

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

GARDNER DENVER INC
Form 8-K/A
September 19, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A
(AMENDMENT NO. 1)

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

Date of Report (Date of earliest event reported): July 1, 2005

GARDNER DENVER, INC.
(Exact name of Registrant as Specified in its Charter)

DELAWARE (State or other jurisdiction of incorporation)	1-13215 (Commission File Number)	76-0419383 (IRS Employer Identification No.)
---	--	--

1800 GARDNER EXPRESSWAY, QUINCY, ILLINOIS 62305
(Address of Principal Executive Offices and Zip Code)

(217) 222-5400
(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

1

EXPLANATORY NOTE

On July 1, 2005, Gardner Denver, Inc. (the "Company") announced that it had completed the acquisition of Thomas Industries, Inc. ("Thomas"). This Amendment No. 1 on Form 8-K/A amends the Company's Current Report on Form 8-K filed on July 1, 2005 to provide Thomas historical financial statements and pro forma financial information relating to the acquisition.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

(a) Financial statements of businesses acquired.

See the Index to Financial Statements and Pro Forma Financial Information

(b) Pro forma financial information

See the Index to Financial Statements and Pro Forma Financial Information

(c) Exhibits

23.1 Consent of Ernst & Young LLP

99.1 Press Release dated July 1, 2005, filed as Exhibit 99.1 to Gardner Denver's Form 8-K dated July 1, 2005, and incorporated herein by reference.

2

INDEX TO FINANCIAL STATEMENTS AND PRO FORMA FINANCIAL INFORMATION

	PAGE*

HISTORICAL FINANCIAL INFORMATION	
Thomas Unaudited Condensed Consolidated Statements of Income for the Three and Six Month Periods Ended June 30, 2005 and 2004	4
Thomas Unaudited Condensed Consolidated Balance Sheets as of June 30, 2005 and December 31, 2004	5
Thomas Unaudited Condensed Consolidated Statements of Cash Flow for the Six Month Periods Ended June 30, 2005 and 2004	6
Notes to Thomas Unaudited Condensed Consolidated Interim Financial Statements	7
Report of Independent Registered Public Accounting Firm	18
Thomas Consolidated Statements of Income for the Years Ended December 31, 2004, 2003 and 2002	19
Thomas Consolidated Balance Sheets as of December 31, 2004 and 2003	20
Thomas Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2004, 2003 and 2002	21
Thomas Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003 and 2002	23
Notes to Thomas Consolidated Financial Statements	24
PRO FORMA FINANCIAL INFORMATION	
Discussion of Unaudited Pro Forma Consolidated Statements of Operations	51
Unaudited Pro Forma Consolidated Statement of Operations for the Six Months ended June 30, 2005	53
Unaudited Pro Forma Consolidated Balance Sheet as of June 30, 2005	54
Notes to Unaudited Pro Forma Consolidated Financial Statements as of and for the Six Months ended June 30, 2005	55
Unaudited Pro Forma Consolidated Statement of Operations for the Year Ended December 31, 2004	58
Notes to Unaudited Pro Forma Consolidated Statement of Operations for	

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

the Year Ended December 31, 2004

59

* Financial statements and pro forma financial information appear following the signature page and exhibit index

3

THOMAS INDUSTRIES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2005	2004	2005	2004
Net sales	\$110,950	\$102,656	\$220,919	\$212,174
Cost of products sold	71,419	65,093	141,737	136,228
Gross profit	39,531	37,563	79,182	75,946
Selling, general and administrative expenses	30,862	29,368	61,531	58,368
Equity income from GTG	--	7,997	--	15,419
Operating income	8,669	16,192	17,651	32,997
Interest expense	151	935	277	1,961
Interest income	1,725	141	3,051	434
Other income (expense)	651	(313)	1,255	
Income before income taxes	10,894	15,085	21,680	31,470
Income taxes	3,388	5,280	6,742	11,015
Net income	\$ 7,506	\$ 9,805	\$ 14,938	\$ 20,455
Net income per share:				
Basic	\$ 0.42	\$ 0.56	\$.84	\$ 1.18
Diluted	\$ 0.41	\$ 0.55	\$.82	\$ 1.15
Dividends declared per share:	\$ 0.095	\$ 0.095	\$ 0.190	\$ 0.190
Weighted average number of shares outstanding:				
Basic	17,854	17,391	17,847	17,355
Diluted	18,179	17,781	18,178	17,743

See notes to condensed consolidated financial statements.

4

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

THOMAS INDUSTRIES INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (DOLLARS IN THOUSANDS)

	(UNAUDITED) JUNE 30 2005 -----	DECEMBER 31 2004 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$265,188	\$133,188
Short-term investments	122	133,188
Accounts receivable, less allowance (2005--\$2,354; 2004--\$2,303)	61,334	58,188
Inventories:		
Finished products	32,304	36,188
Raw materials	28,323	31,188
Work in process	8,397	7,188
	-----	-----
Deferred income taxes	69,024	75,188
Other current assets	5,275	5,188
	-----	-----
Other current assets	6,287	7,188
	-----	-----
Total current assets	407,230	413,188
Property, plant and equipment	195,171	202,188
Less accumulated depreciation and amortization	(90,000)	(88,188)
	-----	-----
	105,171	114,188
Goodwill	66,164	68,188
Other intangible assets, net	24,111	22,188
Other assets	3,094	2,188
	-----	-----
Total assets	\$605,770	\$621,188
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 18,571	\$ 17,188
Accrued expense and other current liabilities	34,923	34,188
Dividends payable	--	1,188
Income taxes payable	6,632	1,188
Current portion of long-term debt	1,629	1,188
	-----	-----
Total current liabilities	61,755	57,188
Deferred income taxes	8,806	8,188
Long-term debt, less current portion	5,930	7,188
Long-term pension liability	12,170	12,188
Other long-term liabilities	8,241	8,188
	-----	-----
Total liabilities	96,902	95,188
Shareholders' equity:		
Preferred stock, \$1 par value, 3,000,000 shares authorized - none issued	--	--
Common stock, \$1 par value, shares authorized: 60,000,000; shares issued: 2005 - 18,676,014; 2004 - 18,648,723	18,676	18,188
Capital surplus	150,315	149,188

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Deferred compensation	1,960	1
Treasury stock held for deferred compensation	(1,960)	(1)
Retained earnings	335,344	323
Accumulated other comprehensive income	16,592	46
Less cost of 822,339 treasury shares	(12,059)	(12)
	-----	-----
Total shareholders' equity	508,868	526
	-----	-----
Total liabilities and shareholders' equity	\$605,770	\$621
	=====	=====

* Derived from the audited December 31, 2004 consolidated balance sheet.

See notes to condensed consolidated financial statements.

5

THOMAS INDUSTRIES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)
(DOLLARS IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30	
	2005	2004
	-----	-----
OPERATING ACTIVITIES		
Net income	\$ 14,938	\$ 20,000
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and intangible amortization	8,546	8,546
Deferred income taxes	471	(471)
Equity income from GTG	--	(15,000)
Distributions from GTG	--	4,000
Other items	339	
Changes in operating assets and liabilities net of effect of acquisitions:		
Accounts receivable	(7,967)	(7,967)
Inventories	146	(5,000)
Accounts payable	(1,624)	1,624
Income taxes payable	4,742	4,742
Accrued expenses and other current liabilities	3,113	2,000
Other	(10,054)	
	-----	-----
Net cash provided by operating activities	12,650	13,000
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(9,027)	(7,000)
Proceeds from sale of property, plant and equipment	1,848	
Purchases of marketable securities	(219,633)	
Proceeds from sale of marketable securities	353,138	
Purchase of companies, net of cash acquired	(8,532)	6,000
	-----	-----
Net cash provided by (used in) investing activities	117,794	(1,000)

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

FINANCING ACTIVITIES

Proceeds from short-term debt, net	--	2,
Payments on long-term debt	(1,033)	(17,
Proceeds from long-term debt	119	18,
Dividends paid	(5,081)	(3,
Other	255	1,
	-----	-----
Net cash (used in) provided by financing activities	(5,740)	1,
	7,012	
	-----	-----
Net increase in cash and cash equivalents	131,716	13,
Cash and cash equivalents at beginning of period	133,472	23,
	-----	-----
Cash and cash equivalents at end of period	\$ 265,188	\$ 37,
	=====	=====

See notes to condensed consolidated financial statements.

6

THOMAS INDUSTRIES INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Thomas Industries Inc. ("Thomas" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and with the instructions to Form 10-Q and Article 10-01 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

The results of operations for the three-month period ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. In the opinion of the Company's management, the unaudited consolidated financial statements include all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of the financial position and the results of operations. For further information, refer to the consolidated financial statements and footnotes included elsewhere in this Current Report on Form 8-K/A.

NOTE B - ACQUISITIONS

On January 10, 2005, the Company acquired certain assets of the side channel blower business of Ruey Chaang Electric Co., Ltd. of Taipei, Taiwan for approximately \$12 million. A partial payment of \$8.4 million in cash was paid in January 2005, with the balance payable in the third quarter of 2005. A preliminary purchase price allocation was made and reflected in the June 30, 2005 financial statements. This allocation is preliminary as the Company gathers additional information regarding the fair value of assets acquired. Accordingly, the amounts recorded will change as the allocation is finalized.

The aggregate purchase price consists of (in thousands):

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Cash	\$12,000
Transaction costs	185

Total aggregate purchase price	\$12,185
	=====

The following summarizes the preliminary fair values of the assets acquired at the date of acquisition (in thousands):

Cash	\$ 53
Inventory	674
Property, plant and equipment	885
Other intangibles	4,476

	6,088
Goodwill	6,097

Aggregate purchase price	\$12,185
	=====

The other intangible assets are being amortized on a straight line basis over a useful life range of three to ten years. The goodwill is allocated to the Pump and Compressor Segment.

7

On June 3, 2004, the Company received approximately \$6.2 million in cash, which represents an adjustment to the Company's purchase price of Werner Rietschle Holding GmbH ("Rietschle"). Rietschle was acquired on August 29, 2002. The original purchase price consisted of \$83.3 million in cash and 1.8 million treasury shares of the Company's common stock. The purchase agreement specified the negotiation process to be followed for various items in dispute, so that an adjustment to the purchase price could occur at a subsequent time. In June 2004, negotiations on certain disputed items were completed and this adjustment reduced goodwill by \$6.2 million. Other adjustments could occur in the future related to representations and warranties per the purchase agreement.

