

GARDNER DENVER INC
Form 10-K
February 29, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007

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

For the transition period from _____ to _____

Commission file number 1-13215

GARDNER DENVER, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

76-0419383

(I.R.S. Employer
Identification No.)

1800 Gardner Expressway

Quincy, IL

(Address of principal executive offices)

62305

(Zip Code)

Registrant's telephone number, including area code: **(217) 222-5400**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock of \$0.01 par value per share

Rights to Purchase Preferred Stock

**Name of each exchange on
which registered**

New York Stock Exchange

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

Aggregate market value of the voting stock held by nonaffiliates of the registrant as of close of business on June 30, 2007 was approximately \$2,239.2 million.

Common stock outstanding at February 22, 2008: 53,086,561 shares.

Documents Incorporated by Reference

Portions of Gardner Denver, Inc. Proxy Statement for its 2008 Annual Meeting of Stockholders (Part III).

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Cautionary Statements Regarding Forward-Looking Statements

All of the statements in this Annual Report on Form 10-K, 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, the statements made in the Management's Discussion and Analysis of Financial Condition and Results of Operations, particularly 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 Gardner Denver Inc. (the Company or Gardner Denver) 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. See also Item 1A Risk Factors.

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 Company's exposure to economic downturns and market cycles, particularly the level of oil and natural gas prices and oil and natural gas drilling production, which affect demand for the Company's petroleum products, and industrial production and manufacturing capacity utilization rates, which affect demand for the Company's compressor and vacuum products; (2) the risks associated with intense competition in the Company's market segments, particularly the pricing of the Company's products; (3) 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; (4) the ability to continue to identify and complete other strategic acquisitions and effectively integrate such acquired companies to achieve desired financial benefits; (5) economic, political and other risks associated with the Company's international sales and operations, including changes in currency exchange rates (primarily between the United States (U.S.) dollar, the euro, the British pound and the Chinese yuan); (6) the ability to attract and retain quality executive management and other key personnel; (7) the risks associated with potential product liability and warranty claims due to the nature of the Company's products; (8) the risk of regulatory noncompliance could have a significant impact on our business; (9) the risks associated with environmental compliance costs and liabilities; (10) the risks associated with pending asbestos and silicosis personal injury lawsuits; (11) the risk of possible future charges if the Company determines that the value of goodwill and other intangible assets, representing a significant portion of its total assets, is impaired; (12) the risk that communication or information systems failure may disrupt our business and result in financial loss and liability to our customers; (13) the risks associated with enforcing the Company's intellectual property rights and defending against potential intellectual property claims; and (14) the ability to avoid employee work stoppages and other labor difficulties. 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.

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PART I

ITEM 1. BUSINESS

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

Executive Overview

Gardner Denver, Inc. (Gardner Denver or the Company) designs, manufactures and markets compressor and vacuum products and fluid transfer products. The Company believes it is one of the world's leading manufacturers of highly engineered stationary air compressors and blowers for industrial applications. Stationary air compressors are used in manufacturing, process applications and materials handling, and to power air tools and equipment. Blowers are used primarily in pneumatic conveying, wastewater aeration and engineered vacuum systems. The Company also supplies pumps and compressors for original equipment manufacturer (OEM) applications such as medical equipment, vapor recovery, printing, packaging and laboratory equipment. In addition, the Company designs, manufactures, markets, and services a diverse group of pumps, water jetting systems and related aftermarket parts used in oil and natural gas well drilling, servicing and production and in industrial cleaning and maintenance. The Company also manufactures loading arms, swivel joints, couplers and valves used to load and unload ships, tank trucks and rail cars. The Company believes that it is one of the world's leading manufacturers of reciprocating pumps used in oil and natural gas well drilling, servicing and production and in and loading arms for the transfer of petrochemical products.

For the year ended December 31, 2007, the Company's revenues were approximately \$1.9 billion, of which 77% were derived from sales of compressor and vacuum products while 23% were from sales of fluid transfer products. Approximately 41% of the Company's total revenues for the year ended December 31, 2007 were derived from sales in the U.S. and approximately 59% were from sales to customers in various countries outside the United States. Of the total non-U.S. sales, 59% were to Europe, 22% to Asia, 5% to Canada, 9% to Latin America and 5% to other regions. See Note 16 Segment Information in the Notes to Consolidated Financial Statements.

Significant Accomplishments in 2007

The Company has consistently followed a strategic vision with a goal to grow revenues faster than the industry average, and to grow net income faster than revenues. To accomplish this goal, the Company has acquired products and operations that serve global markets, and has focused on integrating these acquisitions to remove excess cost and generate cash. The Company has pursued organic growth through new product development and investing in new technologies and our employees, with a goal of improving our internal efficiencies. Specifically, in 2007 the Company:

Increased revenues 12% as a result of organic growth (7%) and the favorable effect of changes in foreign currency exchange rates (5%). The organic growth included volume increases in each of the reportable segments and significant price increases for fluid transfer products.

Improved net income 54% as a result of revenue growth, cost reductions achieved primarily through acquisition integration initiatives and a lower effective income tax rate. The lower effective tax rate resulted primarily from non-recurring, non-cash reductions to net deferred tax liabilities related to corporate income tax rate changes in Germany, the United Kingdom and China, which were enacted in 2007 and will become effective in 2008, and foreign tax credits.

Generated more than \$181 million in net cash from operating activities in 2007, compared to \$167 million in 2006.

Used cash provided by operating activities to repay more than \$125 million of debt.

Relocated production of certain liquid ring pumps from Germany to China and laboratory vacuum products from Skokie, Illinois to Monroe, Louisiana and Sheboygan, Wisconsin to reduce costs.

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Relocated production of certain blower products from Schopfheim, Germany to Bradford, United Kingdom to better use existing capacity. The manufacturing processes remaining in Schopfheim were realigned to improve labor efficiency, increase production volume and reduce inventory.

Developed new products and redesigned existing products to enhance features and benefits for customers. The new product introductions included a compressed natural gas loading arm for the marine market and expanding the line of variable speed rotary screw compressors available on a global basis. The Company also completed a redesign of its reciprocating locomotive compressor and introduced a rotary screw locomotive compressor to enable the penetration of key accounts.

Future Initiatives

Management believes that long-term growth in profitability and creation of stockholder value requires focused diversification of the Company's end markets served, geographic footprint and customer base, and manufacturing excellence. Recognizing that the Company is subject to certain economic cycles, the intent of its strategies is to mitigate the impact of any particular cycle. The pursuit of manufacturing excellence will ensure that the Company is effectively using previous investments in assets to fund future growth initiatives.

Since becoming an independent company in 1994, the Company has actively pursued diversification and has formulated key strategies and action plans to achieve this vision. The Company's strategic initiatives can provide a consistent source for growth in the future, as they have in the past. Therefore, the Company intends to continue to:

Pursue international markets. Non-U.S. revenues, as a percentage of total revenues, have grown to 59% in 2007 from 21% in 1994, the Company's first year as an independent company. By growing internationally, the Company reduces the impact of an economic down cycle in any one particular country and participates in faster growing regions of the world, such as Asia Pacific.

Acquire complementary products, in particular those that provide access to faster growing end market segments, such as medical and environmental applications, or serve to otherwise diversify revenues while providing synergies to generate an appropriate return on the Company's investment.

Embrace new technologies to improve the efficiencies of our operations, whether in production, design, communications or management.

Develop new products to bring value to the customer.

Reduce costs and eliminate waste to improve asset management and return on invested capital.

Focus on manufacturing proprietary products and outsourcing items that are not central to our engineering value proposition.

Develop our people, since the organization's vision and execution of its strategic plan is completely dependent on the capabilities of its staff.

Management believes the continued execution of the Company's strategies will mitigate the variability of its financial results in the short term, while providing above-average opportunities for growth and return on investment.

History

The Company's business of manufacturing industrial and petroleum equipment began in 1859 when Robert W. Gardner redesigned the fly-ball governor to provide speed control for steam engines. By 1900, the then Gardner Company had expanded its product line to include steam pumps and vertical high-speed air compressors. In 1927, the Gardner Company merged with Denver Rock Drill, a manufacturer of equipment for oil wells and mining and construction, and became the Gardner-Denver Company. In 1979, the Gardner-Denver Company was acquired by Cooper Industries, Inc. (Cooper) and operated as 10 unincorporated divisions. Two of these divisions, the Gardner-Denver Air Compressor Division and the Petroleum Equipment Division, were combined in 1985 to form the Gardner-Denver Industrial Machinery Division (the Division). The *OPI* pump product line was purchased in 1985 and added to the Division. In 1987, Cooper acquired the *Sutorbilt* and *DuroFlow* blower product lines and the Joy® industrial compressor product line, which were also consolidated into the Division. Effective December 31,

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1993, the assets and liabilities of the Division were transferred by Cooper to the Company, which had been formed as a wholly-owned subsidiary of Cooper. On April 15, 1994, the Company was spun-off as an independent company to the stockholders of Cooper.

Gardner Denver has completed 20 acquisitions since becoming an independent company in 1994. The following table summarizes transactions completed since January 2004.

Date of Acquisition	Acquired Entity	Approximate Transaction Value (USD million)	
January 2004	Syltone plc	\$	113
September 2004	nash_elmo Holdings, LLC		225
June 2005	Bottarini S.p.A.		10
July 2005	Thomas Industries Inc.		484
January 2006	Todo Group		16

In January 2004, the Company acquired Syltone plc (Syltone), previously a publicly traded company listed on the London Stock Exchange. Syltone was 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 was 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. This acquisition strengthened the Company's position, particularly in Europe, as the leading global provider of bulk handling solutions for the commercial transportation industry. The acquisition also expanded the Company's product lines to include loading arms.

In September 2004, the Company acquired nash_elmo Holdings, LLC (Nash Elmo). Nash Elmo was a global manufacturer of industrial vacuum pumps and is primarily split between two businesses, liquid ring pumps and side channel blowers. Both businesses' products were complementary to the Company's Compressor and Vacuum Products segment's product portfolio.

In June 2005, the Company acquired Bottarini S.p.A. (Bottarini), a packager of industrial air compressors located near Milan, Italy. Bottarini's products were complementary to the Compressor and Vacuum Products segment's product portfolio.

In July 2005, the Company acquired Thomas Industries Inc. (Thomas), previously a New York Stock Exchange listed company traded under the ticker symbol TII. Thomas was a leading supplier of pumps, compressors and blowers for OEM applications such as medical equipment, vapor recovery, automotive and transportation applications, printing, packaging and laboratory equipment. Thomas designs, manufactures, markets, sells and services these products through worldwide operations. This acquisition was primarily complementary to the Company's Compressor and Vacuum Products segment's product portfolio.

In January 2006, the Company completed the acquisition of the Todo Group (Todo). Todo, with assembly operations in Sweden and the United Kingdom, had one of the most extensive offerings of dry-break couplers in the industry. *TODO-MATIC* self-sealing couplings are used by many of the world's largest oil, chemical and gas companies to safely and efficiently transfer their products. The Todo acquisition extended the Company's product line of *Emco Wheaton* couplers, added as part of the Syltone acquisition in 2004, and strengthened the distribution of each company's products throughout the world. This acquisition was complementary to the Company's Fluid Transfer Products segment's product portfolio.

Markets and Products

A description of the particular products manufactured and sold by Gardner Denver in its two reportable segments as of December 31, 2007 is set forth below. For financial information over the past three years on the Company's performance by reportable segment and the Company's international sales, refer to Note 16 Segment Information in the Notes to Consolidated Financial Statements.

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Compressor and Vacuum Products Segment

In the Compressor and Vacuum Products segment, the Company designs, manufactures, markets and services the following products and related aftermarket parts for industrial and commercial applications: rotary screw, reciprocating, and sliding vane air compressors; positive displacement, centrifugal and side channel blowers; liquid ring pumps; and single-piece piston reciprocating, diaphragm, and linear compressor and vacuum pumps, primarily serving OEM applications, engineered systems and general industry. The Company also designs, manufactures, markets and services complementary ancillary products. The Company's sales of compressor and vacuum products for the year ended December 31, 2007 were approximately \$1.4 billion.

Compressors are used to increase the pressure of gas, including air, by mechanically decreasing its volume. The Company's reciprocating compressors range from sub-fractional to 1,500 horsepower and are sold under the *Gardner Denver, Champion, Thomas, Bottarini* and *Belliss & Morcom* trademarks. The Company's rotary screw compressors range from 5 to 680 horsepower and are sold under the *Gardner Denver, Bottarini, Electra-Screw, Electra-Saver, Enduro, RotorChamp, Tamrotor* and *Tempest* trademarks.

Blowers and liquid ring pumps are used to produce a high volume of air at low pressure and to produce vacuum. The Company's positive displacement blowers range from 0 to 36 pounds per square inch gauge (PSIG) pressure and 0 to 29.9 inches of mercury (Hg) vacuum and capacity range of 0 to 43,000 cubic feet per minute (CFM) and are sold under the trademarks *Sutorbilt, DuroFlow, CycloBlower, Drum, Wittig, Elmo Rietschle* and *TurboTron*. The Company's multistage centrifugal blowers are sold under the trademarks *Gardner Denver, Lamson* and *Hoffman* and range from 0.5 to 25 PSIG pressure and 0 to 18 inches Hg vacuum and capacity range of 100 to 50,000 CFM. The Company's side channel blowers range from 0 to 15 PSIG pressure and 26 inches of mercury vacuum and capacity range of 0 to 1,800 CFM and are sold under the *Elmo Rietschle* trademark. The Company's sliding vane compressors and vacuum pumps range from 0 to 150 PSIG and 29.9 inches of mercury vacuum and capacity range of 0 to 3,000 CFM and are sold under the *Gardner Denver, Elmo Rietschle, Thomas, Welch, Drum* and *Wittig* trademarks. The Company's engineered vacuum systems are used in industrial cleaning, hospitals, dental offices, general industrial applications and the chemical industry and are sold under the *Gardner Denver, Invincible, Thomas, Elmo Rietschle* and *Cat Vac* trademarks. The Company's liquid ring pumps and engineered systems range from 0 to 150 PSIG and 27.8 inches of mercury vacuum and capacity range of 1,000 to 3,000 CFM and are sold under the *Nash* and *Elmo Rietschle* trademarks.

