2005 - SEPTEMBER 30, 2005	6,225	$ 42.03	4,400
TOTAL	47,703	$ 41.41	8,900

(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 1,600,000 shares of the Company's common stock to be used for general corporate purposes and the repurchase of up to 400,000 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.

Item 6. Exhibits

2.1 Agreement and Plan of Merger, dated March 8, 2005, among Gardner Denver, Inc., PT Acquisition Corporation and Thomas Industries Inc., filed as Exhibit 2.1 to Gardner Denver, Inc.'s Current Report on Form 8-K, dated March 8, 2005, and incorporated herein by reference.

10.1 Third Amended and Restated Credit Agreement dated as of May 13, 2005 among Gardner Denver, Inc. (the "Borrower"), the financial institutions from time to time party thereto (the "Lenders"), JPMorgan Chase Bank, N.A., successor by merger to Bank One, NA, as a Lender, an LC Issuer, the Swing Line Lender and as agent for itself and the other Lenders, Wachovia Bank, National Association, as a Lender and as Syndication Agent for the Revolving Loan

Facility, Harris Trust and Savings Bank, National City Bank of the Midwest and KeyBank National Association, as Lenders and as Co-Documentation Agents for the Revolving Credit Facility, and Bear Stearns Corporate Lending Inc., as a Lender and as Syndication Agent for the Term Loan Facility, filed as Exhibit 10.1 to Gardner Denver, Inc.'s Current Report on Form 8-K, dated May 16, 2005, and incorporated herein by reference.

11 Statement re: Computation of Earnings Per Share, filed herewith as Note 9.

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

31.1 Certification of Principal 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 Principal 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.

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 9, 2005

By: /s/ Ross J. Centanni

Ross J. Centanni
Chairman, President & CEO

Date: November 9, 2005

By: /s/ Helen W. Cornell

Helen W. Cornell
Vice President, Finance & CFO

Date: November 9, 2005

By: /s/ David J. Antoniuk

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

GARDNER DENVER, INC.

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION

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