In estimating the fair values of the assets acquired and liabilities assumed in the Rietschle transaction, management considered a number of factors, including collectibility of accounts receivable, net realizable value and replacement cost of inventory, and the values of liabilities. In addition, an independent appraiser was used to assist in determining the value of property, plant and equipment and other intangible assets; however, management is ultimately responsible for the values recorded.

The adjusted aggregate purchase price for Rietschle consists of (in thousands):

Initial cash paid by the Company	\$ 83,288
Fair value of Thomas common stock	44,754
Transaction costs	5,931

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Purchase price adjustment received in cash	(6,154)

Total adjusted aggregate purchase price	\$127,819
	=====

NOTE C - SALE OF 32% INTEREST IN GTG

Effective with the close of business on July 31, 2004, the Company sold its 32% joint venture interest in the Genlyte Thomas Group LLC (GTG), which the Company accounted for using the equity method of accounting, to The Genlyte Group Incorporated (Nasdaq: GLYT) for approximately \$400.9 million in cash.

Approximately \$102.7 million of the proceeds were used to pay down long-term debt on August 2, 2004. Approximately \$80.5 million of the proceeds were used to pay a portion of the income taxes (due on the gain) and transaction costs during the third and fourth quarters of 2004.

The Company's adjusted book basis in GTG as of July 31, 2004 was as follows (in millions):

Investment in GTG at July 31, 2004	\$230.5
Thomas' adjustment for accelerated option expense treated as a transaction cost	(0.2)
Other comprehensive loss items:	
Minimum pension liability	5.5
Foreign currency translation	0.5

Adjusted GTG book basis at July 31, 2004	\$236.3
	=====

8

The gain on the sale of GTG, which the Company recorded in the third quarter of 2004, was calculated as follows (in millions, except per share amount):

Total sale price	\$ 400.9
Transaction costs	(4.2)

Net proceeds	396.7
Adjusted book basis at July 31, 2004	(236.3)

Pre-tax book gain	160.4
Income taxes	(76.3)

Net after-tax gain	\$ 84.1
	=====
Earnings per share - diluted	\$ 4.74
	=====

This gain calculation is an estimate subject to final determination of taxes of the transaction when tax returns are filed in 2005. The effective income tax rate recorded on the gain of 47.6% is primarily due to the basis differences for financial reporting and tax purposes in the partnership interest in GTG.

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

NOTE D - CONTINGENCIES

On August 13, 2002, a petition was filed in the District Court of Jefferson County, Texas, adding Thomas Industries Inc. as a third party defendant in a lawsuit captioned Hydro Action, Inc. v. Jesse James, individually and d/b/a James Backhoe Service of Dietrich, Illinois, Inc. and Original Septic Solutions, Inc. (the "Third Party Plaintiffs") (the "Original Lawsuit"). The Original Lawsuit alleged that the Company violated the Texas Deceptive Trade Practices Act and breached warranties of merchantability and fitness for a particular purpose with respect to pumps sold by the Company and used in septic tanks manufactured or sold by the plaintiffs. The Original Lawsuit was stayed as a result of the bankruptcy filing by Hydro Action, Inc. On October 8, 2003, a lawsuit was filed against the Company, Gig Brewery, Yasunaga Corporation and Aqua-Partners, Ltd. in the District Court of Jefferson County, Texas, making the same allegations set forth in the Original Lawsuit and requesting class-action certification. No class has been certified. The Third Party Plaintiffs are plaintiffs in this action. This complaint has been amended to include 32 plaintiffs as of June 30, 2005. The complaint currently seeks \$3 million per plaintiff and punitive and exemplary damages. The total sales related to these products were approximately \$900,000. On September 29, 2004, the case was remanded to state court in Jefferson County and the stay is no longer in place. Although this litigation is in the preliminary stages, the Company believes it has meritorious defenses to the claims and intends to vigorously defend this matter. Litigation is subject to many uncertainties and the Company cannot guarantee the outcome of these proceedings. However, based upon information currently available, the Company does not believe that the outcome of this proceeding will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

In the normal course of business, the Company is a party to other legal proceedings and claims. When costs can be reasonably estimated, appropriate liabilities for such matters are recorded. While management currently believes the amount of ultimate liability, if any, with respect to these actions will not materially affect the consolidated financial position, results of operations, or liquidity of the Company, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur, the impact could be material to the Company.

The Company, like other similar manufacturers, is subject to environmental rules and regulations regarding the use, disposal and cleanup of substances regulated under environmental protection laws. It is the Company's policy to comply with these rules and regulations, and the Company believes that its practices and procedures are designed to meet this compliance.

9

The Company is subject to various federal, state and local environmental laws and regulations that require remediation efforts at several locations including both current and former operating facilities. One of the most significant sites was a former manufacturing facility, which is located in Beaver Dam, Kentucky. Since 1992, the Company has been working under an Agreed Order with the Kentucky Natural Resources and Environmental Protection Cabinet to remediate this site. The Company has completed all closure activities and has received approval for implementation of a post-closure plan.

In 2004, a letter was received from the Wisconsin Department of Natural Resources (WDNR) indicating that the Company was solely responsible for remediation of a former manufacturing facility located in Fort Atkinson,

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Wisconsin, which was sold by the Company in 1985. In response to WDNR's demand, the Company has engaged a consultant to perform an initial hydrogeologic site investigation. This initial site investigation found elevated levels of volatile organic compounds including tetrachloroethene and its daughter products. This site investigation will be expanded to determine the extent of the contamination and to develop a remediation work plan. The Company provided a reserve of \$900,000 and \$200,000 in the third and fourth quarters of 2004, respectively, for anticipated future costs associated with remediation of this site.

The Company's policy is to provide for environmental reserves on a discounted basis, when appropriate. Environmental reserves are subject to numerous inherent uncertainties that affect the ability to estimate future costs of required remediation efforts. Such uncertainties involve the nature and extent of contamination, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology and the financial strength of other potentially responsible parties at multiparty sites. Reserves are reviewed for adequacy on a quarterly basis and adjusted, if necessary, as environmental assessment and remediation efforts proceed.

Changes in the Company's environmental reserve at June 30, 2005 and 2004 are as follows (in thousands):

	2005	2004
	-----	-----
Balance at beginning of period	\$2,182	\$1,321
Environmental accruals	--	--
Expenditures	125	125
	-----	-----
Balance at end of period	\$2,057	\$1,196
	=====	=====

NOTE E - COMPREHENSIVE INCOME

The reconciliation of net income to comprehensive income follows (in thousands):

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2005	2004	2005	2004
	-----	-----	-----	-----
Net income	\$ 7,506	\$ 9,805	\$ 14,938	\$20,455
Other comprehensive income (loss):				
Minimum pension liability	--	3	--	10
Related tax benefit	--	(1)	--	(4)
Derivative adjustment	(581)	139	(1,266)	(154)
Related tax (benefit) expense	--	(53)	260	58
Foreign currency translation	(18,669)	2,458	(29,360)	(5,000)
	-----	-----	-----	-----
Total change in other comprehensive income	(19,250)	2,546	(30,366)	(5,090)
	-----	-----	-----	-----
Total comprehensive income (loss)	\$ (11,744)	\$12,351	\$ (15,428)	\$15,365
	=====	=====	=====	=====

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

10

NOTE F - NET INCOME PER SHARE

The computation of the numerator and denominator in computing basic and diluted net income per share follows (in thousands):

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2005	2004	2005	2004
Numerator:				
Net income	\$ 7,506	\$ 9,805	\$14,938	\$20,455
	=====	=====	=====	=====
Denominator:				
Weighted average shares outstanding	17,854	17,391	17,847	17,355
Effect of dilutive securities:				
Director and employee stock options	282	379	285	375
Employee performance shares	43	11	46	13
	-----	-----	-----	-----
Dilutive potential common shares	325	390	331	388
	-----	-----	-----	-----
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	18,179	17,781	18,178	17,743
	=====	=====	=====	=====

Note G - Segment Disclosures

(In thousands)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2005	2004	2005	2004
Net sales				
Pump and Compressor	\$110,950	\$102,656	\$220,919	\$212,174
Lighting	--	--	--	--
	-----	-----	-----	-----
	\$110,950	\$102,656	\$220,919	\$212,174
	=====	=====	=====	=====
Operating income				
Pump and Compressor	\$ 11,325	\$ 10,873	\$ 23,526	\$ 22,516
Lighting*	--	7,997	--	15,419
Corporate	(2,656)	(2,678)	(5,875)	(4,938)
	-----	-----	-----	-----
	\$ 8,669	\$ 16,192	\$ 17,651	\$ 32,997
	=====	=====	=====	=====

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

* Three months ended June 30 consists of equity income of \$8,033,000 in 2004 from a previous 32% interest in the joint venture, Genlyte Thomas Group LLC (GTG), less \$36,000 in 2004 related to expense recorded for Thomas stock options issued to GTG employees. Six months ended June 30 consists of equity income of \$15,545,000 in 2004 from a 32% interest in GTG, less \$126,000 in 2004 related to expense recorded for Thomas Industries stock options issued to GTG employees. The 2005 amount for the three and six month periods is not comparable to 2004 since the Company sold its 32% interest in GTG on July 31, 2004.

11

NOTE H - GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in net carrying amount of goodwill for the six months ended June 30, 2005 were as follows (in thousands):

	SIX MONTHS ENDED JUNE 30, 2005

Balance at beginning of period	\$ 68,639
Adjustments to Ruey Chaang acquisition	6,099
Adjustments to Rietschle acquisition	(997)
Translation adjustments and other	(7,577)

Balance at end of period	\$ 66,164
	=====

The goodwill included in the balance sheets is related to the Pump and Compressor Segment. There have been no indicators of impairment noted during the six months ended June 30, 2005.