Almost all manufacturing plants and industrial facilities, as well as many service industries, use compressor and vacuum products. The largest customers for the Company's compressor and vacuum products are durable and non-durable goods manufacturers; process industries (petroleum, primary metals, pharmaceutical, food and paper); OEMs; manufacturers of printing equipment, pneumatic conveying equipment, and dry and liquid bulk transports; wastewater treatment facilities; and automotive service centers and niche applications such as PET bottle blowing, breathing air equipment and compressed natural gas. Manufacturers of machinery and related equipment use stationary compressors for automated systems, controls, materials handling and special machinery requirements. The petroleum, primary metals, pharmaceutical, food and paper industries require compressed air and vacuum for processing, instrumentation, packaging and pneumatic conveying. Blowers are instrumental to local utilities for aeration in treating industrial and municipal waste. Blowers are also used in service industries, for example, residential carpet cleaning to vacuum moisture from carpets during the shampooing and cleaning process. Blowers and sliding vane compressors are used on trucks to vacuum leaves and debris from street sewers and to unload liquid and dry bulk and powder materials such as cement, grain and plastic pellets. Additionally, blowers are used in packaging technologies, medical applications, printing and paper processing and numerous chemical processing applications. Liquid ring pumps are used in many different vacuum applications and engineered systems, such as water removal, distilling, reacting, efficiency improvement, lifting and handling, and filtering, principally in the pulp and paper, industrial manufacturing, petrochemical and power industries.

As a result of the Thomas acquisition, the Company has a stronger presence in environmental markets such as sewage aeration and vapor recovery. Other strengths of Thomas are in medical, printing, packaging and automotive markets, primarily through custom compressor and pump designs for OEMs. Other Thomas products include *Welch* laboratory equipment.

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The Compressor and Vacuum Products segment operates production facilities around the world including twelve plants in the U.S., six in Germany, three in the United Kingdom, three in China, and one each in Italy, Finland and Brazil. The most significant facilities include owned properties in Quincy, Illinois; Sedalia, Missouri; Peachtree City, Georgia; Sheboygan, Wisconsin; Princeton, Illinois; Bradford and Gloucester, United Kingdom; Zibo and Wuxi, China; Campinas, Brazil; Bad Neustadt, Memmingen, and Schopfheim, Germany; and leased properties in Trumbull, Connecticut; Tampere, Finland; Puchheim and Nuremburg, Germany; and Qing Pu, China.

The Company has nine vehicle fitting facilities in seven countries worldwide. These fitting facilities offer customized vehicle installations of systems, which include compressors, generators, hydraulics, pumps and oil and fuel systems. Typical uses for such systems include road demolition equipment; tire removal, electrical tools and lighting; hydraulic hand tools and high-pressure water jetting pumps. In addition, the Company has eight service and remanufacturing centers in the U.S. and Germany that can perform installation, repair, and maintenance work on certain of the Company's products and similar equipment.

Fluid Transfer Products Segment

Gardner Denver designs, manufactures, markets and services a diverse group of pumps, water jetting systems and related aftermarket parts used in oil and natural gas well drilling, servicing and production and in industrial cleaning and maintenance. This segment also designs, manufactures, markets and services other fluid transfer components and equipment for the chemical, petroleum and food industries. Sales of the Company's fluid transfer products for the year ended December 31, 2007 were \$429 million.

Positive displacement reciprocating pumps are marketed under the *Gardner Denver* and *OPI* trademarks. Typical applications of *Gardner Denver* pumps in oil and natural gas production include oil transfer, water flooding, salt-water disposal, pipeline testing, ammine pumping for gas processing, re-pressurizing, enhanced oil recovery, hydraulic power and other liquid transfer applications. The Company's production pumps range from 16 to 300 horsepower and consist of horizontal designed pumps. The Company markets one of the most complete product lines of well servicing pumps. Well servicing operations include general workover service, completions (bringing wells into production after drilling), and plugging and abandonment of wells. The Company's well servicing products consist of high-pressure plunger pumps ranging from 165 to 400 horsepower. Gardner Denver also manufactures intermittent duty triplex and quintuplex plunger pumps ranging from 250 to 3,000 horsepower for well cementing and stimulation, including reservoir fracturing or acidizing. Duplex pumps, ranging from 16 to 135 horsepower, are produced for shallow drilling, which includes water well drilling, seismic drilling and mineral exploration. Triplex mud pumps for oil and natural gas drilling rigs range from 275 to 2,000 horsepower. The *Oberdorfer* line of fractional horsepower specialty bronze and high alloy pumps for the general industrial and marine markets was acquired as part of the Thomas acquisition. A small portion of *Gardner Denver* pumps are sold for use in industrial applications.

Gardner Denver water jetting pumps and systems are used in a variety of industries including petrochemical, refining, power generation, aerospace, construction and automotive, among others. The products are sold under the *Partek*, *Liqua-Blaster* and *American Water Blaster* trademarks, and are employed in applications such as industrial cleaning, coatings removal, concrete demolition, and surface preparation.

Gardner Denver's other fluid transfer components and equipment include loading arms, swivel joints, storage tank equipment and dry-break couplers used to load and unload ships, tank trucks and rail cars. These products are sold primarily under the *Emco Wheaton*, *TODD* and *Perolo* trademarks.

The Fluid Transfer Products segment operates seven production facilities (including two remanufacturing facilities) in the U.S. and one each in the United Kingdom, Germany, Sweden and Canada. The most significant facilities include owned properties in Tulsa, Oklahoma; Quincy, Illinois; Syracuse, New York; Margate, United Kingdom; Kirchhain,

Germany; Toreboda, Sweden and two leased properties in Houston, Texas and one in Oakville, Ontario.

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Customers and Customer Service

Gardner Denver sells its products through independent distributors and sales representatives, and directly to OEMs, engineering firms and end-users. The Company has been able to establish strong customer relationships with numerous key OEMs and exclusive supply arrangements with many of its distributors. The Company uses a direct sales force to serve OEM and engineering firm accounts because these customers typically require higher levels of technical assistance, more coordinated shipment scheduling and more complex product service than customers of the Company's less specialized products. As a significant portion of its products are marketed through independent distribution, the Company is committed to developing and supporting its distribution network of over 1,000 distributors and representatives. The Company has distribution centers that stock parts, accessories and small compressor and vacuum products in order to provide adequate and timely availability. The Company also leases sales office and warehouse space in various locations. Gardner Denver provides its distributors with sales and product literature, technical assistance and training programs, advertising and sales promotions, order-entry and tracking systems and an annual restocking program. Furthermore, the Company participates in major trade shows and has a telemarketing department to generate sales leads and support the distributors' sales personnel. The Company does not have any customers that individually provide more than 4% of its consolidated revenue, and the loss of any individual customer would not materially affect its consolidated revenues. Fluctuations in revenue are primarily driven by specific industry and market changes.

Gardner Denver's distributors maintain an inventory of complete units and parts and provide aftermarket service to end-users. There are several hundred field service representatives for Gardner Denver products in the distributor network. The Company's service personnel and product engineers provide the distributors' service representatives with technical assistance and field training, particularly with respect to installation and repair of equipment. The Company also provides aftermarket support through its service and remanufacturing facilities in the U.S. and Germany. The service and vehicle fitting facilities provide preventative maintenance programs, repairs, refurbishment, upgrades and spare parts for many of the Company's products.

The primary OEM accounts for Thomas products are handled directly from the manufacturing locations. Smaller accounts and replacement business are handled through a network of distributors. Outside of the United States and Germany, the Company's subsidiaries are responsible for sales and service of Thomas products in the countries or regions they serve.

Competition

Competition in the Company's markets is generally robust and is based on product quality, performance, price and availability. The relative importance of each of these factors varies depending on the specific type of product. Given the potential for equipment failures to cause expensive operational disruption, the Company's customers generally view quality and reliability as critical factors in their equipment purchasing decision. The required frequency of maintenance is highly variable based on the type of equipment and application.

Although there are a few large manufacturers of compressor and vacuum products, the marketplace for these products remains highly fragmented due to the wide variety of product technologies, applications and selling channels. Gardner Denver's principal competitors in sales of compressor and vacuum products include Ingersoll-Rand, Sullair (owned by United Technologies Corporation), Atlas Copco, Quincy Compressor (owned by EnPro Industries), CompAir, Roots, Busch, Becker, SiHi, GHH RAND (owned by Ingersoll-Rand), Civacon and Blackmer Mouvex (both owned by Dover Corporation), and Gast (a division of IDEX). Manufacturers located in China and Taiwan are also becoming major competitors as the products produced in these regions improve in quality and reliability.

The market for fluid transfer products is highly fragmented, although there are a few multinational manufacturers with broad product offerings that are significant. Because Gardner Denver is currently focused on pumps used in oil and natural gas production and well servicing and well drilling, it does not typically compete directly with the major full-line pump manufacturers. The Company's principal competitors in sales of petroleum pump products include National Oilwell Varco and SPM Flow Control, Inc. (owned by The Weir Group PLC). The Company's principal competitors in sales of water jetting systems include NLB Corp. (owned by Interpump Group SpA), Jetstream (a

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division of Federal Signal), WOMA Apparatebau GmbH and Hammelmann Maschinenfabrik GmbH (owned by Interpump Group SpA). The Company's principal competitors in sales of other fluid transfer components and equipment are OPW Engineered Systems (owned by Dover Corporation) in distribution loading arms; and FMC Technologies and Schwelm Verladetechnik GmbH (SVT) in both marine and distribution loading arms.

Research and Development

The Company's products are best characterized as mature, with evolutionary technological advances. Technological trends in compressor and vacuum products include development of oil-free air compressors, increased product efficiency, reduction of noise levels and advanced control systems to upgrade the flexibility and precision of regulating pressure and capacity. Emerging compressor and vacuum market niches result from new technologies in plastics extrusion, oil and natural gas well drilling, field gas gathering, mobile and stationary vacuum applications, utility and fiber optic installation and environmental impact minimization, as well as other factors. Trends in fluid transfer products include development of larger horsepower and lighter weight pumps and loading arms to transfer liquid natural gas and compressed natural gas.

The Company actively engages in a continuing research and development program. The Gardner Denver research and development centers are dedicated to various activities, including new product development, product performance improvement and new product applications.

Gardner Denver's products are designed to satisfy the safety and performance standards set by various industry groups and testing laboratories. Care is exercised throughout the manufacturing and final testing process to ensure that products conform to industry, government and customer specifications.

During the years ended December 31, 2007, 2006, and 2005, the Company spent approximately \$35.8 million, \$32.8 million, and \$22.3 million, respectively, on research activities relating to the development of new products and the improvement of existing products. All such expenditures were funded by the Company.

Manufacturing

In general, the Company's manufacturing processes involve the precision machining of castings, forgings and bar stock material which are assembled into finished components. These components are sold as finished products or packaged with purchased components into complete systems. Gardner Denver operates thirty-nine manufacturing facilities (including remanufacturing facilities) that utilize a broad variety of processes. At the Company's manufacturing locations, it maintains advanced manufacturing, quality assurance and testing equipment geared to the specific products that it manufactures, and uses extensive process automation in its manufacturing operations. The Company's manufacturing facilities extensively employ the use of computer aided numerical control tools, robots and manufacturing techniques that concentrate the equipment necessary to produce similar products or components in one area of the plant (cell manufacturing). One operator using cell manufacturing can monitor and operate several machines, as well as assemble and test products made by such machines, thereby improving operating efficiency and product quality while reducing lead times and the amount of work-in-process and finished product inventories.

Gardner Denver has representatives on the American Petroleum Institute's working committee and has relationships with standard enforcement organizations such as Underwriters Laboratories, Det Norske Veritas and the Canadian Standard Association. The Company maintains ISO 9001-2000 certification on the quality systems at a majority of its manufacturing and design locations.

Raw Materials and Suppliers

Gardner Denver purchases a wide variety of raw materials to manufacture its products. The Company's most significant commodity-related exposures are to cast iron, aluminum and steel, which are the primary raw materials used by the Company. Additionally, the Company purchases a large number of motors and, therefore, also has exposure to changes in the price of copper, which is a main component of motors. Such materials are generally

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available from a number of suppliers. The Company has a limited number of long-term contracts with some of its suppliers of key components, but additionally believes that its sources of raw materials and components are reliable and adequate for its needs. Gardner Denver uses single sources of supply for certain castings, motors and other select engineered components. A disruption in deliveries from a given supplier could therefore have an adverse effect on the Company's ability to timely meet its commitments to customers. Nevertheless, the Company believes that it has appropriately balanced this risk against the cost of sustaining a greater number of suppliers. Moreover, the Company has sought, and will continue to seek, cost reductions in its purchases of materials and supplies by consolidating purchases, pursuing alternate sources of supply and using online bidding competitions among potential suppliers.

Backlog

Backlog consists of orders believed to be firm for which a customer purchase order has been received or communicated. Since orders may be rescheduled or canceled, backlog does not necessarily reflect future sales levels. For further discussion of backlog levels, see the information included under "Outlook" contained in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Form 10-K.

Patents, Trademarks and Other Intellectual Property

The Company believes that the success of its business depends more on the technical competence, creativity and marketing abilities of its employees than on any individual patent, trademark or copyright. Nevertheless, as part of its ongoing research, development and manufacturing activities, Gardner Denver has a policy of seeking to protect its proprietary products, product enhancements and processes with appropriate intellectual property protections.

In the aggregate, patents and trademarks are of considerable importance to the manufacture and marketing of many of Gardner Denver's products. However, the Company does not consider any single patent or trademark, or group of patents or trademarks, to be material to its business as a whole, except for the *Gardner Denver* trademark. Other important trademarks the Company uses include, among others, *Aeon*, *Belliss & Morcom*, *Bottarini*, *Champion*, *CycloBlower*, *Drum*, *DuroFlow*, *Elmo Rietschle*, *Emco Wheaton*, *Hoffman*, *Lamson*, *Legend*, *Nash*, *Oberdorfer*, *OPI*, *Sutorbilt*, *Tamrotor*, *Thomas*, *TODO*, *Webster*, *Welch* and *Wittig*. Pursuant to trademark license agreements, Cooper has rights to use the *Gardner Denver* trademark for certain power tools. Gardner Denver has registered its trademarks in the countries where it is deemed necessary or in the Company's best interest.