Certain intangible assets have definite lives and are being amortized. Amortizable intangible assets consist of the following (in thousands):

	JUNE 30, 2005			DECEMBER 31, 2004		
	LIFE	COST	ACCUMULATED AMORTIZATION	LIFE	COST	ACCUMULATED AMORTIZATION
	-----	-----	-----	-----	-----	-----
Licenses	18-19	\$ 462	\$ 220	18-19	\$ 487	\$ 218
Patents	5-20	5,595	1,375	5-20	6,320	1,295
Other	1-10	8,625	1,847	1-10	4,267	1,470
		-----	-----		-----	-----
Total		\$14,682	\$3,442		\$11,074	\$2,983
		=====	=====		=====	=====

The total intangible amortization expense for the six months ended June 30, 2005 and 2004 was \$828,000 and \$442,000, respectively.

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

The estimated amortization expense for the next five years beginning January 1, 2005 through December 31, 2009 is as follows (in thousands):

2005	\$1,631
2006	1,651
2007	1,624
2008	1,215
2009	1,157

The Company has various trademarks, totaling \$12,179,000 at June 30, 2005 and \$13,876,000 at December 31, 2004, that are not amortized. Also included in other intangible assets is an intangible asset associated with the minimum pension liability of \$692,000 as of June 30, 2005 and December 31, 2004.

NOTE I - LONG-LIVED ASSETS

The Company periodically evaluates the recoverability of the carrying amount of long-lived assets (including property, plant and equipment, and intangible assets with determinable lives) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. The Company evaluates events or changes in circumstances based on a number of factors including operating results, business plans and forecasts, general and industry trends and economic projections and anticipated

12

cash flows. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in earnings. The Company also continually evaluates the estimated useful lives of all long-lived assets and when warranted revise such estimates based on current events. There were no significant impairment charges recorded in the six months ended June 30, 2005 and 2004.

NOTE J - GENLYTE THOMAS GROUP LLC (GTG)

The following table contains certain unaudited financial information related to the joint venture interest in GTG. As discussed in Note C - Sale of 32% Interest in GTG, the Company sold its interest in GTG effective with the close of business on July 31, 2004.

GENLYTE THOMAS GROUP LLC
CONDENSED UNAUDITED FINANCIAL INFORMATION
(DOLLARS IN THOUSANDS)

JUNE 30, 2004

GTG balance sheets:	
Current assets	\$511,876
Long-term assets	285,949
Current liabilities	217,684
Long-term liabilities	51,802

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

	THREE MONTHS ENDED JUNE 30, 2004 -----	SIX MONTHS ENDED JUNE 30, 2004 -----
GTG income statements (unaudited):		
Net sales	\$301,437	\$578,799
Gross Profit	107,549	202,665
Earnings before interest and taxes	27,520	52,739
Net income	25,104	48,578
Amounts recorded by Thomas Industries Inc.:		
Equity income from GTG	\$ 8,033	\$ 15,545
Stock option expense	(36)	(126)
	-----	-----
Equity income reported by Thomas	\$ 7,997	\$ 15,419
	=====	=====

Changes in the Company's investment in GTG for June 30, 2004 are as follows (in thousands):

	SIX MONTHS ENDED JUNE 30, 2004 -----
Balance at beginning of period	\$214,405
GTG gross equity earnings	15,545
GTG cash distributions	(4,350)
GTG currency translation adjustment	(901)
GTG minimum pension adjustment & other	68

Balance at end of period	\$224,767
	=====

13

NOTE K - STOCK-BASED COMPENSATION

Stock options are granted under various stock compensation programs to employees and independent directors. In December 2003, the Company adopted the fair value recognition provisions of accounting for stock-based compensation under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") which required the Company to expense the fair value of employee stock options prospectively for all employee awards granted, modified or settled after January 1, 2003. Awards under the Company's plan vest over a period of five years. For employee stock options granted prior to 2003, the Company continues to use the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). For purposes of pro forma disclosures, the estimated fair value of the options granted prior to 2003 is amortized to expense over the options' vesting period.

Included in stock option activity, but accounted for in accordance with SFAS No.

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

123, are options granted to GTG employees, for which the Company has recorded compensation expense. This compensation expense, shown net of tax, is also included in the pro forma information below for only the 2004 period, since the Company sold its 32% joint venture interest in GTG on July 31, 2004.

The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period.

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2005	2004	2005	2004
Net income (as reported)	\$7,506	\$9,805	\$14,938	\$20,000
Add: Stock-based compensation expense for GTG employees included in reported net income, net of related tax effect	--	33	--	--
Add: Stock-based employee compensation expense included in reported net income, net of related tax effect	77	--	146	--
Deduct: Total stock-based employee compensation determined under fair value based method for all awards, net of related tax effect	(164)	(146)	(321)	--
Net income (pro forma)	\$7,419	\$9,692	\$14,763	\$20,000
Net income per share (Basic) - As reported	\$ 0.42	\$ 0.56	\$ 0.84	\$ 0.84
Pro forma	0.42	0.56	0.83	0.83
Net income per share (Diluted) - As reported	0.41	0.55	0.82	0.82
Pro forma	0.41	0.55	0.81	0.81

Note L - Product Warranty Costs

The Company generally offers warranties for most of its products for periods from one to five years. The specific terms and conditions of these warranties vary depending on the product sold and country in which the Company does business. The Company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time product revenue is recognized.

14

Factors that affect the Company's warranty liability include that number of units sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amount as necessary.

Changes in the Company's warranty liability for the six months ended June 30, 2005 and 2004 are as follows (in thousands):

SIX MONTHS ENDED JUNE 30	
2005	2004
-----	-----

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

	-----	-----
Balance at beginning of period	\$ 5,338	\$ 5,382
Warranty accruals	2,021	2,017
Settlements made and other	(2,427)	(1,617)
	-----	-----
Balance at end of period	\$ 4,932	\$ 5,782
	=====	=====

NOTE M - CURRENCY RISK MANAGEMENT

All derivative instruments are recorded at fair value on the balance sheet and all changes in fair value are recorded to earnings or to shareholders' equity through other comprehensive income in accordance with SFAS No. 133, as amended, "Accounting for Derivatives and Hedging Activity" (SFAS 133).

The Company uses forward currency exchange contracts to manage its exposures to the variability of cash flows primarily related to the purchase of inventory manufactured in Europe but inventoried and sold in non Euro-denominated countries. These contracts are designated as cash flow hedges.

The Company does not use derivative instruments for trading or speculative purposes.

All of the Company's derivative contracts are adjusted to current market values each period and qualify for hedge accounting under SFAS 133. The periodic gains and losses of the contracts designated as cash flows are deferred in other comprehensive income until the underlying transactions are recognized. Upon recognition, such gains and losses are recorded in operations as an adjustment to the carrying amounts of the underlying transactions in the period in which these transactions are recognized. The carrying values of derivative contracts are included in other current assets.

The Company's policy requires that contracts used as hedges must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Hedging effectiveness is assessed periodically. Any contract that is either not designated as a hedge, or is so designated but is ineffective, is marked to market and recognized in earnings immediately. If a cash flow hedge ceases to qualify for hedge accounting or is terminated, the contract would continue to be carried on the balance sheet at fair value until settled and future adjustments to the contract's fair value would be recognized in earnings immediately. If a forecasted transaction were no longer probable to occur, amounts previously deferred in other comprehensive income would be recognized immediately in earnings.

15

NOTE N - PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS

The components of net periodic benefit cost consisted of the following (in thousands):

THREE MONTHS ENDED JUNE 30:

OTHER

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

	PENSION BENEFITS				POSTRETIREMENT BENEFITS	
	FOREIGN PLANS		U.S. PLANS		U.S. PLANS	
	2005	2004	2005	2004	2005	2004
Service cost	\$ 66	\$ 62	\$ 44	\$ 81	\$28	\$21
Interest cost	159	141	137	132	29	23
Expected return on plan assets	--	--	(186)	(156)	--	--
Other amortization and deferral	11	4	43	47	14	10
Net periodic benefit cost	\$236	\$207	\$ 38	\$ 104	\$71	\$54

SIX MONTHS ENDED JUNE 30:

	PENSION BENEFITS				OTHER POSTRETIREMENT BENEFITS	
	FOREIGN PLANS		U.S. PLANS		U.S. PLANS	
	2005	2004	2005	2004	2005	2004
Service cost	\$132	\$124	\$ 132	\$ 162	\$ 56	\$ 42
Interest cost	318	282	274	264	58	46
Expected return on plan assets	--	--	(350)	(312)	--	--
Other amortization and deferral	22	8	100	94	28	20
Net periodic benefit cost	\$472	\$414	\$ 156	\$ 208	\$142	\$108

As of June 30, 2005, no contributions have been made, but the Company anticipates contributions to the plans of \$670,000 for 2005.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"), which introduces a Medicare prescription drug benefit, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit, was enacted. On May 19, 2004, the FASB issued Financial Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", ("FSP 106-2") to discuss certain accounting and disclosure issues raised by the Act. FSP 106-2 addresses accounting for the federal subsidy for the sponsors of single employer defined benefit postretirement healthcare plans and disclosure requirements for plans for which the employer has not yet been able to determine actuarial equivalency. Except for certain nonpublic entities, FSP 106-2 is effective for the first interim or annual period beginning after June 15, 2004. The Company has not yet concluded whether the prescription drug benefits provided under its postretirement plan are actuarially equivalent to the Medicare benefit as necessary to qualify for the subsidy. The reported net periodic benefit costs of the postretirement plan in the table above do not reflect the effects of the Act. Adoption of FSP 106-2 could require revisions to previously reported information. While we may be eligible for benefits under the Act based on the prescription drug benefits provided in our postretirement plan,

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

the Company does not believe such benefits will have a material impact on its consolidated financial statements.

16

NOTE O - SHORT-TERM INVESTMENTS

Short-term investments are classified as available-for-sale securities and include tax advantaged debt securities with original maturities ranging from four to 38 years. These debt securities are callable at par value (cost) based on seven to 35 days notification to the bondholders. The Company has the option to either sell or put these securities every seven to 35 days and these securities will normally be held for less than one year. The securities are carried on the balance sheet at fair market value, which is equivalent to cost. Current period adjustments to the carrying value of available-for-sale securities would be included in accumulated other comprehensive income within stockholder's equity. Because of the nature of all these investments, cost does not differ from fair market value, so there are no such adjustments to the carrying value.

NOTE P - EXIT COSTS FOR WUPPERTAL, GERMANY FACILITY

In February 2004, the Company announced the closing of its Wuppertal, Germany manufacturing facility in an effort to further consolidate its European manufacturing operations and strengthen its market position by concentrating its product, logistics, and engineering capacity. The exit activities were completed by December 31, 2004, with the exception of some minor severance which could be paid in 2005. The following table describes the 2004 activity and the exit liability as of December 31, 2004 (in thousands):

	BEGINNING BALANCE AT JAN. 1, 2004	ACCRUALS	EXPENDITURES	ENDING BALANCE AT DEC. 31, 2004
	-----	-----	-----	-----
Exit Costs:				
Severance	--	\$1,642	\$(1,622)	\$20
Contract termination	--	8	(8)	--
	---	-----	-----	---
Total exit costs	--	\$1,650	\$(1,630)	\$20
	===	=====	=====	===

In addition to the \$1,650,000 exit charge noted above, the Company has recorded \$1,186,000 of additional charges in the twelve months ended December 31, 2004 which include costs to coordinate the facility shutdown (\$488,000), fixed asset disposal and other charges to write down assets to net realizable value (\$455,000) and training and other costs related to the transfer of production from the Wuppertal facility (\$243,000). The carrying value of assets held for sale related to the Wuppertal facility is not significant.

Approximately \$2.7 million of the costs associated with this exit activity were recorded in selling, general and administrative (SG&A) expenses of the Pump and Compressor Segment for the twelve months ended December 31, 2004, while \$0.1 million of expense related to loss on asset disposal was recorded in Other Income (Expense) for the twelve months ended December 31, 2004. The first quarter of 2004 included expenses of \$0.8 million, which were recorded in SG&A expenses.

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

The following table describes the 2005 activity and the exit liability as of June 30, 2005 (in thousands):

	BEGINNING BALANCE AT JAN. 1, 2005 -----	ACCRUALS -----	EXPENDITURES -----	ENDING BALANCE AT JUNE 30, 2005 -----
Exit Costs:				
Severance	\$20	--	\$ (4)	\$16
Contract termination	--	--	--	--
	---	---	---	---
Total exit costs	\$20	--	\$ (4)	\$16
	===	===	===	===

No additional exit cost charges or other shutdown related expenses are expected related to the Wuppertal facility.

NOTE Q - SUBSEQUENT EVENT

On July 1, 2005, Gardner Denver, Inc. acquired all of the outstanding share and share equivalents of the Company for an agreed-upon purchase price of \$40.00 per share. The total purchase price of approximately \$734.2 million was paid in the form of cash and the assumption of \$7.6 million of long-term capitalized lease obligations. There are no additional contingent payments or commitments related to this acquisition.

17

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Thomas Industries Inc:

We have audited the accompanying consolidated balance sheets of Thomas Industries Inc. (a Delaware corporation) as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Thomas Industries Inc. at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

/s/ Ernst & Young LLP
 Louisville, Kentucky
 March 10, 2005

18

THOMAS INDUSTRIES INC.
 CONSOLIDATED STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31		
	2004	2003	2002
	(IN THOUSANDS, EXCEPT SHARE DATA)		
Net sales	\$410,114	\$376,774	\$240,602
Cost of products sold	262,654	246,832	154,904
Gross profit	147,460	129,942	85,698
Selling, general and administrative expenses	117,728	101,943	59,989
Equity income from GTG	18,608	32,138	28,804
Operating income	48,340	60,137	54,513
Gain on sale of GTG	160,410	--	--
Interest expense	2,691	4,237	3,370
Interest income	2,335	312	456
Other income	(724)	(533)	(434)
Income before income taxes and minority interest	207,670	55,679	51,165
Income taxes	93,516	18,340	18,452
Income before minority interest	114,154	37,339	32,713
Minority interest, net of tax	--	25	21
Net income	\$114,154	\$ 37,314	\$ 32,692
Net income per share			
--Basic	\$ 6.53	\$ 2.17	\$ 2.06
--Diluted	\$ 6.44	\$ 2.12	\$ 2.00
Dividends declared per share	\$ 0.38	\$ 0.37	\$ 0.34

See accompanying notes.

19

THOMAS INDUSTRIES INC.
 CONSOLIDATED BALANCE SHEETS

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

	DECEMBER 31	
	2004	2003
	(IN THOUSANDS)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$133,472	\$ 23,933
Short-term investments	133,627	--
Accounts receivable, net	58,305	52,819
Inventories	75,207	65,895
Deferred income taxes	5,101	6,688
Other current assets	7,514	6,287
Total current assets	413,226	155,622
Property, plant and equipment, net	114,868	108,350
Investment in GTG	--	214,405
Goodwill	68,639	70,164
Other intangible assets, net	22,659	21,788
Other assets	2,544	2,805
Total assets	\$621,936	\$573,134
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ --	\$ 3,088
Accounts payable	17,999	14,312
Accrued expenses and other current liabilities ..	34,204	30,519
Dividends payable	1,689	1,642
Income taxes payable	1,758	595
Current portion of long-term debt	1,797	9,885
Total current liabilities	57,447	60,041
Deferred income taxes	8,978	6,177
Long-term debt, less current portion	7,751	102,673
Long-term pension liability	12,170	11,279
Other long-term liabilities	8,657	9,609
Total liabilities	95,003	189,779
Shareholders' equity:		
Preferred stock, \$1 par value, shares authorized: 3,000,000, none issued	--	--
Common stock, \$1 par value, shares authorized: 60,000,000, shares issued: 2004-18,648,723; 2003-18,108,664	18,649	18,109
Capital surplus	149,586	137,041
Deferred compensation	1,558	1,211
Treasury stock held for deferred compensation ...	(1,558)	(1,211)
Retained earnings	323,799	216,296
Accumulated other comprehensive income	46,958	23,968
Less cost of 822,339 treasury shares	(12,059)	(12,059)
Total shareholders' equity	526,933	383,355
Total liabilities and shareholders' equity	\$621,936	\$573,134

See accompanying notes.

THOMAS INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	YEARS ENDED DECEMBER 31		
	2004	2003	2002
	(IN THOUSANDS)		
Common stock:			
Beginning of year	\$ 18,109	\$ 17,948	\$ 17,856
Stock options exercised	528	147	89
Shares issued to deferred share trust	11	14	3
Other	1	--	--
End of year	18,649	18,109	17,948
Capital surplus:			
Beginning of year	137,041	133,964	114,342
Treasury shares issued in connection with acquisition	--	--	18,356
Stock options exercised	8,384	1,703	657
Tax benefit from options exercised and other	3,818	1,039	517
Shares issued to deferred share trust	343	335	92
End of year	149,586	137,041	133,964
Deferred compensation:			
Beginning of year	1,211	846	739
Deferred compensation	347	365	107
End of year	1,558	1,211	846
Treasury stock held for deferred compensation:			
Beginning of year	(1,211)	(846)	(739)
Increase in treasury stock held for deferred compensation ..	(347)	(365)	(107)
End of year	(1,558)	(1,211)	(846)
Retained earnings:			
Beginning of year	216,296	185,351	158,161
Net income	114,154	37,314	32,692
Cash dividends declared	(6,651)	(6,369)	(5,502)
End of year	323,799	216,296	185,351
Accumulated other comprehensive income (loss):			
Beginning of year	23,968	(10,837)	(14,189)
Other comprehensive income (loss)(1)	22,990	34,805	3,352
End of year	46,958	23,968	(10,837)
Treasury stock:			
Beginning of year	(12,059)	(12,059)	(38,457)
Treasury shares issued in connection with acquisition	--	--	26,398

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

End of year	(12,059)	(12,059)	(12,059)
Total shareholders' equity	\$526,933	\$383,355	\$314,367

(1) A reconciliation of net income to total comprehensive income follows.

	YEARS ENDED DECEMBER 31		
	2004	2003	2002
	(IN THOUSANDS)		
Net income	\$114,154	\$37,314	\$32,692
Other comprehensive income (loss):			
Minimum pension liability (increase)	7,942	(225)	(6,783)
Related tax expense	(3,012)	196	2,476
Derivative adjustment	454	178	--
Related tax expense (benefit)	(173)	(67)	--
Foreign currency translation	17,779	34,723	7,659
Total change in other comprehensive income ..	22,990	34,805	3,352
Total comprehensive income	\$137,144	\$72,119	\$36,044

21

Accumulated other comprehensive income (loss) was comprised of foreign currency translation gains (losses) of \$47,922,000, \$30,143,000 and (\$4,580,000), and minimum pension liabilities, net of tax, of (\$1,356,000), (\$6,286,000) and (\$6,257,000), at December 31, 2004, 2003, and 2002, respectively. The change in the minimum pension liabilities was primarily due to the GTG sale transaction. Additionally, accumulated other comprehensive income (loss) included gains of \$392,000 and \$111,000, net of tax, from derivative adjustments, at December 31, 2004 and 2003.

See accompanying notes.

22

THOMAS INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOW

	YEARS ENDED DECEMBER 31	
	2004	2003
	(IN THOUSANDS)	

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

OPERATING ACTIVITIES		
Net income	\$ 114,154	\$ 37,314
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and intangible amortization	16,340	15,207
Deferred income taxes	1,376	1,326
Equity income from GTG	(18,608)	(32,138)
Gain on sale of GTG	(160,410)	--
Distributions from GTG	4,350	13,299
Other items	966	462
Changes in operating assets and liabilities net of effect of acquisitions:		
Accounts receivable	(3,312)	2,927
Inventories	(4,905)	(3,970)
Accounts payable	2,827	(2,512)
Income taxes payable	4,086	758
Accrued expenses and other current liabilities	(2,007)	6,598
Other	(6,768)	(6,918)
	-----	-----
Net cash (used in) provided by operating activities	(51,911)	32,353
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(16,403)	(20,108)
Proceeds from sale of property, plant and equipment	268	327
Proceeds from sale of GTG	400,902	--
Purchases of short-term investments	(431,322)	--
Proceeds from sale of short-term investments	297,695	--
Adjustments (payments) for purchase of companies, net of cash acquired ..	6,154	(3,418)
	-----	-----
Net cash provided by (used in) investing activities	257,294	(23,199)
FINANCING ACTIVITIES		
Proceeds from (payments on) short-term debt, net	(2,904)	1,334
Payments on long-term debt	(122,356)	(19,672)
Proceeds from long-term debt	18,638	16,247
Dividends paid	(6,604)	(6,182)
Proceeds from stock options exercised	8,912	1,850
	-----	-----
Net cash (used in) provided by financing activities	(104,314)	(6,423)
Effect of exchange rate changes on cash	8,470	2,323
	-----	-----
Net increase (decrease) in cash and cash equivalents	109,539	5,054
Cash and cash equivalents at beginning of year	23,933	18,879
	-----	-----
Cash and cash equivalents at end of year	\$ 133,472	\$ 23,933
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash items:		
Issuance of treasury shares in connection with acquisition	\$ --	\$ --
Capital lease arrangements	\$ --	\$ --

See accompanying notes.