The Company also relies upon trade secret protection for its confidential and proprietary information and routinely enters into confidentiality agreements with its employees. There can be no assurance, however, that these protections are sufficient, that others will not independently obtain similar information and techniques or otherwise gain access to the Company's trade secrets or that they can effectively be protected.

Employees

As of January 2008, the Company had approximately 6,200 full-time employees. The Company believes that its current relations with employees are satisfactory.

Table of Contents**Executive Officers of the Registrant**

The following sets forth certain information with respect to Gardner Denver's executive officers as of February 24, 2008. These officers serve at the pleasure of the Board of Directors.

Name	Position	Age
Ross J. Centanni	Executive Chairman of the Board	62
Barry L. Pennypacker	President and Chief Executive Officer	47
Helen W. Cornell	Executive Vice President, Finance and Chief Financial Officer	49
Tracy D. Pagliara	Executive Vice President, Administration, General Counsel and Secretary	45
J. Dennis Shull	Executive Vice President and General Manager, Compressor Division	59
Richard C. Steber	Vice President and General Manager, Engineered Products Division	57
T. Duane Morgan	Vice President and General Manager, Fluid Transfer Products	58
James J. Kregel	Vice President and General Manager, Thomas Products Division	57
Winfried Kaiser	Vice President and General Manager, Blower Division	52
Bob D. Elkins	Vice President, Chief Information Officer	59

Ross J. Centanni, age 62, was appointed to the position of Executive Chairman of the Board in January 2008. He has served as Chairman of the Board since November 1998 and has been a member of the Board of Directors from the Company's incorporation in November 1993. In addition, Mr. Centanni served as President and Chief Executive Officer of the Company since its incorporation in 1993 through January 2008. Prior to Gardner Denver's spin-off from Cooper in April 1994, he was Vice President and General Manager of Gardner Denver's predecessor, the Gardner-Denver Industrial Machinery Division, where he also served as Director of Marketing from August 1985 to June 1990. He has a B.S. degree in industrial technology and an M.B.A. degree from Louisiana State University. Mr. Centanni is a director of Denman Services, Inc., a privately held supplier of medical products. He is also a member of the Petroleum Equipment Suppliers Association Board of Directors and a member of the Executive Committee of the International Compressed Air and Allied Machinery Committee.

Barry L. Pennypacker, age 47, was appointed President and Chief Executive Officer in January 2008 and as a director in February 2008. He joined Gardner Denver from Westinghouse Air Brake Technologies Corporation (Wabtec), a provider of technology-based equipment and services for the rail industry worldwide, where he held a series of Vice President positions with increasing responsibility from 1999 to 2008, most recently as Vice President, Group Executive. Prior to that, he was Director, Worldwide Operations for the Stanley Fastening Systems, an operating unit of Stanley Works, from 1997 to 1999. Mr. Pennypacker also served in a number of senior management positions of increasing responsibility with Danaher Corporation from 1992 to 1997. He holds a Bachelor of Science Degree in Operations Management from Penn State University and an M.B.A. in Operations Research from St. Joseph's University.

Helen W. Cornell, age 49, was appointed Executive Vice President, Finance and Chief Financial Officer in November 2007. She previously served as Vice President, Finance and Chief Financial Officer from August 2004 until November 2007; Vice President and General Manager, Fluid Transfer Division of Gardner Denver from March 2004 until August 2004; Vice President, Strategic Planning and Operations Support from August 2001 until March 2004; and Vice President, Compressor Operations for the Compressor and Pump Division from April 2000 until August 2001. From November 1993 until accepting her operations role, Ms. Cornell held positions of increasing

responsibility as the Corporate Secretary and Treasurer of the Company, serving in the role of Vice President, Corporate Secretary and Treasurer from April 1996 until April 2000. She holds a B.S. degree in accounting from the University of Kentucky and an M.B.A. from Vanderbilt University. She is a Certified Public Accountant and a Certified Management Accountant.

Tracy D. Pagliara, age 45, was appointed Executive Vice President, Administration, General Counsel and Secretary of Gardner Denver in November 2007. He previously served as Vice President, Administration, General Counsel and Secretary of Gardner Denver from March 2004 until November 2007 and as Vice President, General Counsel and Secretary of Gardner Denver from August 2000 until March 2004. Prior to joining Gardner Denver,

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Mr. Pagliara held positions of increasing responsibility in the legal departments of Verizon Communications/GTE Corporation from August 1996 to August 2000 and Kellwood Company from May 1993 to August 1996, ultimately serving in the role of Assistant General Counsel for each company. Mr. Pagliara, a Certified Public Accountant, has a B.S. degree in accounting and a J.D. degree from the University of Illinois.

J. Dennis Shull, age 59, has been the Executive Vice President and General Manager, Gardner Denver Compressor Division since January 2007. From January 2002 until January 2007, Mr. Shull served as Vice President and General Manager, Gardner Denver Compressor Division. He previously served the Company as Vice President and General Manager, Gardner Denver Compressor and Pump Division from its organization in August 1997 to January 2002. Prior to August 1997, he served as Vice President, Sales and Marketing since the Company's incorporation in November 1993. From August 1990 until November 1993, Mr. Shull was the Director of Marketing for the Division. Mr. Shull has a B.S. degree in business from Northeast Missouri State University and an M.A. in business from Webster University.

Richard C. Steber, age 57, has been the Vice President and General Manager, Gardner Denver Engineered Products Division since November 2006. He previously served the Company as Vice President and General Manager of the Liquid Ring Pump Division from January 2005 to November 2006 and Vice President and General Manager of the Gardner Denver Fluid Transfer Division (formerly the Gardner Denver Pump Division) from January 2002 until his promotion. Prior to joining Gardner Denver, he was employed by Goulds Pumps, a division of ITT Industries, for twenty-five years, most recently as the President and General Manager for Europe, Middle East and Africa. He previously held positions as Vice President for both the sales and marketing organizations at Goulds Pumps, with domestic and international responsibility. Mr. Steber has a B.S. degree in engineering from the State University of New York College of Environmental Science and Forestry at Syracuse.

T. Duane Morgan, age 58, joined the Company as Vice President and General Manager of the Gardner Denver Fluid Transfer Division in December 2005. Prior to joining Gardner Denver, Mr. Morgan served as President of Process Valves for the Valves & Measurement group (the Group) of Cameron International Corporation (Cameron). From 2003 to 2005, he served as Vice President and General Manager, Aftermarket Services, for the Group and from 1998 to 2002, he was President of Orbit Valve, a division of the Group. From 1985 to 1998, he served in various capacities in plant and sales management for Cameron, which before 1995 was part of Cooper. Before joining Cooper, he held various positions in finance, marketing and sales with Joy Manufacturing Company and B.F. Goodrich Company. Mr. Morgan holds a B.S. degree in mathematics from McNeese State University and an M.B.A. from Louisiana State University.

James J. Kregel, age 57, was named Vice President and General Manager of the Gardner Denver Thomas Products Division in July 2005, when Gardner Denver announced the completion of the acquisition of Thomas. Mr. Kregel served as Vice President of Worldwide Pumps and Compressors for Thomas at the time of the acquisition. Prior to this, he held the position of Vice President and General Manager of the North American Group for Thomas. Mr. Kregel joined Thomas in 1988 as Director of Marketing. Previous to his employment with Thomas, he was Director of Sales for Tecumseh Products, Inc. Mr. Kregel earned a B.S. degree from the University of Wisconsin and an M.B.A. from Keller Graduate School.

Winfried Kaiser, age 52, was named Vice President and General Manager of the Gardner Denver Blower Division in November 2006. In 2005, he was appointed Managing Director of the Emco Wheaton Loading Systems SBU of the Gardner Denver Fluid Transfer Division. Mr. Kaiser served as Managing Director of Emco Wheaton GmbH prior to Gardner Denver's acquisition of Syltone until his promotion in 2005. He was also a member of the Syltone Executive Board prior to the acquisition. Previous to his employment with the Syltone, he served as Managing Director of WAGWasseraufbereitung GmbH and as Managing Director of Rehman Process Engineering GmbH. Mr. Kaiser holds a Masters degree in Engineering from the Technical University of Darmstadt, Germany.

Bob D. Elkins, age 59, was appointed Vice President, Chief Information Officer, in November 2007. He joined Gardner Denver in January 2004, as Director of Information Technology. In January 2005, he was promoted to Vice President, Information Technology and served in that role until his appointment in 2007. Mr. Elkins has over 20 years experience in Information Technology leadership positions. Prior to joining Gardner Denver, he served as Senior Project Manager for SBI and Company from September 2003 to December 2003. He served as Vice

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President, Industry Solutions for Novoforum from July 2000 to September 2002. He served as Director of Information Technology for Halliburton Energy Services from May 1994 to July 2000 and from January 1981 to May 1994 he served as an Associate Partner at Accenture (formerly Andersen Consulting). Mr. Elkins has a B.S. degree in Economics and an M.B.A. in Business Computer Science from Texas A&M University.

Compliance Certifications

The Company has included at Exhibits 31.1 and 31.2 of this Form 10-K for the fiscal year ending December 31, 2007 certificates of the Company's Chief Executive Officer and Chief Financial Officer certifying the quality of the Company's public disclosure. The Company's Chief Executive Officer has also submitted to the New York Stock Exchange (NYSE) a document certifying, without qualification, that he is not aware of any violations by the Company of the NYSE corporate governance listing standards.

Environmental Matters

The Company is subject to numerous federal, state, local and foreign laws and regulations relating to the storage, handling, emission, disposal and discharge of materials into the environment. The Company believes that its existing environmental control procedures are adequate and it has no current plans for substantial capital expenditures in this area. Gardner Denver has an environmental policy that confirms its commitment to a clean environment and compliance with environmental laws. Gardner Denver has an active environmental management program aimed at compliance with existing environmental regulations and developing methods to eliminate or significantly reduce the generation of pollutants in the manufacturing processes.

The Company has been identified as a potentially responsible party (PRP) with respect to several sites designated for cleanup under federal Superfund or similar state laws, which impose liability for cleanup of certain waste sites and for related natural resource damages. Persons potentially liable for such costs and damages generally include the site owner or operator and persons that disposed or arranged for the disposal of hazardous substances found at those sites. Although these laws impose joint and several liability, in application, the PRPs typically allocate the investigation and cleanup costs based upon the volume of waste contributed by each PRP. Based on currently available information, Gardner Denver was only a small contributor to these waste sites, and the Company has, or is attempting to negotiate, de minimis settlements for their cleanup. The cleanup of the remaining sites is substantially complete and the Company's future obligations entail a share of the sites' ongoing operating and maintenance expense.

The Company is also addressing three on-site cleanups for which it is the primary responsible party. Two of these cleanup sites are in the operation and maintenance stage and the third is in the implementation stage. The Company is also participating in a voluntary cleanup program with other potentially responsible parties on a fourth site which is in the assessment stage. Based on currently available information, the Company does not anticipate that any of these sites will result in material additional costs beyond those already accrued on its balance sheet.

Gardner Denver has an accrued liability on its balance sheet to the extent costs are known or can be reasonably estimated for its remaining financial obligations for these matters. Based upon consideration of currently available information, the Company does not anticipate any material adverse effect on its results of operations, financial condition, liquidity or competitive position as a result of compliance with federal, state, local or foreign environmental laws or regulations, or cleanup costs relating to the sites discussed above.

Available Information

The Company's Internet website address is www.gardnerdenver.com. Copies of the following reports are available free of charge through the Internet website, as soon as reasonably practicable after they have been filed with or furnished

to the Securities and Exchange Commission pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended: the annual report on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8-K; and amendments to those reports. Information on the website does not constitute part of this annual report on Form 10-K.

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ITEM 1A. RISK FACTORS

We have exposure to economic downturns and operate in cyclical markets.

As a supplier of capital equipment to a variety of industries, we are adversely affected by general economic downturns. Demand for compressor and vacuum products is dependent upon capital spending by manufacturing, process, and transportation industries. Many of our customers, particularly industrial customers, will delay capital projects, including non-critical maintenance and upgrades, during economic downturns. Demand for some of our fluid transfer products is primarily tied to the number of working and available drilling rigs and oil and natural gas prices. The energy market, in particular, is cyclical in nature as the worldwide demand for oil and natural gas fluctuates. When worldwide demand for these commodities is depressed, the demand for our products used in drilling and recovery applications is reduced.

Accordingly, our operating results for any particular period are not necessarily indicative of the operating results for any future period. The markets for our products have historically experienced downturns in demand. Future downturns could have a material adverse effect on our operating results.

We face robust competition in the markets we serve, which could materially and adversely affect our operating results.

We actively compete with many companies producing the same or similar products. Depending on the particular product, we experience competition based on a number of factors, including quality, performance, price and availability. We compete against many companies, including divisions of larger companies with greater financial resources than we possess. As a result, these competitors may be better able to withstand a change in conditions within the markets in which we compete and throughout the economy as a whole. In addition, new competitors could enter our markets. If we cannot compete successfully, our sales and operating results could be materially and adversely affected.

Large or rapid increases in the costs of raw materials or substantial decreases in their availability and our dependence on particular suppliers of raw materials could materially and adversely affect our operating results.

Our primary raw materials, directly and indirectly, are cast iron, aluminum and steel. Although we have a limited number of long-term contracts with key suppliers and are seeking to enter into additional long-term contracts, we do not have long-term contracts with most of our suppliers. Consequently, we are vulnerable to fluctuations in prices of such raw materials. Factors such as supply and demand, freight costs and transportation availability, inventory levels of brokers and dealers, the level of imports and general economic conditions may affect the price of raw materials. We use single sources of supply for certain iron castings, motors and other select engineered components. From time to time in recent years, we have experienced a disruption to our supply deliveries and may experience further supply disruptions. Any such disruption could have a material adverse effect on our ability to timely meet our commitments to customers and, therefore, our operating results.