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004

1. DESCRIPTION OF BUSINESS

Thomas Industries Inc. and subsidiaries (the Company or Thomas) and affiliates operates in the Pump and Compressor Segment which designs, manufactures and sells pumps and compressors for use in global original equipment manufacturing (OEM) applications as well as construction equipment, systems and laboratory equipment. The Company also provides aftermarket service and spare parts to support OEM and end-user customers around the world. Manufacturing facilities and sales and distribution operations are located in North America and Europe, with additional sales and distribution operations located in Asia, Australia and South America. A new manufacturing facility in Asia will begin operations in 2005. Through July 31, 2004, the Company also operated in the Lighting Segment through its 32% interest in Genlyte Thomas Group LLC (GTG). GTG, which was formed August 30, 1998, designs, manufactures, markets and sells lighting products principally in North America for commercial, industrial and residential applications.

2. ACCOUNTING POLICIES

BASIS OF PRESENTATION

Effective August 30, 1998, the Company and The Genlyte Group Incorporated (Genlyte) formed GTG, combining Thomas' and Genlyte's lighting businesses. Effective with the close of business on July 31, 2004, the Company sold its interest in GTG. Genlyte had a 68% interest in GTG, and Thomas held a 32% interest, which was accounted for using the equity method of accounting.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company. Affiliates not required to be consolidated are accounted for using the equity method, under which the Company's share of earnings of these affiliates is included in income as earned. Intercompany accounts and transactions are eliminated.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of liquid investments with initial maturities of three months or less.

SHORT-TERM INVESTMENTS

Short-term investments are classified as available-for-sale securities and include tax advantaged debt securities with original maturities ranging from four to 38 years. These debt securities are callable at par value (cost) based on seven to 35 days notification to the bondholders. The Company has the option to either sell or put these securities every seven to 35 days and these securities will normally be held for less than one year. The securities are carried on the balance sheet at fair market value, which is equivalent to cost. Current period adjustments to the carrying value of available-for-sale securities would be included in accumulated other comprehensive income within shareholders' equity. Because of the nature of all these investments, cost does

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

not differ from fair market value, so there are no such adjustments to the carrying value.

24

FINANCIAL INSTRUMENTS

Financial instruments consist principally of cash and cash equivalents, short-term investments, trade receivables and payables. The carrying amounts for these instruments approximate fair value due to their short maturities. The Company also uses forward currency exchange contracts which are recorded at fair value on the balance sheet. See further discussion of these forward currency exchange contracts under "Currency Risk Management" included in footnote 2.

CONCENTRATION OF CREDIT RISK

Assets that potentially subject the Company to concentration of credit risk are cash and cash equivalents, short-term investments, and accounts receivable. Cash and cash equivalents consist of liquid investments in investment grade, short-term instruments which limits the amount of credit exposure. Investment policies have been implemented which limit short-term investments to investment grade securities with multiple financial institutions which limits credit exposure. The Company sells products and services to customers in diversified industries and geographic regions and provides credit to most of these customers. The Company continuously evaluates the creditworthiness of its customers and generally does not require collateral. No single customer accounts for more than 10% of annual sales. Based on the Company's wide variety of customers and markets, concentration of credit risk in accounts receivable is not considered significant.

INVENTORIES

Inventories are valued at the lower of cost or market. Inventories valued using the last-in, first-out (LIFO) method represented approximately 21% and 23% of consolidated inventories at December 31, 2004 and 2003, respectively. Inventories not on LIFO are valued using the first-in, first-out (FIFO) method. Inventories at December 31 consist of the following:

	2004	2003
	-----	-----
	(IN THOUSANDS)	
Finished goods	\$36,331	\$29,004
Raw materials	31,674	28,250
Work in process	7,202	8,641
	-----	-----
Total inventories ...	\$75,207	\$65,895
	=====	=====

On a current cost basis, inventories would have been \$4,957,000 and \$4,639,000 higher than reported at December 31, 2004 and 2003, respectively.

PROPERTY, PLANT AND EQUIPMENT

The cost of property, plant and equipment is depreciated principally by the straight-line method over their estimated useful lives ranging from 3 to 31.5

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

years. Expenditures for maintenance, repairs and renewals of minor items are expensed as incurred. Major renewals and improvements are capitalized. Property, plant and equipment at December 31 consisted of the following:

	2004	2003
	-----	-----
	(IN THOUSANDS)	
Land	\$ 10,299	\$ 8,171
Buildings	52,348	48,143
Leasehold improvements	6,985	6,291
Machinery and equipment	133,361	122,518
	-----	-----
	202,993	185,123
Accumulated depreciation and amortization ...	(88,125)	(76,773)
	-----	-----
Total property, plant and equipment, net	\$ 114,868	\$ 108,350
	=====	=====

Depreciation expense relating to property, plant and equipment, which includes capital lease items, was approximately \$15,410,000, \$14,361,000 and \$9,772,000 during 2004, 2003 and 2002, respectively.

25

Capital leases for land, building, machinery and equipment, autos and software included above were \$14,418,000 and \$13,337,000 at December 31, 2004 and 2003, respectively. Accumulated depreciation on capital leases was \$3,355,000 and \$2,039,000 at December 31, 2004 and 2003, respectively.

GOODWILL AND OTHER INTANGIBLE ASSETS

Beginning in 2002 with the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," goodwill and indefinite lived intangible assets are no longer amortized, but instead are tested for impairment by applying a fair-value based test at least annually, and more frequently if circumstances indicate a possible impairment.

The statement requires a two-step process for impairment testing. The first step, used to identify potential impairment only, compares the fair value of the reporting unit, which is a level below the reportable segments disclosed in Note 13 - "Industry Segment Information", with its net carrying amount on the financial statements. Fair value of the reporting unit is estimated based on the present value of estimated future cash flows of the reporting unit. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered impaired; thus the second step of the process is not necessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any. If the carrying value of goodwill on the financial statements exceeds the implied fair value of goodwill, the difference must be recognized as an impairment loss. Implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination is determined.

If the carrying amount of an intangible asset with an indefinite life exceeds its fair value, an impairment loss is recognized in an amount equal to

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

the excess. Separate intangible assets that are not deemed to have an indefinite life continue to be amortized over their useful lives.

The Company tested the goodwill of all its reporting units for impairment during the fourth quarter of 2004. This assessment did not indicate any impairment.

The changes in net carrying amounts of goodwill for the years ended December 31, 2004 and 2003 were as follows (in thousands):

	2004	2003
Balance at beginning of year	\$ 70,164	\$55,669
Adjustments to Rietschle acquisition ...	(6,154)	5,593
Minority interest acquisitions	--	1,778
Aldax acquisition	(86)	2,175
Translation adjustments and other	4,715	4,949
	-----	-----
Balance at end of year	\$ 68,639	\$70,164
	=====	=====

The goodwill included in the balance sheets is related to the Pump and Compressor Segment.

Certain intangible assets have definite lives and are being amortized. Amortizable intangible assets at December 31 consist of the following (in thousands):

	2004			2003		
	LIFE	COST	ACCUMULATED AMORTIZATION	LIFE	COST	ACCUMULATED AMORTIZATION
Licenses ...	18-19	\$ 487	\$ 218	18-19	\$ 503	\$ 207
Patents	5-20	6,320	1,295	5-20	5,917	771
Other	1-10	4,267	1,470	1-10	3,619	890
		-----	-----		-----	-----
Total		\$11,074	\$2,983		\$10,039	\$1,868
		=====	=====		=====	=====

The total intangible amortization expense for the years ended December 31, 2004, 2003 and 2002 was \$930,000, \$846,000 and \$696,000, respectively.

26

The estimated amortization expense for the next five years consists of the following (in thousands):

2005 ... \$1,002

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

2006 ...	1,002
2007 ...	991
2008 ...	938
2009 ...	829

The Company has various trademarks totaling \$13,876,000 and \$12,831,000 at December 31, 2004 and 2003, respectively, that are not amortized. Also included in other intangible assets is an intangible asset associated with the minimum pension liability of \$692,000 and \$786,000 as of December 31, 2004 and 2003, respectively.

LONG-LIVED ASSETS

The Company periodically evaluates the recoverability of the carrying amount of long-lived assets (including property, plant and equipment, and intangible assets with determinable lives) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. We evaluate events or changes in circumstances based on a number of factors including operating results, business plans and forecasts, general and industry trends and economic projections and anticipated cash flows. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in earnings. We also continually evaluate the estimated useful lives of all long-lived assets and when warranted revise such estimates based on current events. There were no significant impairment charges recorded in 2004 and 2003, but during the fourth quarter of 2002, the Company recorded a \$594,000 change in the Pump and Compressor Segment's cost of sales to write-down certain assets to market value.