We may not be able to continue to identify and complete other strategic acquisitions and effectively integrate such acquired companies to achieve desired financial benefits.

One of our growth strategies is to increase our sales and expand our markets through acquisitions. We have completed 20 acquisitions since becoming an independent company in 1994. We expect to continue making acquisitions if appropriate opportunities arise. However, we may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms or otherwise complete future acquisitions.

Furthermore, our existing operations may encounter unforeseen operating difficulties and may require significant financial and managerial resources, which would otherwise be available for the ongoing development or expansion of our existing operations.

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Even if we can complete future acquisitions, we face significant challenges in consolidating functions and integrating procedures, personnel, product lines, and operations in a timely and efficient manner. The integration process can be complex and time consuming, may be disruptive to our existing and acquired businesses, and may cause an interruption of, or a loss of momentum in, those businesses. Even if we can successfully complete the integration of acquired businesses into our operations, there is no assurance that anticipated cost savings, synergies, or revenue enhancements will be realized within the expected time frame, or at all.

Economic, political and other risks associated with international sales and operations could adversely affect our business.

For the fiscal year ended December 31, 2007, approximately 59% of our revenues were from customers in countries outside of the United States. We have manufacturing facilities in Germany, the United Kingdom, China, Brazil, Italy, Sweden, Finland and Canada. We intend to continue to expand our international operations to the extent that suitable opportunities become available. Non-U.S. operations and U.S. export sales could be adversely affected as a result of:

- nationalization of private enterprises;
- political or economic instability in certain countries;
- differences in foreign laws, including increased difficulties in protecting intellectual property and uncertainty in enforcement of contract rights;
- changes in the legal and regulatory policies of foreign jurisdictions;
- credit risks;
- currency fluctuations;
- exchange controls;
- changes in tariff restrictions;
- royalty and tax increases;
- export and import restrictions and restrictive regulations of foreign governments;
- potential problems obtaining supply of raw materials;
- shipping products during times of crisis or war; and
- other factors inherent in foreign operations.

Our success depends on our executive officers and other key personnel.

Our future success depends to a significant degree on the skills, experience and efforts of our executive officers and other key personnel. The loss of the services of any of our executive officers could have an adverse impact. None of our executive officers has an employment agreement. In addition, with the worldwide tightening of labor markets, the availability of highly qualified talent is decreasing and the competition for talent is becoming more intense. However, we provide long-term equity incentives and certain other benefits for our executive officers, including change in

control agreements, which provide incentives for them to make a long-term commitment to our company. Our future success will also depend on our ability to attract and retain qualified personnel and a failure to attract and retain new qualified personnel could have an adverse effect on our operations.

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The nature of our products creates the possibility of significant product liability and warranty claims, which could harm our business.

Customers use some of our products in potentially hazardous applications that can cause injury or loss of life and damage to property, equipment or the environment. In addition, our products are integral to the production process for some end-users and any failure of our products could result in a suspension of operations. Although we maintain strict quality controls and procedures, we cannot be certain that our products will be completely free from defects. We maintain amounts and types of insurance coverage that we believe are adequate and consistent with normal industry practice for a company of our relative size. However, we cannot guarantee that insurance will be available or adequate to cover all liabilities incurred. We also may not be able to maintain insurance in the future at levels we believe are necessary and at rates we consider reasonable. We may be named as a defendant in product liability or other lawsuits asserting potentially large claims if an accident occurs at a location where our equipment and services have been or are being used.

The risk of regulatory noncompliance could have a significant impact on our business.

Our global operations subject us to regulation by U.S. federal and state laws and multiple foreign laws, regulations and policies, which could result in conflicting legal requirements. Noncompliance with any applicable laws could result in enforcement actions, fines and penalties or the assertion of private litigation. In addition, changes in current legal, regulatory, accounting, tax, data protection, international trade or compliance requirements could adversely affect our operations, revenues and earnings as well as require us to modify our strategic objectives.

Environmental-compliance costs and liabilities could adversely affect our financial condition.

Our operations and properties are subject to increasingly stringent domestic and foreign laws and regulations relating to environmental protection, including laws and regulations governing air emissions, water discharges, waste management and workplace safety. Under such laws and regulations, we can be subject to substantial fines and sanctions for violations and be required to install costly pollution control equipment or effect operational changes to limit pollution emissions and/or decrease the likelihood of accidental hazardous substance releases. We must conform our operations and properties to these laws and regulations.

We use and generate hazardous substances and wastes in our manufacturing operations. In addition, many of our current and former properties are, or have been, used for industrial purposes. We have been identified as a potentially responsible party with respect to several sites designated for cleanup under federal Superfund or similar state laws. An accrued liability on our balance sheet reflects costs which are probable and estimable for our projected financial obligations relating to these matters. If we have underestimated our remaining financial obligations, we may face greater exposure that could have an adverse effect on our financial condition, results of operations or liquidity. Stringent fines and penalties may be imposed for non-compliance with regulatory requirements relating to environmental matters, and many environmental laws impose joint and several liability for remediation for cleanup of certain waste sites and for related natural resource damages.

We have experienced, and expect to continue to experience, operating costs to comply with environmental laws and regulations. In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination, or the imposition of new cleanup requirements could require us to incur costs or become the basis for new or increased liabilities that could have a material adverse effect on our business, financial condition, results of operations or liquidity.

We are a defendant in certain asbestos and silicosis personal injury lawsuits, which could adversely affect our financial condition.

We have been named as a defendant in a number of asbestos and silicosis personal injury lawsuits. The plaintiffs in these suits allege exposure to asbestos or silica from multiple sources, and typically we are one of approximately 25 or more named defendants. In our experience to date, the substantial majority of the plaintiffs have not suffered an injury for which we bear responsibility.

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We believe that the pending lawsuits are not likely to, in the aggregate, have a material adverse effect on our consolidated financial position, results of operations or liquidity. However, future developments, including, without limitation, potential insolvencies of insurance companies or other defendants, could cause a different outcome. Accordingly, there can be no assurance that the resolution of pending or future lawsuits will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

A significant portion of our assets consists of goodwill and other intangible assets, the value of which may be reduced if we determine that those assets are impaired.

As of December 31, 2007, goodwill and other intangible assets represented approximately \$891.8 million, or 46.8% of our total assets. Goodwill is generated in an acquisition when the cost of such acquisition exceeds the fair value of the net tangible and identifiable intangible assets acquired. Goodwill and certain other identifiable intangible assets are subject to impairment analyses at least annually. We could be required to recognize reductions in our net income caused by the impairment of goodwill and other intangibles, which, if significant, could materially and adversely affect our results of operations.

Communication or information systems failure may disrupt our business and result in financial loss and liability to our clients.

Our business is highly dependent on financial, accounting and other data processing systems and other communications and information systems, including our enterprise resource planning tools. We process a large number of transactions on a daily basis and rely upon the proper functioning of computer systems. If any of these systems do not function properly, we could suffer financial loss, business disruption, liability to clients, regulatory intervention or damage to our reputation. If our systems are unable to accommodate an increasing volume of transactions, our ability to grow could be limited. Although we have back-up systems in place, we cannot be certain that any systems failure or interruption, whether caused by fire, other natural disaster, power or telecommunications failure, acts of terrorism or war or otherwise will not occur, or that back-up procedures and capabilities in the event of any failure or interruption will be adequate.

Third parties may infringe upon our intellectual property or may claim we have infringed their intellectual property, and we may expend significant resources enforcing or defending our rights or suffer competitive injury.

Our success depends in part on our proprietary technology and intellectual property rights. We rely on a combination of patents, trademarks, trade secrets, copyrights, confidentiality provisions, contractual restrictions and licensing arrangements to establish and protect our proprietary rights. We may be required to spend significant resources to monitor and police our intellectual property rights. If we fail to successfully enforce these intellectual property rights, our competitive position could suffer, which could harm our operating results. Although we make a significant effort to avoid infringing known proprietary rights of third parties, from time to time we may receive notice that a third party believes that our products may be infringing certain patents, trademarks or other proprietary rights of such third party. Responding to such claims, regardless of their merit, can be costly and time consuming, and can divert management's attention and other resources. Depending on the resolution of such claims, we may be barred from using a specific technology or other right, may be required to redesign or re-engineer a product, or may become liable for significant damages.

Our business could suffer if we experience employee work stoppages or other labor difficulties.

As of January 2008, we have approximately 6,200 full-time employees. A significant number of our employees, including a large portion of the employees outside of the U.S., are represented by works councils and labor unions.

Although we do not anticipate future work stoppages by our union employees, there can be no assurance that work stoppages will not occur. Although we believe that our relations with employees are satisfactory and have not experienced any material work stoppages, we cannot be assured that we will be successful in negotiating new collective bargaining agreements, that such negotiations will not result in significant increases in the cost of labor or

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that a breakdown in such negotiations will not result in the disruption of our operations. The occurrence of any of the preceding conditions could impair our ability to manufacture our products and result in increased costs and/or decreased operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

See Item 1 Business for information on Gardner Denver's manufacturing, distribution and service facilities and sales offices. Generally, the Company's plants are suitable and adequate for the purposes for which they are intended, and overall have sufficient capacity to conduct business in 2008. The Company leases sales office and warehouse space in numerous locations worldwide.

ITEM 3. 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 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, of this Form 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the quarter ended December 31, 2007.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The information regarding the market for the Company's common stock and quarterly market price ranges set forth in Note 18 Quarterly Financial Information (Unaudited) in the Notes to Consolidated Financial Statements is hereby incorporated by reference. There were approximately 6,900 stockholders of record as of December 31, 2007.

Gardner Denver has not paid a cash dividend since its spin-off from Cooper in April 1994 and the Company has no current intention to pay cash dividends in the future. The cash flow generated by the Company is currently used for debt service, capital accumulation and reinvestment. The Company also expects to use its cash flow to repurchase some of its outstanding common stock.

In November 2007, the Company's Board of Directors authorized a new share repurchase program to acquire up to 2,700,000 shares of the Company's outstanding common stock. All common stock acquired will be held as treasury stock and will be available for general corporate purposes. This program replaces a previous program authorized in October 1998 for the repurchase of up to 3,200,000 shares of the Company's common stock, of which 420,600 shares remained available for repurchase. The Company has also established a Stock Repurchase Program for its executive officers and directors to provide a means for them to sell the Company's common stock and obtain sufficient funds to meet income tax obligations which arise from the exercise, grant or vesting of incentive stock options, restricted stock or performance shares. At December 31, 2007, 398,251 shares remained available for purchase under this program. These programs remain in effect until all the authorized shares are repurchased unless

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modified by the Board of Directors. Repurchases of equity securities during the fourth quarter of 2007 are listed in the following table.

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	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs(2)
October 1, 2007 - October 31, 2007		n/a		818,851
November 1, 2007 - November 30, 2007		n/a		3,098,251
December 1, 2007 - December 31, 2007		n/a		3,098,251
Total				3,098,251

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

(2) In November 2007, the Board of Directors approved a new share repurchase program to acquire up to 2.7 million shares of Gardner Denver's common stock.

Stock Performance Graph

The following table compares the cumulative total stockholder return for the Company's common stock on an annual basis from December 31, 2002 through December 31, 2007 to the cumulative returns for the same periods of the: (a) Standard & Poor's 500 Stock Index; (b) Standard & Poor's 600 Index for Industrial Machinery, a pre-established industry index believed by the Company to have a peer group relationship with the Company; and (c) Standard & Poor's SmallCap 600, an industry index which includes the Company's common stock. The graph assumes that \$100 was invested in Gardner Denver, Inc. common stock and in each of the other indices on December 31, 2002 and that all dividends were reinvested when received. These indices are included for comparative purposes only and do not necessarily reflect management's opinion that such indices are an appropriate measure of the relative performance of the stock involved, and are not intended to forecast or be indicative of possible future performance of the Company's common stock.

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Years Ended December 31 (Dollars in thousands except per share amounts)	2007	2006(1)	2005(2)	2004(3)	2003
Revenues	\$ 1,868,844	1,669,176	1,214,552	739,539	439,530
Net income	205,104	132,908	66,951	37,123	20,643
Basic earnings per share(4)	3.85	2.54	1.40	0.98	0.64
Diluted earnings per share(4)	3.80	2.49	1.37	0.96	0.63
Long-term debt (excluding current maturities)	263,987	383,459	542,641	280,256	165,756
Total assets	\$ 1,905,607	1,750,231	1,715,060	1,028,609	589,733

- (1) The Company acquired the outstanding shares of Todo in January 2006.
- (2) The Company acquired the outstanding shares of Bottarini and Thomas in June 2005 and July 2005, respectively.
- (3) The Company acquired the outstanding shares of Syltone and Nash Elmo in January 2004 and September 2004, respectively.
- (4) Per share amounts in all years reflect the effect of a two-for-one stock split (in the form of a 100% stock dividend) that was completed on June 1, 2006.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**Non-GAAP Financial Measures**

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

The Company has determined its reportable segments in accordance with Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*. The Company evaluates the performance of its reportable segments based on operating income, which is defined as income before interest expense, other income, net, and income taxes. Reportable segment operating income and segment operating margin (defined as segment operating income divided by revenues) are indicative of short-term operational performance and ongoing profitability. Management closely monitors the operating income and operating margin of each business segment to evaluate past performance and actions required to improve profitability.