EXIT COSTS FOR WUPPERTAL, GERMANY FACILITY

In February 2004, the Company announced the closing of its Wuppertal, Germany manufacturing facility in an effort to further consolidate its European manufacturing operations and strengthen its market position by concentrating its product, logistics, and engineering capacity. The exit activities were completed by December 31, 2004, with the exception of some minor severance which could be paid in 2005. The following table describes the 2004 activity and the exit liability as of December 31, 2004 (in thousands):

	BEGINNING BALANCE AT JAN. 1, 2004	ACCRUALS	EXPENDITURES	ENDING BALANCE AT DEC. 31, 2004
	-----	-----	-----	-----
Exit Costs:				
Severance	--	\$ 1,642	\$(1,622)	\$20
Contract termination ...	--	8	(8)	--
	---	-----	-----	---
Total exit costs	--	\$ 1,650	\$(1,630)	\$20
	===	=====	=====	===

In addition to the \$1,650,000 exit charge noted above, the Company has recorded \$1,186,000 of additional charges in the twelve months ended December 31, 2004 which include costs to coordinate the facility shutdown (\$488,000), fixed asset disposal and other charges to write down assets to net realizable value (\$455,000) and training and other costs related to the transfer of production from the Wuppertal facility (\$243,000). The carrying value of assets held for sale related to the Wuppertal facility is not significant.

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Approximately \$2.7 million of the costs associated with this exit activity were recorded in selling, general and administrative expenses of the Pump and Compressor Segment, while \$0.1 million of expense related to loss on asset disposal was recorded in Other Income.

No additional exit cost charges or other shutdown related expenses are expected related to the Wuppertal facility.

27

FOREIGN CURRENCY TRANSLATION

The local currency is the functional currency for the Company's foreign subsidiaries. Operating results are translated into U.S. dollars using monthly average exchange rates, while balance sheet accounts are translated using year-end exchange rates. The resulting translation adjustments are included as a component of accumulated other comprehensive income (loss) in shareholders' equity.

COLLECTIVE BARGAINING AGREEMENTS

As of December 31, 2004, the Company had approximately 14.3% of its workforce represented by labor unions. Union contracts have varying expiration dates beginning with June 30, 2005 and ending with March 7, 2008. Management does not expect the expiration and renegotiation of these agreements to have a significant impact on 2004 or 2005 results of operations.

REVENUE RECOGNITION

Revenue from product sales is recognized upon title transfer, which occurs upon shipment, based on customary terms of sale, which are FOB shipping point. The Company does have exceptions to this general policy which are described as follows:

- 1) Revenues from service and repair activities have been equal to or below 6% of total sales in 2004, 2003 and 2002. Most of these service and repair revenues do not involve a shipment of product, but instead, relate to the performance of a service or repair. Billings for these activities are not made until the service activity has occurred. There are other instances where the Company offers customers an annual service contract, which is invoiced in twelve monthly billings.
- 2) There are instances where the Company has consignment inventory arrangements and in these instances, revenue is not recorded upon shipment to the original customer. Revenue is only recorded when the original customer ships the inventory to their customer or uses it for other purposes. These consignment inventory arrangements are insignificant in amount in all periods presented.
- 3) There are instances where the terms of sale are FOB destination. The Company records accounting entries at the end of reporting periods, to make sure these revenues are deferred to the subsequent period. These instances are insignificant in amount in all periods presented.

Credit is extended based on local business customs and practices, and collateral is not required. The Company estimates and records provisions for warranties in the period the related products are sold. The warranty liabilities are established based upon management's assessment of the various product

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

warranty periods, historical data and trends of warranty claims paid, and any current information regarding specific warranty issues. While the Company engages in extensive product quality programs and processes, should actual product failure rates differ from estimates, revisions to the estimated warranty liability would be required.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs, which include costs of product improvements and design, are expensed as incurred (\$22,131,000 in 2004, \$19,736,000 in 2003, and \$11,789,000 in 2002).

SHIPPING AND HANDLING COSTS

All shipping and handling amounts billed to a customer in a sale transaction are classified as revenue. In addition to shipping and handling costs included in cost of products sold, the Company also has shipping and handling costs included in selling, general and administrative expenses totaling \$5,817,000, \$4,765,000 and \$1,736,000 for 2004, 2003 and 2002, respectively.

28

PRODUCT WARRANTY COSTS

The Company generally offers warranties for most of its products for periods from one to five years. The specific terms and conditions of these warranties vary depending on the product sold and country in which the Company does business. The Company estimates the costs that may be incurred under its warranty and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amount as necessary.

Changes in the Company's warranty liability for December 31 are as follows (in thousands):

	2004	2003
	-----	-----
Balance at beginning of year	\$ 5,382	\$ 2,674
Warranties issued during the year	2,908	4,045
Settlements made during the year	(3,357)	(2,856)
Warranty liability assumed in acquisition of business ...	--	956
Foreign currency translation adjustment	405	563
	-----	-----
Balance at end of year	\$ 5,338	\$ 5,382
	=====	=====

ADVERTISING COSTS

Advertising costs consist of expenses related to promoting the Company's products, including trade shows, web development, advertising and collateral material, and are charged to expense when incurred. Advertising expense was \$3,234,000, \$3,306,000, and \$2,142,000 in 2004, 2003 and 2002, respectively.

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

STOCK BASED COMPENSATION

Stock options are granted under various stock compensation programs to employees and independent directors (see Note 9, "Shareholders' Equity"). In December 2003, the Company adopted the fair value recognition provisions of accounting for stock-based compensation under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS 123) which requires the Company to expense the fair value of employee stock options prospectively for all employee awards granted, modified, or settled after January 1, 2003. Awards under the Company's plan vest over a period of five years. Therefore, the cost related to stock-based employee compensation included in the determination of net income for 2003 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of Statement 123. For employee stock options granted prior to 2003, the Company continues to use the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). For purposes of pro forma disclosures, the estimated fair value of the options granted prior to 2003 is amortized to expense over the options' vesting period.

Included in stock option activity, but accounted for in accordance with SFAS No. 123, are options granted to GTG employees, for which the Company has recorded compensation expense. This compensation expense, shown net of tax, is also included in the pro forma information on the following table.

29

The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period.

	2004	2003	2002
	-----	-----	-----
	(IN THOUSANDS, EXCEPT SHARE DATA)		
Net income (as reported)	\$114,154	\$37,314	\$32,692
Add: Stock-based compensation expense for GTG employees included in reported net income, net of related tax effects	603	249	190
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	11	101	--
Deduct: Total stock-based employee compensation determined under fair value based method for all awards, net of related tax effects ..	(1,059)	(931)	(966)
	-----	-----	-----
Net income (pro forma)	\$113,709	\$36,733	\$31,916
	=====	=====	=====
Net income per share (Basic)--As reported	\$ 6.53	\$ 2.17	\$ 2.06
Pro forma	6.50	2.14	2.01
Net income per share (Diluted)--As reported	6.44	2.12	2.00
Pro forma	6.41	2.09	1.95

NEW ACCOUNTING PRONOUNCEMENTS

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 (FASB 151), Inventory Costs. The Company is required to adopt the provisions of FASB 151, on a prospective basis, as of January 1, 2006. FASB 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. FASB 151 requires that those items - if abnormal - be recognized as expenses in the period incurred. In addition, FASB 151 requires the allocation of fixed production overheads to the costs of conversions based upon the normal capacity of the production facilities. The Company has not yet determined what effect FASB 151 will have on its earnings and financial position.

In December 2004, FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) (FASB 123R), Share-Based Payment. FASB 123R will require the Company to expense share-based payments, including employee stock options, based on their fair value. The Company is required to adopt the provisions of FASB 123R effective as of the beginning of its third quarter in 2005, however, earlier adoption in 2005 is allowed. FASB 123R provides alternative methods of adoption which include prospective application and a modified retroactive application. The Company adopted the fair-value method of accounting for share-based payments effective January 1, 2003 using the prospective method described in FASB Statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure. Currently, the Company uses the Black-Scholes-Merton formula to estimate the value of stock options granted to employees and expects to continue to use this acceptable option valuation model upon the required adoption of Statement 123R on July 1, 2005. Because Statement 123R must be applied not only to new awards, but to previously granted awards that are not fully vested on the effective date, and because the Company adopted Statement 123 using the prospective transition method (which applied only to awards granted, modified or settled after the adoption date), compensation cost for some previously granted awards that were not recognized under Statement 123 will be recognized under Statement 123R. However, had we adopted Statement 123R in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share noted above. Statement 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when those employees exercise stock options), the amount of operating cash flows recognized in prior periods for such excess tax deductions were \$2,805,000, \$464,000, and \$221,000 in 2004, 2003 and 2002, respectively. The 2004 amount was significantly higher than 2003 and 2002 due primarily to the increased options exercised by GTG employees. The vesting of options to GTG employees was accelerated and the options became 100% vested as of December 31, 2004. As part of the GTG sale agreement, the GTG employees had until December 31, 2004 to exercise or forfeit their options.

30

In December 2004, the FASB issued FASB Staff Position (FSP) 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" and FSP 109-2, "Accounting for Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." FSP 109-1 provides a tax deduction on qualified production activities, while FSP 109-2 introduces a special one-time dividends-received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer, provided certain criteria are met. The Company has adopted both of these staff positions

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

in 2004 (See Note 7).

CURRENCY RISK MANAGEMENT

All derivative instruments are recorded at fair value on the balance sheet and all changes in fair value are recorded to earnings or to shareholders' equity through other comprehensive income in accordance with SFAS No. 133, as amended, "Accounting for Derivatives and Hedging Activity" (SFAS 133).

The Company uses forward currency exchange contracts to manage its exposures to the variability of cash flows primarily related to the purchase of inventory manufactured in Europe but inventoried and sold in non Euro-denominated countries. These contracts are designated as cash flow hedges.

The Company does not use derivative instruments for trading or speculative purposes.

All of the Company's derivative contracts are adjusted to current market values each period and qualify for hedge accounting under SFAS 133. The periodic gains and losses of the contracts designated as cash flow hedges are deferred in other comprehensive income until the underlying transactions are recognized. Upon recognition, such gains and losses are recorded in operations as an adjustment to the carrying amounts of the underlying transactions in the period in which these transactions are recognized. The carrying values of derivative contracts are included in other current assets.

The Company's policy requires that contracts used as hedges must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Hedging effectiveness is assessed periodically. Any contract that is either not designated as a hedge, or is so designated but is ineffective, is marked to market and recognized in earnings immediately. If a cash flow hedge ceases to qualify for hedge accounting or is terminated, the contract would continue to be carried on the balance sheet at fair value until settled and future adjustments to the contract's fair value would be recognized in earnings immediately. If a forecasted transaction were no longer probable to occur, amounts previously deferred in other comprehensive income would be recognized immediately in earnings. Additional disclosure related to the Company's hedging contracts is provided in Note 14.