Management's Discussion and Analysis

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

Amounts presented in this Management's Discussion and Analysis reflect a change in the presentation of certain expenses within the Company's consolidated statements of operations. Depreciation expense recorded in connection with the manufacture of the Company's products sold during each reporting period is now included in the caption Cost of sales. Depreciation expense not associated with the manufacture of the Company's products and amortization expense are now included in the caption Selling and administrative expenses. Depreciation and amortization expense were previously combined and reported in the caption Depreciation and amortization. In addition, certain operating income and expense items previously included in the caption Other income, net have been reclassified to Selling and administrative expenses. These items are not material, individually or in the aggregate, to Selling and administrative expenses. Non-operating income and expense items, consisting primarily of investment income, continue to be reported in the caption Other income, net. The reclassification of operating income and expense items to Selling and administrative expenses resulted in a corresponding change in reportable segment operating income (see Note 16 Segment Information in the Notes to Consolidated Financial Statements). In connection with these reclassifications, the Company added the captions Gross profit and Operating income to its consolidated statement of operations. The Company believes that this change in

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presentation provides a more meaningful measure of its cost of sales and selling and administrative expenses and that gross profit and operating income are useful, widely accepted measures of profitability and operating performance. These reclassifications had no effect on reported consolidated income before income taxes, net income or per share amounts.

Overview and Description of Business

The Company designs, manufactures and markets compressor and vacuum products and fluid transfer products. The Company believes it is one of the world's leading manufacturers of highly engineered stationary air compressors and blowers for industrial applications. Stationary air compressors are used in manufacturing, process applications and materials handling, and to power air tools and equipment. Blowers are used primarily in pneumatic conveying, wastewater aeration and engineered vacuum systems. The Company also supplies pumps and compressors for OEM applications such as medical equipment, vapor recovery, printing, packaging and laboratory equipment. In addition, the Company designs, manufactures, markets, and services a diverse group of pumps, water jetting systems and related aftermarket parts used in oil and natural gas well drilling, servicing and production and in industrial cleaning and maintenance. The Company also manufactures loading arms, swivel joints, couplers and valves used to load and unload ships, tank trucks and rail cars. The Company believes that it is one of the world's leading manufacturers of reciprocating pumps used in oil and natural gas well drilling, servicing and production and in loading arms for the transfer of petrochemical products.

Since becoming an independent company in 1994, Gardner Denver has completed 20 acquisitions, growing its revenues from approximately \$176 million in 1994 to approximately \$1.9 billion in 2007. Of the 20 acquisitions, the three largest, namely Thomas, Nash Elmo and Syltone, were completed since January 1, 2004.

In January 2004, the Company acquired Syltone, previously a publicly traded company listed on the London Stock Exchange. Syltone, previously headquartered in Bradford, United Kingdom, was 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 was 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. This acquisition strengthened the Company's position, particularly in Europe, as the leading global provider of bulk handling solutions for the commercial transportation industry. The acquisition also expanded the Company's product lines to include loading arms.

In September 2004, the Company acquired Nash Elmo. Nash Elmo, previously headquartered in Trumbull, Connecticut, was a global manufacturer of industrial vacuum pumps and is primarily split between two businesses, liquid ring pumps and side channel blowers. Both businesses' products were complementary to the Company's Compressor and Vacuum Products segment's product portfolio. Nash Elmo's largest markets are in Europe, Asia and North America.

In July 2005, the Company acquired Thomas, previously a New York Stock Exchange listed company traded under the ticker symbol TII. Thomas, previously headquartered in Louisville, Kentucky, was a leading supplier of pumps, compressors and blowers for OEM applications such as medical equipment, vapor recovery, automotive and transportation applications, printing, packaging and laboratory equipment. Thomas designs, manufactures, markets, sells and services these products through worldwide operations. This acquisition was primarily complementary to the Company's Compressor and Vacuum Products segment's product portfolio.

Gardner Denver has five operating divisions: Compressor, Blower, Engineered Products, Thomas Products and Fluid Transfer. These divisions comprise two reportable segments: Compressor and Vacuum Products and Fluid Transfer

Products. The Compressor, Blower, Engineered Products and Thomas Products Divisions are aggregated into one reportable segment (Compressor and Vacuum Products) since the long-term financial performance of these businesses is affected by similar economic conditions, coupled with the similar nature of their products, manufacturing processes and other business characteristics.

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In the Compressor and Vacuum Products segment, the Company designs, manufactures, markets and services the following products and related aftermarket parts for industrial and commercial applications: rotary screw, reciprocating, and sliding vane air compressors; positive displacement, centrifugal and side channel blowers; liquid ring pumps; and single-piece piston reciprocating, diaphragm, and linear compressor and vacuum pumps, primarily serving OEM applications, engineered systems and general industry. Stationary air compressors are used in manufacturing, process applications and materials handling, and to power air tools and equipment. Blowers are used primarily in pneumatic conveying, wastewater aeration, numerous applications in industrial manufacturing and engineered vacuum systems. Liquid ring pumps are used in many different vacuum applications and engineered systems, such as water removal, distilling, reacting, efficiency improvement, lifting and handling, and filtering, principally in the pulp and paper, industrial manufacturing, petrochemical and power industries. Diaphragm, linear and single-piece piston reciprocating compressors and vacuum pumps are used in a variety of OEM applications. The Company also designs, manufactures, markets and services complementary ancillary products. Revenues of the Compressor and Vacuum Products segment constituted 77% of total revenues in 2007.

In the Fluid Transfer Products segment, the Company designs, manufactures, markets and services a diverse group of pumps, water jetting systems and related aftermarket parts used in oil and natural gas well drilling, servicing and production and in industrial cleaning and maintenance. This segment also designs, manufactures, markets and services loading arms, couplers and other fluid transfer components and equipment for the chemical, petroleum and food industries. Revenues of the Fluid Transfer Products segment constituted 23% of total revenues in 2007.

The Company sells its products through independent distributors and sales representatives, and directly to OEMs, engineering firms, packagers and end users.

The following table sets forth percentage relationships to revenues of certain line items included in our statement of operations for the years presented.

	2007	2006	2005
Revenues	100.0	100.0	100.0
Cost of sales	66.8	67.1	68.8
Gross profit	33.2	32.9	31.2
Selling and administrative expenses	17.6	18.9	21.1
Operating income	15.6	14.0	10.1
Interest expense	1.4	2.2	2.5
Other income, net	(0.2)	(0.2)	(0.3)
Income before income taxes	14.4	12.0	7.9
Provision for income taxes	3.4	4.0	2.4
Net income	11.0	8.0	5.5

Year Ended December 31, 2007, Compared with Year Ended December 31, 2006

Revenues

Revenues increased \$199.7 million, or 12%, to \$1,868.8 million in 2007, compared to \$1,669.2 million in 2006. This increase was attributable to favorable changes in foreign currency exchange rates (\$79.0 million, or 5%), price increases (\$52.7 million, or 3%) and volume growth (\$68.0 million, or 4%) for both the Compressor and Vacuum Products and Fluid Transfer Products segments. International revenues were 59% of total revenues in 2007 compared to 58% in 2006.

Revenues in the Compressor and Vacuum Products segment increased \$129.8 million, or 10%, to \$1,440.3 million, compared to \$1,310.5 million in 2006. This increase reflects favorable changes in foreign currency exchange rates (5%), volume growth (3%) and price increases (2%). The volume growth was led by strength in European and Asian markets, including OEM applications and low pressure and vacuum products.

Revenues in the Fluid Transfer Products segment increased \$69.9 million, or 19%, to \$428.5 million, compared to \$358.7 million in 2006. This increase reflects price increases (8%), volume growth (8%) and favorable changes in

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foreign currency exchange rates (3%). The volume growth was attributable to increased shipments of fuel systems, well servicing pumps and loading arms, partially offset by reduced shipments of drilling pumps.

Gross Profit

Gross profit increased \$70.6 million, or 13%, to \$619.9 million in 2007 compared to \$549.3 million in 2006, and as a percentage of revenues was 33.2% in 2007 compared to 32.9% in 2006. The increase in gross profit primarily reflects price increases, volume growth and foreign currency translation. Gross profit as a percentage of revenues was favorably impacted by price increases, a higher percentage of petroleum pump shipments, which have higher gross profit percentages than the Company's average, cost reductions, operational improvements, leveraging of fixed and semi-fixed costs over additional revenue and the realization of benefits from completed acquisition integration activities, largely offset by lower productivity related to acquisition integration efforts during the first half of 2007. Additionally, gross profit in 2006 was negatively affected by a non-recurring charge to depreciation expense of approximately \$5.5 million associated with the finalization of the fair market value of the Thomas property, plant and equipment.

Selling and Administrative Expenses

Selling and administrative expenses increased \$13.4 million, or 4%, to \$328.4 million in 2007, compared to \$315.0 million in 2006. This increase reflects the unfavorable effect of changes in foreign currency exchange rates of approximately \$15.8 million and other inflationary factors such as salary increases, partially offset by cost reductions realized through the completion of integration initiatives. Additionally, selling and administrative expenses in 2006 reflected an approximately \$3.2 million non-recurring reduction to amortization expense associated with the finalization of the fair market value of the Thomas amortizable intangible assets. As a percentage of revenues, selling and administrative expenses improved to 17.6% in 2007 from 18.9% in 2006 due to increased leverage of these expenses over additional volume and the cost reductions described above.

Operating Income

Consolidated operating income increased \$57.2 million, or 24%, to \$291.5 million in 2007 compared to \$234.3 million in 2006, and as a percentage of revenues increased to 15.6% in 2007 from 14.0% in 2006. These improvements reflect the revenue, gross profit and selling and administrative expense factors discussed above.

The Compressor and Vacuum Products segment generated operating income of \$169.7 million and operating margin of 11.8% in 2007, compared to \$140.1 million and 10.7%, respectively, in 2006 (see Note 16 Segment Information in the Notes to Consolidated Financial Statements for a reconciliation of segment operating income to consolidated income before income taxes). This improvement was primarily due to higher revenue, increased leverage of the segment's fixed and semi-fixed costs over additional revenue, cost reductions realized through the completion of acquisition integration initiatives, price increases, the net favorable effect of changes in foreign currency exchange rates and reduced net depreciation and amortization expense associated with the finalization of the fair values of the Thomas property, plant and equipment and amortizable intangible assets as discussed above. The above factors were partially offset by increased material costs and compensation-related expenses.

The Fluid Transfer Products segment generated operating income of \$121.9 million and operating margin of 28.4% in 2007, compared to \$94.3 million and 26.3%, respectively, in 2006 (see Note 16 Segment Information in the Notes to Consolidated Financial Statements for a reconciliation of segment operating income to consolidated income before income taxes). This improvement was primarily due to higher revenue, increased leverage of the segment's fixed and semi-fixed costs over additional revenue, benefits from capital investments, price increases, favorable sales mix and the net favorable effect of changes in foreign currency exchange rates. The above factors were partially offset by

increased material costs and compensation-related expenses.

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Interest Expense

Interest expense of \$26.2 million in 2007 declined \$11.2 million from \$37.4 million in 2006 due primarily to lower average borrowings between the two years, partially offset by a higher weighted average interest rate. Net principal payments on debt totaled \$125.2 million in 2007 (see Consolidated Statements of Cash Flows and Note 8 Debt in the Notes to Consolidated Financial Statements). The weighted average interest rate, including the amortization of debt issuance costs, increased to 7.3% during 2007, compared to 6.9% during 2006, due primarily to the greater relative weight of the fixed interest rate on the Company's 8% Senior Subordinated Notes and increases in the floating-rate indices of the Company's non-U.S. dollar borrowings.

Other Income, Net

Other income, net, consisting primarily of investment income, decreased \$0.5 million to \$3.1 million in 2007 compared to \$3.6 million in 2006, due primarily to lower average levels of cash and equivalents in 2007.

Provision For Income Taxes

The provision for income taxes and effective income tax rate decreased to \$63.3 million and 23.6%, respectively, in 2007 from \$67.7 million and 33.7%, respectively, in 2006. This improvement reflects non-recurring, non-cash reductions in net deferred tax liabilities of approximately \$10.0 million recorded in connection with corporate income tax rate reductions in Germany, the United Kingdom and China which were enacted in 2007 and will become effective in 2008, foreign tax credits of approximately \$8.0 million resulting from the Company's cash repatriation efforts, and tax reserve reductions of approximately \$1.5 million resulting from the favorable resolution of certain previously open tax matters. Excluding these items, the Company's effective income tax rate would have been approximately 30.8% in 2007.

Net Income

Consolidated net income of \$205.1 million increased \$72.2 million, or 54%, in 2007 from \$132.9 million in 2006. Diluted earnings per share increased 53% to \$3.80 in 2007 from \$2.49 in 2006. These improvements reflect the operating income, interest expense and income tax items discussed above. The increase in diluted average shares outstanding in 2007 compared to 2006, which was primarily due to shares issued in connection with the Company's stock compensation programs, resulted in an approximately \$0.04 reduction in diluted earnings per share.

Year Ended December 31, 2006, Compared with Year Ended December 31, 2005

Revenues

Revenues increased \$454.6 million, or 37%, to \$1,669.2 million in 2006, compared to \$1,214.6 million in 2005. This increase was due to \$232.5 million (19%) of additional revenues resulting from the acquisitions of Thomas and Bottarini in 2005 and Todo in 2006 and organic growth (\$205.8 million, or 18%). Higher shipment volume, especially from petroleum-related fluid transfer products such as drilling and well stimulation pumps, contributed approximately \$146.5 million, or 12%, of additional revenue. In addition, price increases and favorable foreign currency translation contributed 5% and 1%, respectively, to year-over-year revenue growth. International revenues were 58% of total revenues in 2006, down slightly from 59% in 2005.

Revenues for the Compressor and Vacuum Products segment increased 33% to \$1,310.5 million in 2006 compared to \$982.5 million in 2005. This increase was due to acquisitions completed in 2005 (22%), increased shipment volume (7%), price increases (3%), and favorable changes in foreign currency exchange rates (1%).

Fluid Transfer Products segment revenues increased 55% to \$358.7 million in 2006 compared to \$232.1 million in 2005. This improvement in revenues was primarily driven by increased shipment volume (37%) in most product lines, but in particular drilling and well stimulation pumps, price increases (11%), acquisitions (6%) and favorable changes in foreign currency exchange rates (1%).