OTHER

Accounts receivable at December 31, 2004 and 2003 was net of an allowance for doubtful accounts of \$2,303,000 and \$2,270,000, respectively.

RECLASSIFICATIONS

The gain on sale of GTG included in the 2004 Consolidated Statement of Income has been reclassified from operating income to nonoperating income. Certain prior year amounts have been reclassified to conform to the current year presentation.

3. ACQUISITIONS

On November 20, 2003, the Company purchased the remaining 25% minority interests in the Company's New Zealand subsidiary for \$244,000. All of the purchase price was allocated to goodwill. The Company now owns 100% of the New Zealand subsidiary.

On July 31, 2003, the Company purchased all of the outstanding equity interests of Aldax AB, of Stockholm, Sweden for \$2.6 million, of which \$1.7 million was paid in cash at the acquisition date, while \$944,000 was recorded as

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

a long-term liability to be paid on July 31, 2005 in accordance with the purchase agreement. Approximately \$2.0 million of the purchase price was allocated to goodwill.

31

On April 11, 2003, the Company purchased the remaining 20% minority interests in the Company's Italian subsidiary for \$1.5 million. All of the purchase price was allocated to goodwill. The Company now owns 100% of the Italian subsidiary.

On August 29, 2002, the Company purchased substantially all the assets and liabilities of Werner Rietschle Holding GmbH ("Rietschle"), a privately held company based in Schopfheim, Germany. Rietschle is a world leader in vacuum and pressure technology, which includes dry-running and oil-lubricated pumps, blowers, compressors, and pressure/vacuum pumps utilizing rotary vane, screw, roots and claw technologies. With the Rietschle product line, the Company wants to pursue further opportunities through growth in markets such as printing, packaging, woodworking and many other applications that fit Rietschle technologies. The purchase price consisted of \$83.3 million in cash and 1,800,000 treasury shares of the Company's common stock, for which fair value was calculated by using a six-day average stock price, determined three days before and after the acquisition date. The Company negotiated a \$120.0 million revolving credit facility with a group of banks to finance the cash portion of the purchase price. Rietschle's operating results are included in the Company's results since the date of acquisition.

On June 3, 2004, the Company received approximately \$6.2 million in cash, which represents an adjustment to the Company's purchase price of Rietschle. The purchase agreement specified the negotiation process to be followed for various items in dispute, so that an adjustment to the purchase price could occur at a subsequent time. In June 2004, negotiations on certain disputed items were completed and this adjustment reduced goodwill by \$6.2 million. Other adjustments could occur in the future related to representations and warranties per the purchase agreement.

In estimating the fair values of the assets acquired and liabilities assumed in the Rietschle transaction, management considered a number of factors, including collectibility of accounts receivable, net realizable value and replacement cost of inventory, and the values of liabilities. In addition, an independent appraiser was used to assist in determining the value of property, plant and equipment and other intangible assets; however, management is ultimately responsible for the values recorded.

Supplemental pro forma information below is presented as though the business combination had been completed as of the beginning of the period being reported on. The pro forma financial information does not necessarily reflect the results of operations that would have occurred if the Company and Rietschle constituted a single entity during such period.

YEAR ENDED
DECEMBER 31, 2002

(IN THOUSANDS EXCEPT PER SHARE
AMOUNTS, UNAUDITED)

Net sales..... \$333,371

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Net income.....	35,581
Earnings per share-diluted...	\$ 2.03

The adjusted aggregate purchase price for Rietschle consists of (in thousands):

Initial cash paid by the Company	\$ 83,288
Fair value of Thomas common stock	44,754
Transaction costs	5,931
Purchase price adjustment received in cash	(6,154)

Total adjusted aggregate purchase price	\$127,819
	=====

32

The following summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Cash	\$ 3,487
Accounts receivable	24,913
Inventories	30,477
Other current assets	7,105
Property, plant and equipment	44,404
Other intangibles	16,849
Other assets	2,999
Current liabilities	(29,221)
Long-term debt	(17,116)
Other long-term liabilities	(6,569)

	77,328
Goodwill	50,491

Aggregate purchase price	\$127,819
	=====

The goodwill associated with the Rietschle acquisition is all allocated to the Pump and Compressor Segment.

4. SALE OF INTEREST IN GTG

Effective with the close of business on July 31, 2004, the Company sold its 32% joint venture interest in the Genlyte Thomas Group LLC (GTG), which the Company accounted for using the equity method of accounting, to The Genlyte Group Incorporated (Nasdaq: GLYT) for approximately \$400.9 million in cash. Approximately \$102.7 million of the proceeds were used to pay down long-term debt on August 2, 2004. Approximately \$80.5 million of the proceeds were used to pay a portion of the income taxes (due on the gain) and transaction costs during the third and fourth quarters.

The Company's adjusted book basis in GTG as of July 31, 2004 was as follows (in millions):

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Investment in GTG at July 31, 2004	\$230.5
Thomas' adjustment for accelerated option expense treated as a transaction cost	(0.2)
Other comprehensive loss items:	
Minimum pension liability	5.5
Foreign currency translation	0.5

Adjusted GTG book basis at July 31, 2004	\$236.3
	=====

The gain on the sale of GTG, which the Company recorded in 2004, was calculated as follows (in millions except per share amount):

Total sale price	\$ 400.9
Transaction costs	(4.2)

Net proceeds	396.7
Adjusted book basis at July 31, 2004	(236.3)

Pre-tax book gain	160.4
Income taxes	(76.3)

Net after-tax gain	\$ 84.1
	=====
Earnings per share - diluted	\$ 4.74
	=====

This gain calculation is an estimate subject to final determination of taxes of the transaction when tax returns are filed in 2005. The effective income tax rate recorded on the gain of 47.6% is primarily due to the basis differences for financial reporting and tax purposes in the partnership interest in GTG.

33

5. NET INCOME PER SHARE

The computation of the numerator and denominator in computing basic and diluted net income per share follows:

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
	-----	-----	-----
	(IN THOUSANDS)		
Numerator:			
Net income	\$114,154	\$37,314	\$32,692
	=====	=====	=====
Denominator:			

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Weighted average shares outstanding	17,483	17,200	15,879
Effect of dilutive securities:			
Director and employee stock options	237	331	459
Employee performance shares	13	39	37
	-----	-----	-----
Dilutive potential common shares	250	370	496
	-----	-----	-----
Denominator for diluted earnings per share--adjusted weighted average shares and assumed conversions	17,733	17,570	16,375
	=====	=====	=====

The deferred compensation obligation discussed in Note 9, "Shareholders' Equity," is funded with shares of the Company's common stock, which are included in the calculation of basic and diluted earnings per share.

6. EQUITY INVESTMENT

Through July 31, 2004, Genlyte Thomas Group LLC (GTG) was an affiliated company accounted for on the equity method. As described in Notes 1 and 2, Thomas and Genlyte formed GTG in August 1998.

Summarized financial information reported by the affiliate and a summary of the amounts recorded in Thomas' consolidated financial statements follow. GTG is organized as a limited liability corporation (LLC) that has elected to be taxed as a partnership for U.S. income tax purposes. Therefore, Thomas and Genlyte are responsible for income taxes applicable to their share of GTG's taxable income. The net income reflected below for GTG does not include any provision for U.S. income taxes, which will be incurred by Thomas and Genlyte; however, amounts have been provided for foreign income taxes and certain U.S. franchise taxes.

	AS OF	
	JULY 31, 2004	DECEMBER 31, 2003
	-----	-----
	(IN THOUSANDS)	
GTG BALANCE SHEETS		
Cash and short-term investments	\$116,284	\$130,442
Accounts receivable	200,367	160,111
Inventories	151,498	143,898
Other current assets	9,543	9,821
	-----	-----
Total current assets	477,692	444,272
Property, plant and equipment	112,270	111,624
Goodwill	156,623	150,532
Other intangible assets	11,360	21,315
Other assets	5,236	5,028
	-----	-----
Total assets	\$763,181	\$732,771
	=====	=====
Current maturities of long-term debt	\$ 250	\$ 284
Accounts payable	98,321	98,035
Payable to Genlyte Inc.	279	16,534

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Accrued expenses and other	73,564	70,956
	-----	-----
Total current liabilities	172,414	185,809
Long-term debt, less current portion	11,072	11,190
Accrued pension	21,739	27,567
Other liabilities	11,776	12,246
Shareholders' equity	546,180	495,959
	-----	-----
Total liabilities and shareholders' equity ..	\$763,181	\$732,771
	=====	=====

SEVEN MONTHS
ENDED
JULY 31, 2004 YEAR ENDED
DECEMBER 31, 2003

(In thousands)

GTG INCOME STATEMENTS

Net sales	\$672,358	\$1,033,899
Cost of products sold	431,939	671,322
	-----	-----
Gross profit	240,419	362,577
SG&A expense	176,143	260,381
Gain on settlement of patent litigation ..	--	(8,000)
Amortization	541	1,079
	-----	-----
Operating profit	63,735	109,117
Interest expense, net	56	238
Minority interest	(66)	185
	-----	-----
Income before taxes	63,745	108,694
Income taxes(1)	5,145	7,416
	-----	-----
Net income	\$ 58,600	\$ 101,278
	=====	=====
Amounts recorded by Thomas:		
Investment	--	\$ 214,405
Equity income	\$ 18,608 (2)	32,138 (3)
Distributions received	4,350	13,299

35

Changes in the Company's investment in GTG for the years ended December 31, 2004 and 2003 were as follows (in thousands):

	2004	2003
	-----	-----
Balance at the beginning of period	\$ 214,405	\$188,810
GTG gross equity earnings	18,752	32,409
GTG cash distributions	(4,350)	(13,299)
GTG currency translation adjustment	(1,082)	6,457
GTG minimum pension adjustment & other ..	2,751	28

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Balance before sale transaction (4)	230,476	214,405
To record sale of GTG	(230,476)	--
Balance at end of period	\$ --	\$214,405

- (1) GTG is organized as a limited liability corporation (LLC) that has elected to be taxed as a partnership for U.S. income tax purposes. GTG is subject to foreign income taxes and certain U.S. franchise taxes.
- (2) Consists of \$18,752 of equity income from GTG for the period January 1 through July 31, less \$144 of expense for Thomas Industries stock options issued to GTG employees.
- (3) Consists of \$32,409 of equity income from GTG less \$271 of expense for Thomas Industries stock options issued to GTG employees.
- (4) See computation of Company's adjusted book basis in GTG as of July 31, 2004, included in "Note 4 - Sale of Interest in GTG" in the Notes to Consolidated Financial Statements.