Table of Contents***Gross Profit***

Gross profit increased \$171.0 million, or 45%, to \$549.3 million in 2006 compared to \$378.3 million in 2005, and as a percentage of revenues improved to 32.9% in 2006 from 31.1% in 2005. These improvements were attributable to acquisitions, cost reduction initiatives and leveraging fixed and semi-fixed costs over higher production volume. Favorable sales mix also contributed to the year-over-year improvement as 2006 included a higher percentage of drilling and replacement pump parts shipments compared to 2005. These products have gross profit percentages above the Company's average. These factors were partially offset by the non-recurring charge to depreciation expense of approximately \$5.5 million in 2006 associated with the finalization of the fair market value of the Thomas property, plant and equipment. Cost of sales in 2005 was also negatively impacted by approximately \$3.9 million of non-recurring costs attributable to inventory step-up adjustments relating to recording the inventory of Thomas and Bottarini at fair value on the acquisition dates. Higher depreciation expense due to the incremental effect of acquisitions, decreases in manufacturing productivity related to product line relocations associated with acquisition integration projects in 2006 and material and other cost increases partially offset these improvements.

Selling and Administrative Expenses

Selling and administrative expenses increased \$59.3 million, or 23%, to \$315.0 million in 2006, compared to \$255.7 million in 2005. The majority of the increase was due to the incremental effect of acquisitions, including higher amortization expense, which contributed approximately \$43.3 million of additional selling and administrative expenses, \$5.3 million of incremental stock-based compensation expense associated with the implementation of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) *Share-based Payment* (SFAS 123(R)) effective January 1, 2006, and the unfavorable effect of changes in foreign currency exchange rates of approximately \$3.1 million. These increases were partially offset by cost reductions realized through integration activities, net of inflationary factors such as salary increases, and a \$3.2 million non-recurring reduction to amortization expense associated with the finalization of the fair market value of the Thomas amortizable intangible assets. As a percentage of revenues, selling and administrative expenses decreased to 18.9% in 2006 from 21.1% in 2005, due to increased leverage of these expenses over additional volume and the completion of various integration activities and cost reduction initiatives.

Operating Income

Consolidated operating income increased \$111.7 million, or 91%, to \$234.3 million in 2006 compared to \$122.6 million in 2005, and as a percentage of revenues increased to 14.0% in 2006 from 10.1% in 2005. These improvements reflect the revenue, gross profit and selling and administrative expense factors discussed above.

The Compressor and Vacuum Products segment generated operating income of \$140.1 million and operating margin of 10.7% in 2006, compared to \$84.7 million and 8.6%, respectively, in 2005 (see Note 16 Segment Information in the Notes to Consolidated Financial Statements for a reconciliation of segment operating income to consolidated income before income taxes). Cost reductions, favorable sales mix and price increases accounted for the majority of the improvement. These positive factors were partly offset by increased material costs and compensation related expenses. The operating margin in 2005 was also reduced by approximately \$3.9 million of non-recurring costs for inventory step-up adjustments relating to the valuation of the inventory of Thomas and Bottarini at fair value on the acquisition dates.

The Fluid Transfer Products segment generated operating income of \$94.3 million and operating margin of 26.3% in 2006, compared to \$37.9 million and 16.3%, respectively, in 2005 (see Note 16 Segment Information in the Notes to Consolidated Financial Statements for a reconciliation of segment operating income to consolidated income before income taxes). This improvement was primarily due to increased revenue volume, the positive impact of increased

leverage of the segment's fixed and semi-fixed costs over additional production volume and price increases. Improved productivity, benefits from capital investments, favorable sales mix associated with a higher proportion of drilling pump and replacement pump parts shipments, and acquisitions also contributed to the improvement.

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Interest Expense

Interest expense increased \$6.9 million to \$37.4 million in 2006 compared to 2005. This increase was primarily due to additional funds borrowed to finance the acquisition of Thomas and higher average interest rates. The weighted average interest rate, including the amortization of debt issuance costs, was 6.9% in 2006, compared to 6.7% in 2005. The higher weighted average interest rate in 2006 was primarily attributable to increases in market rates on floating rate debt and the greater relative weight of the fixed interest rate on the Company's 8% Senior Subordinated Notes as floating rate debt with lower interest rates was retired in 2006 (see Note 8 Debt in the Notes to Consolidated Financial Statements). These increases were partially offset by debt reduction of approximately \$161.5 million during 2006.

Other Income, Net

Other income, net, consisting primarily of investment income, increased \$0.2 million to \$3.6 million in 2006 from \$3.4 million in 2005. Other income, net, in 2005 included approximately \$0.7 million of interest income earned on the investment of financing proceeds, prior to their use to complete the Thomas acquisition.

Provision For Income Taxes

The provision for income taxes increased \$39.0 million to \$67.7 million in 2006 compared to \$28.7 million in 2005, as a result of incremental income before income taxes and a higher effective income tax rate. The Company's effective tax rate increased to 33.7% in 2006, compared to 30.0% in 2005. The higher tax rate was principally due to incremental income before income taxes generated by the Company's operations in higher tax rate jurisdictions (the United States and Germany) in 2006, and incremental tax expense incurred on repatriated earnings.

Net Income

Consolidated net income of \$132.9 million in 2006, increased \$65.9 million, or 99%, compared to consolidated net income of \$67.0 million in 2005. Diluted earnings per share of \$2.49 in 2006 increased 82% compared to diluted earnings per share of \$1.37 in 2005. The results for 2006 include incremental net income of approximately \$6.3 million from the acquisitions of Thomas, Bottarini and Todo. The increase in diluted earnings per share was partly offset by higher average shares outstanding as a result of the impact of the issuance of 11.3 million shares of the Company's common stock during May 2005 (adjusted for the two-for-one stock split in the form of a 100% stock dividend that was completed on June 1, 2006).

Outlook

In general, the Company believes that demand for compressor and vacuum products tends to correlate to the rate of total industrial capacity utilization and the rate of change of industrial equipment production because air is often used as a fourth utility in the manufacturing process. Over longer time periods, the Company believes that demand also tends to follow economic growth patterns indicated by the rates of change in the gross domestic product (GDP) around the world. During 2007, total industrial capacity utilization rates in the U.S., as published by the Federal Reserve Board, remained above 81%. Rates above 80% have historically indicated a good demand environment for industrial equipment such as compressor and vacuum products.

The Company expects the GDP rate of growth to slow in the U.S. in 2008 but remain positive. Growth in industrial demand in Europe is expected to exceed that of the U.S. and Asia is expected to continue to be the strongest region for growth and exceed the global average. The Company projects orders for compressor and vacuum products will remain strong through the first half of 2008 driven by demand in Europe and Asia for OEM applications and engineered products, as well as marine and European mobile applications. The Company also expects increasing demand

throughout the world for environmental applications, including flue gas desulfurization and flare gas and wastewater treatment. As a result of these growth expectations, the Company believes that demand for the industrial portion of its business will continue to grow in 2008, although at a slightly slower rate than realized in 2007.

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Production capacity for well stimulation pumps is sold out through the first half of 2008, but the Company has less visibility of the demand for petroleum pumps in the second half of the year. It anticipates good demand for aftermarket parts and services for petroleum pumps in 2008, but on-going declines in demand in North America for drilling pumps. However, quotations for international rigs and improved product availability may result in some incremental opportunities to ship drilling pumps during the year. The Company continues to invest in key machine tools in order to increase its production capacities for aftermarket parts and enable it to expand its market share in this area, which also helps mitigate the cyclicity of demand for these product lines.

Order backlog consists of orders believed to be firm for which a customer purchase order has been received or communicated. However, since orders may be rescheduled or canceled, backlog does not necessarily reflect future sales levels.

In 2007, orders for compressor and vacuum products were \$1,493.9 million, compared to \$1,348.5 million in 2006. Order backlog for the Compressor and Vacuum Products segment was \$429.4 million as of December 31, 2007, compared to \$354.3 million as of December 31, 2006. The increases in orders and backlog compared to the prior year were primarily due to stronger industrial demand and the favorable effect of changes in foreign currency exchange rates. The favorable effect of changes in foreign currency exchange rates increased orders and backlog in 2007 by approximately 5% and 6%, respectively.

Future demand for petroleum-related fluid transfer products has historically corresponded to market conditions, rig counts and expectations for oil and natural gas prices, which the Company cannot predict. Orders for fluid transfer products were \$367.1 million in 2007, compared to \$377.1 million in 2006, representing a decrease of 3%. The orders decrease in petroleum pumps, due to the expected slow-down in the North American market, more than offset an increase in orders for liquid natural gas and compressed natural gas loading arms and fuel systems. The favorable effect of changes in foreign currency exchange rates increased orders approximately 3% in the year. Order backlog for the Fluid Transfer Products segment was \$130.9 million at December 31, 2007, compared to \$186.4 million at December 31, 2006, representing a 30% reduction. The decrease in backlog was primarily associated with lower demand for drilling pumps used on North American land rigs, partially offset by increased demand for aftermarket parts and loading arms. The increase in the loading arms backlog was primarily related to the receipt of certain contracts for liquid natural gas and compressed natural gas loading arms. The Company shipped approximately half of the loading arm contracts in December 2007 and expects to ship the remaining balance of the order in early 2008.

Fluid Transfer segment revenues and operating income are expected to decline in 2008 compared to 2007 based on the Company's expectations for declining shipments of petroleum pumps. Fluid Transfer Products segment operating margin is also expected to decline, primarily as a result of product mix and reduced leverage of fixed and semi-fixed costs as production levels decrease.

Liquidity and Capital Resources

Operating Working Capital

During 2007, operating working capital (defined as accounts receivable plus inventories, less accounts payable and accrued liabilities) increased \$85.7 million to \$278.7 million. This increase was driven by higher accounts receivable resulting from revenue growth during the fourth quarter of 2007 compared to the same period in 2006, higher inventory levels required to support the planned increase in production volume and shipments in the first half of 2008 and the effect of foreign currency exchange rates. Despite the increase in inventory, inventory turns improved slightly to 5.3 in 2007 from 5.2 in 2006 due to the realization of benefits from the continued implementation of lean manufacturing initiatives and improved production throughput in 2007 as manufacturing integration projects were completed. Days sales outstanding increased to 56 in 2007 from 55 in 2006 primarily due to an increase in revenues

outside the U.S., which typically offer longer payment terms. The increase in accounts receivable was somewhat offset by higher customer advance payments (which are included in accrued liabilities) as a result of increased volume of engineered package sales. Net working capital (defined as total current assets less total current liabilities) was \$389.3 million at December 31, 2007, compared with \$262.8 million at December 31, 2006.

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Cash Flows

Cash provided by operating activities of \$181.6 million in 2007 compares with cash provided by operating activities of \$167.2 million in 2006. This improvement reflects the increase in net income, partially offset by increased funding of operating working capital and a one-time pension plan contribution. Cash used to fund operating working capital of \$52.0 million in 2007 increased \$26.1 million from \$25.9 million in 2006, due primarily to volume-related increases in accounts receivable and inventories. In connection with the implementation in 2007 of certain revisions to its three defined benefit pension plans in the United Kingdom (see Note 9 – Benefit Plans), the Company made an approximately \$15.1 million one-time contribution into these plans. Net cash used in financing activities of \$111.8 million in 2007 and \$170.8 million in 2006 reflected the use of available cash and cash generated from operating activities to repay long-term borrowings.

Capital Expenditures and Commitments

Capital projects designed to increase operating efficiency and flexibility, expand production capacity, support acquisition integration projects and bring new products to market resulted in expenditures of approximately \$47.8 million in 2007, compared to \$41.1 million in 2006. The higher spending in 2007 was primarily due to spending related to cost reduction initiatives and manufacturing capacity improvements. 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 November 2007, the Company's Board of Directors authorized a new share repurchase program to acquire up to 2,700,000 shares of the Company's outstanding common stock, representing approximately 5% of the Company's outstanding shares. All common stock acquired will be held as treasury stock and will be available for general corporate purposes. This program replaces a previous program authorized in October 1998 for the repurchase of up to 3,200,000 shares of the Company's common stock, of which 420,600 shares remained available for repurchase. The Company has also established a Stock Repurchase Program for its executive officers and directors to provide a means for them to sell the Company's common stock and obtain sufficient funds to meet income tax obligations which arise from the exercise or vesting of incentive stock options, restricted stock or performance shares. The Company's Board of Directors has authorized up to 800,000 shares for repurchase under this program, and of this amount, 398,251 shares remain available for repurchase as of December 31, 2007. As of December 31, 2007, a total of 3,181,149 shares have been repurchased at a cost of approximately \$23.8 million under both the October 1998 and the executive stock repurchase programs.

Liquidity

The Company's primary cash requirements include working capital, capital expenditures, stock repurchases, and principal and interest payments on indebtedness. The Company's primary sources of funds are its ongoing net cash flows from operating activities and availability under its Revolving Line of Credit (as defined below). At December 31, 2007, the Company had cash and equivalents of \$92.9 million, of which \$1.6 million was pledged to financial institutions as collateral to support the issuance of standby letters of credit and similar instruments. The Company also had \$151.5 million of unused availability under its Revolving Line of Credit at December 31, 2007.

The Company entered into a syndicated credit agreement in 2005 (the 2005 Credit Agreement) in connection with the Thomas acquisition. The 2005 Credit Agreement provides the Company with access to senior secured credit facilities, including a Term Loan in the original principal amount of \$380.0 million, and a \$225.0 million Revolving Line of Credit.

The Term Loan has a final maturity of July 1, 2010 and the outstanding principal balance at December 31, 2007 was \$76.1 million. The Term Loan requires quarterly principal payments aggregating approximately \$19.6 million, \$34.4 million and \$22.1 million in 2008, 2009 and 2010, respectively.

The Revolving Line of Credit matures on July 1, 2010. Loans under this facility may be denominated in U.S. dollars or several foreign currencies and may be borrowed by the Company or two of its foreign subsidiaries as outlined in the 2005 Credit Agreement. On December 31, 2007, the Revolving Line of Credit had an outstanding principal balance of \$58.3 million and outstanding letters of credit of \$15.2 million.

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The interest rates applicable to loans under the 2005 Credit Agreement vary, at the Company's option, with 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 the 2005 Credit Agreement (See Note 8 Debt in the Notes to Consolidated Financial Statements).

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.

The Company also issued \$125.0 million of 8% Senior Subordinated Notes (the Notes) in 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.

The Company used cash generated from operating activities to reduce its borrowings by approximately \$117.5 million in 2007. Debt to total capital was 20.0% as of December 31, 2007 compared to 32.3% as of December 31, 2006.

Subject to market conditions and other factors, the Company intends to begin acquiring shares under the new share repurchase program discussed above in the first quarter of 2008 and complete the share repurchase program over the course of 2008.

Management currently expects the Company's future cash flows will be sufficient to fund its scheduled debt service, its stock repurchase program and provide required resources for working capital and capital investments for at least the next twelve months. The Company is proactively pursuing acquisition opportunities, but the size and timing of any future acquisitions and the related potential capital requirements cannot be predicted. In the event that suitable businesses are available for acquisition upon acceptable terms, the Company may obtain all or a portion of the necessary financing through the incurrence of additional long-term borrowings.

Contractual Obligations and Commitments

The following table and accompanying disclosures summarize the Company's significant contractual obligations at December 31, 2007, and the effect such obligations are expected to have on its liquidity and cash flow in future periods:

(Dollars in millions)

	Total	Payments Due by Period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Contractual Cash Obligations					

Debt	\$ 281.8	24.5	116.2	1.4	139.7
Estimated interest payments(1)	67.0	15.8	22.9	21.0	7.3
Capital leases	7.9	0.4	0.6	0.6	6.3
Operating leases	82.5	19.0	26.1	15.5	21.9
Purchase obligations(2)	225.7	212.1	13.5	0.1	
Total	\$ 664.9	271.8	179.3	38.6	175.2

(1) Estimated interest payments for long-term debt were calculated as follows: for fixed-rate debt and term debt, interest was calculated based on applicable rates and payment dates; for variable-rate debt and/or non-term debt, interest rates and payment dates were estimated based on management's determination of the most likely scenarios for each relevant debt instrument. Management expects to settle such interest payments with cash flows from operating activities and/or short-term borrowings.

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- (2) Purchase obligations consist primarily of agreements to purchase inventory or services made in the normal course of business to meet operational requirements. The purchase obligation amounts do not represent the entire anticipated purchases in the future, but represent only those items for which the Company is contractually obligated as of December 31, 2007. For this reason, these numbers will not provide a complete and reliable indicator of the Company's expected future cash outflows.

In accordance with SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 123(R)* (SFAS No. 158), the total pension and other postretirement benefit liabilities recognized on the consolidated balance sheet as of December 31, 2007 were \$72.3 million and represented the funded status of the Company's defined benefit plans at the end of 2007. The total pension and other postretirement benefit liability is included in the consolidated balance sheet line items accrued liabilities, postretirement benefits other than pensions and other liabilities. Because this liability is impacted by, among other items, plan funding levels, changes in plan demographics and assumptions, and investment return on plan assets, it does not represent expected liquidity needs. Accordingly, the Company did not include this liability in the contractual obligations table above.

The Company funds its U.S. qualified pension plans in accordance with the Employee Retirement Income Security Act of 1974 regulations for the minimum annual required contribution and Internal Revenue Service regulations for the maximum annual allowable tax deduction. The Company is committed to making the required minimum contributions and expects to contribute a total of approximately \$3.9 million to its U.S. qualified pension plans during 2008. Furthermore, the Company expects to contribute a total of approximately \$2.3 million to its U.S. postretirement health care benefit plans during 2008. Future contributions are dependent upon various factors including the performance of the plan assets, benefit payment experience and changes, if any, to current funding requirements. Therefore, no amounts were included as contractual cash obligations in the above table. The Company generally expects to fund all future contributions with cash flows from operating activities.

The Company's non-U.S. pension plans are funded in accordance with local laws and income tax regulations. The Company expects to contribute a total of approximately \$6.8 million to its non-U.S. qualified pension plans during 2008. No amounts have been included in the Contractual Cash Obligations table due to the same reasons noted above.

Disclosure of amounts in the Contractual Cash Obligations table regarding expected benefit payments in future years for the Company's pension plans and other postretirement benefit plans cannot be properly reflected due to the ongoing nature of the obligations of these plans. In order to inform the reader about expected benefit payments for these plans over the next several years, the Company anticipates the annual benefit payments for the U.S. plans to be in the range of approximately \$8.0 million to \$9.0 million in 2008 and to remain at or near these annual levels for the next several years, and the annual benefit payments for the non-U.S. plans to be in the range of approximately \$5.0 million to \$6.0 million in 2008 and to increase by approximately \$1.0 million each year over the next several years. During the third quarter of 2007, the Company implemented certain revisions to its three defined benefit pension plans in the United Kingdom and adjusted the net periodic benefit cost associated with these plans (see Note 9 Benefit Plans in the Notes to Consolidated Financial Statements).

Net deferred income tax liabilities were \$43.2 million as of December 31, 2007. This amount is not included in the Contractual Cash Obligations table because the Company believes this presentation would not be meaningful. Deferred income tax liabilities are calculated based on temporary differences between the tax basis of assets and liabilities and their book basis, which will result in taxable amounts in future years when the book basis is settled. The results of these calculations do not have a direct connection with the amount of cash taxes to be paid in any future periods. As a result, scheduling deferred income tax liabilities as payments due by period could be misleading, because this scheduling would not relate to liquidity needs.

In the normal course of business, the Company or its subsidiaries may sometimes be required to provide surety bonds, standby letters of credit or similar instruments to guarantee its performance of contractual or legal obligations. As of December 31, 2007, the Company had \$63.5 million in such instruments outstanding and had pledged \$1.6 million of cash to the issuing financial institutions as collateral for such instruments.

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Contingencies

The Company is a party to various legal proceedings, lawsuits and administrative actions, which are of an ordinary or routine nature. In addition, due to the bankruptcies of several asbestos manufacturers and other primary defendants, among other things, the Company has been named as a defendant in a number of asbestos personal injury lawsuits. The Company has also been named as a defendant in a 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 to date, the substantial majority of the plaintiffs have not suffered an injury for which the Company bears responsibility.

Predecessors to the Company sometimes manufactured, distributed and/or sold products allegedly at issue in the pending asbestos and silicosis litigation lawsuits (the Products). However, neither the Company nor its predecessors ever mined, manufactured, mixed, produced or distributed asbestos fiber or silica sand, the materials that allegedly caused the injury underlying the lawsuits. Moreover, the asbestos-containing components of the Products 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 not been material.

The Company believes that the pending and future asbestos and silicosis lawsuits are not likely to, in the aggregate, have a material adverse effect on its consolidated financial position, results of operations or liquidity, based on: the Company's anticipated insurance and indemnification rights to address the risks of such matters; the limited potential asbestos exposure from the components described above; the Company's experience that the vast majority of plaintiffs are not impaired with a disease attributable to alleged exposure to asbestos or silica from or relating to the Products or for which the Company otherwise bears responsibility; various potential defenses available to the Company with respect to such matters; and the Company's prior disposition of comparable matters. However, due to inherent uncertainties of litigation and because future developments, including, without limitation, potential insolvencies of insurance companies or other defendants, could cause a different outcome, there can be no assurance that the resolution of pending or future lawsuits will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

The Company has been identified as a potentially responsible party (PRP) with respect to several sites designated for cleanup under federal Superfund or similar state laws, which impose liability for cleanup of certain waste sites and for related natural resource damages. Persons potentially liable for such costs and damages generally include the site owner or operator and persons that disposed or arranged for the disposal of hazardous substances found at those sites. Although these laws impose joint and several liability, in application, the PRPs typically allocate the investigation and cleanup costs based upon the volume of waste contributed by each PRP. Based on currently available information, the Company was only a small contributor to these waste sites, and the Company has, or is attempting to negotiate, de minimis settlements for their cleanup. The cleanup of the remaining sites is substantially complete and the Company's future obligations entail a share of the sites' ongoing operating and maintenance expense.

The Company is also addressing three on-site cleanups for which it is the primary responsible party. Two of these cleanup sites are in the operation and maintenance stage and the third is in the implementation stage. The Company is also participating in a voluntary cleanup program with other potentially responsible parties on a fourth site which is in the assessment stage. Based on currently available information, the Company does not anticipate that any of these sites will result in material additional costs beyond those already accrued on its balance sheet.

The Company has an accrued liability on its balance sheet to the extent costs are known or can be reasonably estimated for its remaining financial obligations for these matters. Based upon consideration of currently available information, the Company does not anticipate any material adverse effect on its results of operations, financial condition, liquidity or competitive position as a result of compliance with federal, state, local or foreign environmental laws or regulations, or cleanup costs relating to the sites discussed above.

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Changes in Accounting Principles and Effects of New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 was effective for fiscal years beginning after December 15, 2006 and was adopted by the Company in the first quarter of 2007. See Note 12 *Income Taxes* in the *Notes to Consolidated Financial Statements* for a discussion of the effect of adoption of FIN 48 on the Company's consolidated financial statements.

In June 2006, the Emerging Issues Task Force (EITF) reached a consensus on the income statement presentation of various types of taxes. The new guidance, Emerging Issues Task Force Issue 06-3 *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* (EITF 06-3) applies to any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes. The presentation of taxes within the scope of this issue on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to APB Opinion No. 22, *Disclosure of Accounting Policies*. The EITF's decision on gross versus net presentation requires that any such taxes reported on a gross basis be disclosed on an aggregate basis in interim and annual financial statements, for each period for which an income statement is presented, if those amounts are significant. The Company adopted EITF 06-3 effective January 1, 2007. The Company reports revenues and costs net of taxes within the scope of EITF 06-3 and, accordingly, adoption of this issue had no effect on its consolidated financial statements and related disclosures.

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

In September 2006, the FASB issued SFAS No. 158, which requires companies to recognize a net liability or asset and an offsetting adjustment to accumulated other comprehensive income, net of tax, to report the funded status of defined benefit pension and other postretirement benefit plans. Additionally, this statement requires companies to measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end balance sheet. SFAS No. 158 requires prospective application and is effective for fiscal years ending after December 15, 2006. The Company adopted the recognition provisions of SFAS No. 158 and initially applied them to the funded status of its defined benefit pension and other postretirement benefit plans as of December 31, 2006. The initial recognition of the funded status resulted in a decrease in total stockholders' equity of \$9.7 million, which was net of a tax benefit of \$3.4 million. The effect of adopting SFAS No. 158 on the Company's consolidated financial position at December 31, 2006 has been included in the accompanying consolidated financial statements (see Note 9 *Benefit Plans* in the *Notes to Consolidated Financial Statements*). SFAS No. 158 did not have an effect on the Company's fiscal year 2005 consolidated results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), which permits all entities to elect to measure eligible financial instruments at fair value. Additionally, this statement establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement

is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the adoption of SFAS No. 159 on its consolidated financial statements and related disclosure requirements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141[®]), which establishes principles and requirements for how the acquirer of a business is to (i) recognize and measure in

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its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (ii) recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determine what information to disclose to enable users of its financial statements to evaluate the nature and financial effects of the business combination. This statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. This replaces the guidance of SFAS No. 141, *Business Combinations* (SFAS No. 141) which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. In addition, costs incurred by the acquirer to effect the acquisition and restructuring costs that the acquirer expects to incur, but is not obligated to incur, are to be recognized separately from the acquisition. SFAS No. 141[®] applies to all transactions or other events in which an entity obtains control of one or more businesses. This statement requires an acquirer to recognize assets acquired and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. An acquirer is required to recognize assets or liabilities arising from all other contingencies as of the acquisition date, measured at their acquisition-date fair values, only if it is more likely than not that they meet the definition of an asset or a liability in FASB Concepts Statement No. 6, *Elements of Financial Statements*. This Statement requires the acquirer to recognize goodwill as of the acquisition date, measured as a residual, which generally will be the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Contingent consideration should be recognized at the acquisition date, measured at its fair value at that date. SFAS No. 141[®] defines a bargain purchase as a business combination in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree, and requires the acquirer to recognize that excess in earnings as attributable to the acquirer. This statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Company is currently evaluating the effect SFAS No. 141[®] will have on its accounting for, and reporting of, business combinations consummated on or after January 1, 2009. See also Note 12 *Income Taxes* in the *Notes to Consolidated Financial Statements*.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* , (SFAS No. 160). This statement establishes accounting and reporting standards that require (i) ownership interest in subsidiaries held by parties other than the parent be presented and identified in the equity section of the consolidated balance sheet, separate from the parent's equity; (ii) the amount of consolidated net income attributable to the parent and to the noncontrolling interest be identified and presented on the face of the consolidated statement of operations; (iii) changes in a parent's ownership interest while the parent retains its controlling interest be accounted for consistently; (iv) when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value, and the resulting gain or loss be measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment; and (v) disclosures be provided that clearly identify and distinguish between the interests of the parent and interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, or the Company's 2009 fiscal year. The Company is currently evaluating the effect SFAS No. 160 will have on its financial statements and related disclosure requirements.

In December 2007, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 110, *Certain Assumptions Used in Valuation Methods* (SAB 110). SAB 110 expresses the views of the staff regarding the use of a simplified method in developing an estimate of expected term of plain vanilla share options in accordance with SFAS No. 123(R) subsequent to December 31, 2007. The Company used a simplified method to determine the expected term for the majority of its 2006 and 2007 options grants and is currently evaluating the effect SAB 110 will have on its financial statements and related disclosure requirements.

Critical Accounting Policies and Estimates

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

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require the application of significant judgment by management in selecting the 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 are described below. Management believes that the amounts recorded in the Company's financial statements related to these areas are based on their best judgments and estimates, although actual results could differ materially under different assumptions or conditions.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses that may result from the inability to fully collect amounts due from its customers. The allowance is determined based on a combination of factors including the length of time that the receivables are past due and the Company's knowledge of circumstances relating to specific customers' ability to meet their financial obligations. If economic, industry, or specific customer business trends worsen beyond earlier estimates, the Company may increase the allowance for doubtful accounts by recording additional expense.

Inventory Reserves

Inventories, which consist of materials, labor and manufacturing overhead, are carried at the lower of cost or market value. As of December 31, 2007, \$202.0 million (79%) of the Company's inventory is accounted for on a first-in, first-out (FIFO) basis with the remaining \$54.4 million (21%) accounted for on a last-in, first-out (LIFO) basis. The Company establishes inventory reserves for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and its estimated realizable value based upon assumptions about future demand and market conditions.

Goodwill and Other Intangibles

Intangible assets, including goodwill, are assigned to the operating divisions based upon their fair value at the time of acquisition. Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives, generally 5 to 20 years. Intangible assets deemed to have indefinite lives and goodwill are not subject to amortization, but are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired or that there is a probable reduction in the fair value of an operating division below its carrying value. This impairment testing requires comparison of carrying values to fair values. When appropriate, the carrying value of impaired intangible assets is reduced to fair value. The Company estimates fair value using available information regarding expected future cash flows and a discount rate that is based upon the cost of capital specific to the Company. Goodwill impairment is tested at the operating division level.

During the second quarter of 2007, the Company completed its annual impairment tests and determined that the carrying values of intangible assets not subject to amortization and goodwill were not impaired. There were no events or changes in circumstances indicating that goodwill and other intangible assets might be materially impaired at December 31, 2007.

Warranty Reserves

The Company establishes reserves for estimated product warranty costs at the time revenue is recognized. The Company's products typically carry a one year warranty. Although the Company engages in extensive product quality programs and processes, the Company's warranty obligation has been and may in the future be affected by product failure rates, repair or field replacement costs and additional development costs incurred in correcting any product

failure.

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Employee Medical and Workers Compensation Benefit Claims

The Company maintains accruals for estimated medical and workers compensation claims incurred, but unpaid or not reported. The accruals are based on a number of factors, including historical experience and recent claims history, and are subject to ongoing revision as conditions change and new data becomes available. In estimating the liability for medical claims, the Company obtains estimates from an independent third party firm.

Business Combinations

When the Company acquires a business, the purchase price is allocated to the tangible assets, identifiable intangible assets and liabilities acquired. Any residual purchase price is recorded as goodwill. Management generally engages independent third-party appraisal firms to assist in determining the fair values of assets acquired. Such a valuation requires management to make significant estimates, especially with respect to intangible assets. These estimates are based on historical experience and information obtained from the management of the acquired companies. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates. The measurement of acquired contractual and contingent liabilities and the establishment of liabilities for employee termination and relocation costs and other exit costs in connection with an acquired business also require management to make significant estimates which may be subject to a certain degree of variability.

Stock-Based Compensation

The Company accounts for share-based payment awards in accordance with SFAS No. 123(R). Under SFAS 123(R), share-based payment expense is measured at the grant date based on the fair value of the award and is recognized over the requisite service period. Determination of the fair values of share-based payment awards at grant date requires judgment, including estimating the expected life of the relevant share-based award and the expected volatility of the Company's stock. Additionally, management must estimate the amount of share-based awards that are expected to be forfeited. The expected life of the share-based awards is generally based on the simplified method for plain-vanilla options and, for certain executives and nonemployee directors, the historical exercise behaviors of those individuals. The expected volatility of the Company's stock is based on its historical volatility over the expected term of the award. Expected forfeitures are based on historical experience.

Pension and Other Postretirement Benefits

Gardner Denver sponsors a number of pension plans and other postretirement benefit plans worldwide. The calculation of the pension and other postretirement benefit obligations and net periodic benefit cost under these plans requires the use of actuarial valuation methods and assumptions. In determining these assumptions, the Company consults with outside actuaries and other advisors. These assumptions include the discount rates used to value the projected benefit obligations, future rate of compensation increases, expected rates of return on plan assets and expected healthcare cost trend rates. The discount rates selected to measure the present value of the Company's benefit obligations as of December 31, 2007 and 2006 were derived by examining the rates of high-quality, fixed income securities whose cash flows or duration match the timing and amount of expected benefit payments under the plans. In accordance with GAAP, actual results that differ from the Company's assumptions are recorded in accumulated other comprehensive income and amortized through net periodic benefit cost over future periods. While management believes that the assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Company's pension and other postretirement benefit obligations and future net periodic benefit cost. Actuarial valuations associated with the Company's pension plans at December 31, 2007 used a weighted average discount rate

of 5.30% and an expected rate of return on plan assets of 7.66%. A 0.5% decrease in the discount rate would increase annual pension expense by approximately \$1.7 million. A 0.5% decrease in the expected return on plan assets would increase the Company's annual pension expense by approximately \$1.1 million. Please refer to Note 9 Benefit Plans in the Notes to Consolidated Financial Statements for disclosures

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related to Gardner Denver's benefit plans, including quantitative disclosures reflecting the impact that changes in certain assumptions would have on service and interest costs and benefit obligations.

Income Taxes

The calculation of Gardner Denver's income tax provision and deferred income tax assets and liabilities is complex and requires the use of estimates and judgments. As part of the Company's analysis and implementation of business strategies, consideration is given to the tax laws and regulations that apply to the specific facts and circumstances for any transaction under evaluation. This analysis includes the amount and timing of the realization of income tax liabilities or benefits. Management closely monitors U.S. and international tax developments in order to evaluate the effect they may have on the Company's overall tax position and the estimates and judgments utilized in determining the income tax provision, and records adjustments as necessary.

Loss Contingencies

Contingencies, by their nature, relate to uncertainties that require management to exercise judgment both in assessing the likelihood that a liability has been incurred as well as in estimating the amount of the potential loss. The most significant contingencies impacting the Company's financial statements are those related to product warranty, personal injury lawsuits, environmental remediation and the resolution of matters related to open tax years. For additional information on these matters, see Note 1 Summary of Significant Accounting Policies, Note 12 Income Taxes and Note 15 Contingencies in the Notes to Consolidated Financial Statements.

Derivative Financial Instruments

All derivative financial instruments are reported on the balance sheet at fair value. For derivative instruments that are not designated as hedges, any gain or loss on the derivative is recognized in earnings in the current period. A derivative instrument may be designated as a hedge of the exposure to changes in the fair value of an asset or liability or variability in expected future cash flows if the hedging relationship is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period of designation. If a derivative is designated as a fair value hedge, the gain or loss on the derivative and the offsetting loss or gain on the hedged asset, liability or firm commitment is recognized in earnings. For derivative instruments designated as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income and reclassified into earnings in the same period that the hedged transaction affects earnings. The ineffective portion of the gain or loss is immediately recognized in earnings. Gains or losses on derivative instruments recognized in earnings are reported in the same line item as the associated hedged transaction in the consolidated statements of operations.

Hedge accounting is discontinued prospectively when (1) it is determined that a derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (2) the derivative is sold, terminated or exercised; (3) the hedged item no longer meets the definition of a firm commitment; or (4) it is unlikely that a forecasted transaction will occur within two months of the originally specified time period.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the derivative continues to be carried on the balance sheet at its fair value, and the hedged asset or liability is no longer adjusted for changes in fair value. When cash flow hedge accounting is discontinued because the derivative is sold, terminated, or exercised, the net gain or loss remains in accumulated other comprehensive income and is reclassified into earnings in the same period that the hedged transaction affects earnings or until it becomes unlikely that a hedged forecasted transaction will occur within two months of the originally scheduled time period. When hedge accounting is discontinued because a hedged item no longer meets the definition of a firm commitment,

the derivative continues to be carried on the balance sheet at its fair value, and any asset or liability that was recorded pursuant to recognition of the firm commitment is removed from the balance sheet and recognized as a gain or loss currently in earnings. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur within two months of the originally specified time period, the

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derivative continues to be carried on the balance sheet at its fair value, and gains and losses reported in accumulated other comprehensive income are recognized immediately through earnings.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks during the normal course of business, including those presented by changes in commodity prices, interest rates, and currency exchange rates. The Company's exposure to these risks is managed through a combination of operating and financing activities. The Company selectively uses derivative financial instruments, including forwards and swaps, to manage the risks from changes in interest rates and currency exchange rates. The Company does not hold derivatives for trading or speculative purposes. Fluctuations in commodity prices, interest rates, and currency exchange rates can be volatile, and the Company's risk management activities do not totally eliminate these risks. Consequently, these fluctuations could have a significant effect on the Company's financial results.

Notional transaction amounts and fair values for the Company's outstanding derivatives, by risk category and instrument type, as of December 31, 2007 and 2006, are summarized in Note 14 Off-Balance Sheet Risk, Concentrations of Credit Risk and Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements.

Commodity Price Risk

The Company is a purchaser of certain commodities, including aluminum. In addition, the Company is a purchaser of components and parts containing various commodities, including cast iron, aluminum, copper, and steel. The Company generally buys these commodities and components based upon market prices that are established with the vendor as part of the purchase process. The Company does not use commodity financial instruments to hedge commodity prices.

The Company has long-term contracts with some of its suppliers of key components. However, to the extent that commodity prices increase and the Company does not have firm pricing from its suppliers, or its suppliers are not able to honor such prices, then the Company may experience margin declines to the extent it is not able to increase selling prices of its products.

Interest Rate Risk

The Company's exposure to interest rate risk results primarily from its borrowings of \$289.7 million at December 31, 2007. The Company manages its exposure to interest rate risk by maintaining a mixture of fixed and variable rate debt and uses pay-fixed interest rate swaps as cash flow hedges of variable rate debt in order to adjust the relative proportions. Including the impact of the \$30.0 million notional amount of such interest rate swaps in place, the interest rates on approximately 57% of the Company's borrowings were effectively fixed as of December 31, 2007. If the relevant LIBOR amounts for all of the Company's borrowings had been 100 basis points higher than actual in 2007, the Company's interest expense would have increased by \$1.7 million.

Exchange Rate Risk

A substantial portion of the Company's operations is conducted by its subsidiaries outside of the U.S. in currencies other than the U.S. dollar. Almost all of the Company's non-U.S. subsidiaries conduct their business primarily in their local currencies, which are also their functional currencies. Other than the U.S. dollar, the euro, British pound, and Chinese yuan are the principal currencies in which the Company and its subsidiaries enter into transactions.

The Company is exposed to the impacts of changes in currency exchange rates on the translation of its non-U.S. subsidiaries' assets, liabilities, and earnings into U.S. dollars. The Company partially offsets these exposures by having certain of its non-U.S. subsidiaries act as the obligor on a portion of its borrowings and by denominating such borrowings, as well as a portion of the borrowings for which the Company is the obligor, in currencies other than the U.S. dollar. Of the Company's total net assets of \$1,159.7 million at December 31, 2007,

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approximately \$790.0 million was denominated in currencies other than the U.S. dollar. Borrowings by the Company's non-U.S. subsidiaries at December 31, 2007 totaled \$80.5 million, and the Company's consolidated borrowings denominated in currencies other than the U.S. dollar totaled \$80.5 million. Fluctuations due to changes in currency exchange rates in the value of non-U.S. dollar borrowings that have been designated as hedges of the Company's net investment in foreign operations are included in other comprehensive income.

The Company and its subsidiaries are also subject to the risk that arises when they, from time to time, enter into transactions in currencies other than their functional currency. To mitigate this risk, the Company and its subsidiaries typically settle intercompany trading balances monthly. The Company also selectively uses forward currency contracts to manage this risk. At December 31, 2007, the notional amount of open forward currency contracts was \$29.8 million and their aggregate fair value was \$0.6 million.

To illustrate the impact of currency exchange rates on the Company's financial results, the Company's 2007 operating income would have decreased by approximately \$13.0 million if the U.S. dollar had been 10 percent more valuable than actual relative to other currencies. This calculation assumes that all currencies change in the same direction and proportion to the U.S. dollar and that there are no indirect effects of the change in the value of the U.S. dollar such as changes in non-U.S. dollar sales volumes or prices.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Gardner Denver, Inc.:

We have audited the accompanying consolidated balance sheets of Gardner Denver, Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2007. We also have audited the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gardner Denver, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Notes 1 and 12 to the consolidated financial statements, effective January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of Statement of Financial Accounting Standard No. 109*.

As discussed in Notes 1 and 9 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* as of December 31, 2006.

As discussed in Notes 1 and 13 to the consolidated financial statements, effective January 1, 2006 the Company adopted the fair value method of accounting for stock-based compensation as required by SFAS No. 123 (Revised 2004), *Share-Based Payment*.

KPMG LLP
St. Louis, Missouri
February 28, 2008

Table of Contents**Consolidated Statements of Operations**

GARDNER DENVER, INC.

Years ended December 31
(Dollars in thousands except per share amounts)

	2007	2006	2005
Revenues	\$ 1,868,844	1,669,176	1,214,552
Cost of sales	1,248,921	1,119,860	836,237
Gross profit	619,923	549,316	378,315
Selling and administrative expenses	328,404	314,967	255,671
Operating income	291,519	234,349	122,644
Interest expense	26,211	37,379	30,433
Other income, net	(3,052)	(3,645)	(3,433)
Income before income taxes	268,360	200,615	95,644
Provision for income taxes	63,256	67,707	28,693
Net income	\$ 205,104	132,908	66,951
Basic earnings per share	\$ 3.85	2.54	1.40
Diluted earnings per share	\$ 3.80	2.49	1.37

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

Table of Contents**Consolidated Balance Sheets**

GARDNER DENVER, INC.

*December 31**(Dollars in thousands except per share amounts)*

	2007	2006
Assets		
Current assets:		
Cash and equivalents	\$ 92,922	62,331
Accounts receivable, net	308,748	261,115
Inventories, net	256,446	225,067
Deferred income taxes	21,034	14,362
Other current assets	22,378	16,843
 Total current assets	 701,528	 579,718
 Property, plant and equipment, net	 293,380	 276,493
Goodwill	685,496	676,780
Other intangibles, net	206,314	196,466
Other assets	18,889	20,774
 Total assets	 \$ 1,905,607	 1,750,231
 Liabilities and Stockholders Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	\$ 25,737	23,789
Accounts payable	101,615	90,703
Accrued liabilities	184,850	202,475
 Total current liabilities	 312,202	 316,967
 Long-term debt, less current maturities	 263,987	 383,459
Postretirement benefits other than pensions	17,354	