The Company in the normal course of business has transactions with GTG. These transactions consist primarily of reimbursement for other shared corporate expenses.

Payables due to GTG as of December 31, 2004 and 2003 were \$1,075,000 and \$175,000, respectively.

For the years ended December 31, 2004, 2003 and 2002, the Company recorded \$4,000, \$4,000, and \$230,000, respectively, related to the reimbursement of shared corporate expenses. For the seven months ended July 31, 2004, the Company recorded \$2,000 related to these items.

7. INCOME TAXES

A summary of the provision for income taxes follows:

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
	(IN THOUSANDS)		
Current:			
Federal	\$71,756	\$12,205	\$10,988
State	15,981	1,883	1,681
Foreign	4,403	2,926	5,162
	92,140	17,014	17,831
Deferred:			
Federal and state (benefit) ...	(2,687)	236	1,780
Foreign (benefit)	4,063	1,090	(1,159)
	1,376	1,326	621
Total provision for income taxes ..	\$93,516	\$18,340	\$18,452

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

36

The U.S. and foreign components of income before income taxes follow:

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
	(IN THOUSANDS)		
United States	\$188,070	\$42,160	\$42,709
Foreign	19,600	13,519	8,456
Income before income taxes ...	\$207,670	\$55,679	\$51,165

A reconciliation of the normal statutory federal income tax rate to the Company's effective income tax rate follows:

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
U.S. statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefits	4.9	2.2	2.4
Gain on sale of investment in GTG joint venture	5.2	--	--
Effect of foreign tax rates	0.1	(1.3)	0.5
GTG foreign equity earnings recorded net of tax	(0.5)	(2.9)	(2.9)
Change in valuation allowance	(0.1)	--	1.6
Other	0.4	(0.1)	(0.5)
Effective income tax rate	45.0%	32.9%	36.1%

Deferred income taxes are provided for significant income and expense items recognized in different years for tax and financial reporting purposes. Temporary differences which gave rise to significant deferred tax assets and liabilities follow:

	AS OF DECEMBER 31,	
	2004	2003
	(IN THOUSANDS)	
Deferred tax assets:		
Employee benefit obligations	\$ 2,266	\$ 4,885
Net operating loss carryforwards	3,238	819
Allowance for doubtful accounts receivable ...	318	269

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Inventory reserves	703	617
Compensation accruals	1,448	1,367
Miscellaneous foreign	5,399	4,479
Accrued liabilities and other	1,633	1,565
	-----	-----
	15,005	14,001
Less valuation allowance	(2,814)	(1,320)
	-----	-----
Net deferred tax asset	12,191	12,681
Deferred tax liabilities:		
Accelerated depreciation	4,851	4,689
Investment in GTG	--	2,530
German goodwill	4,222	--
Miscellaneous foreign	5,185	3,513
Other	1,810	1,438
	-----	-----
	16,068	12,170
	-----	-----
Net deferred tax (liability)/asset	\$ (3,877)	\$ 511
	=====	=====
Classification:		
Net current assets	\$ 5,101	\$ 6,688
Net long-term liabilities	8,978	6,177
	-----	-----
Net deferred tax (liability)/asset	\$ (3,877)	\$ 511
	=====	=====

Deferred tax assets and liabilities are classified according to the related asset and liability classification on the consolidated balance sheets.

37

Management believes it is more likely than not the Company will realize the benefits of its deferred tax assets, net of the valuation allowance of \$2,814,000. \$1,224,000 of this valuation allowance is provided for income tax loss carryforward benefits for certain foreign jurisdictions (NOL's). The foreign tax NOL's (in the amount of \$12,417,000) can be carried forward from five to seven years and some portion indefinitely. Management believes that, based on a number of factors, the available evidence creates sufficient uncertainty regarding the realizability of a portion of these NOL's. The remaining valuation allowance of \$1,590,000 is provided for various foreign deferred tax assets. Management believes that, based on a number of factors, the available evidence creates sufficient uncertainty regarding the realizability of these foreign assets.

Deferred income taxes have not been provided on \$58,000,000 of foreign undistributed earnings as of December 31, 2004. It is management's intent that such undistributed earnings be permanently reinvested in the foreign countries. It is not practicable to determine the amount of unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries that are essentially permanent in duration.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the Act). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the Act also provides for a two-year phase out of the existing Extra-Territorial Income (ETI) exclusion for foreign sales that was viewed to be inconsistent with international trade protocols by the European Union. The

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Company expects the net effect of the phase-out of the ETI and the phase-in of this new deduction will not result in a significant change to the effective tax rate for fiscal year 2005 and future years based on current earning levels.

Another provision of the Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends-received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and, as of today, uncertainty remains as to how to interpret numerous provisions in the Act. As such, the Company is not yet in a position to decide on whether, and to what extent, it might repatriate foreign earnings that have not been remitted to the U.S.

The Company made federal, state and foreign income tax payments of \$88,847,000 in 2004, \$17,084,000 in 2003 and \$21,035,000 in 2002.

8. LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt at December 31 consisted of the following:

	2004	2003
	-----	-----
	(IN THOUSANDS)	
Revolving credit notes	\$ --	\$ 85,000
Senior notes	--	15,430
Capital leases	9,548	10,878
Industrial revenue bonds ...	--	1,250
	-----	-----
	9,548	112,558
Less: current maturities ...	1,797	9,885
	-----	-----
Total long-term debt	\$7,751	\$102,673
	=====	=====

The revolving credit notes were paid down in full on August 2, 2004, with proceeds from the sale of GTG.

The senior notes had a 9.36% fixed interest rate and were paid down in full on August 2, 2004, with the proceeds from the sale of GTG.

The capital leases have terms ranging from 2.5 to 18.5 years, and are payable primarily in monthly installments with interest at rates ranging from 4.8% to 11.3%.

The Industrial Revenue Bonds had a variable interest rate and were paid down in July 2004.

The fair value of the Company's long-term debt, including the current portion, at December 31, 2003 was \$113,790,000.

Maturities of capital lease obligations are as follows (in thousands):

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

2005	\$1,797
2006	234
2007	261
2008	259
2009	247
Thereafter	6,750

	\$9,548
	=====

The Company has no loan agreements which include restrictions on working capital, operating leases, tangible net worth and the payment of cash dividends and stock distributions.

Cash paid for interest was \$3,458,000 in 2004, \$4,739,000 in 2003, and \$3,447,000 in 2002.

9. SHAREHOLDERS' EQUITY

STOCK REPURCHASE PROGRAM

Thomas' Board of Directors in 1999 authorized the purchase of up to 2,373,000 shares of Thomas common stock in the open market. Through December 31, 2004, Thomas had repurchased 879,189 shares at a cost of \$17,334,000. No purchases were made during 2004 and 2003.

STOCK INCENTIVE PLANS

At the April 20, 1995 Annual Meeting, the Company's shareholders approved the Company's 1995 Incentive Stock Plan. An aggregate of 900,000 shares of common stock, plus all shares remaining under the Company's 1987 Incentive Stock Plan, were reserved for issuance under this Plan. At the April 15, 1999 Annual Meeting, the Company's shareholders approved a 750,000 share increase in the number of shares reserved for issuance under the 1995 Incentive Stock Plan. At the April 22, 2004 Annual Meeting, the Company's shareholders approved the Company's Amended and Restated 1995 Incentive Stock Plan which increased the number of shares of common stock reserved for issuance by 550,000 shares and added non-employee directors as participants under the Plan. Under this Plan, options may be granted to employees and non-employee directors at not less than market value at date of grant. All options granted have ten-year terms, and vest and become fully exercisable at the end of five years of continued employment. Under the terms of the Company's sale agreement with Genlyte, all stock options granted to GTG employees became fully vested as of July 31, 2004 and expired as of December 31, 2004.

At the April 21, 1994 Annual Meeting, the Company's shareholders approved the Non-Employee Director Stock Option Plan. This Plan expired on April 21, 2004, except with respect to outstanding options which may be exercised through 2013. Under this Plan, each continuing non-employee director in office on the date of each annual meeting was awarded options to purchase 3,000 shares of common stock at not less than market value at date of grant. All options granted have 10-year terms, and vest and become fully exercisable as of the date granted. At December 31, 2004, there were seven non-employee directors in office, and 225,000 options had been awarded under this Plan. A total of 131,017 shares reserved for this Plan, but not needed to satisfy awards outstanding under the Non-employee Director Stock Option Plan, were made available under the Company's Amended and Restated 1995 Incentive Stock Plan.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure" (SFAS 148), as an amendment to SFAS

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

123, "Accounting for Stock-Based Compensation." Prior to the year ended December 31, 2003, the Company followed SFAS 123 but elected to continue to measure compensation cost using the intrinsic value based method of accounting prescribed by APB 25, "Accounting for Stock Issued to Employees" and related interpretations.

Effective December 2003, the Company elected to adopt the fair value method of accounting for stock-based compensation under SFAS 123 which requires the Company to expense the fair value of employee stock options granted, modified or settled after January 1, 2003. The three transition methods provided by SFAS 148 are the prospective method, the modified prospective method and the retroactive restatement method. The Company has

39

elected to apply the prospective method whereby recognition provisions of SFAS 123 apply to all employee awards granted, modified or settled after January 1, 2003. The Company has recorded expense related to the stock options of \$17,000 and \$163,000 in 2004 and 2003, respectively.

For awards granted prior to 2003, the Company continues to follow SFAS No. 123 and uses the intrinsic value based method of accounting prescribed by APB 25. Under APB 25, because the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized for options granted to employees and non-employee directors.

Pro forma information regarding net income and earnings per share is required by SFAS 123, which also requires that the information be determined as if the Company has accounted for its stock options granted subsequent to December 31, 1994 under the fair value method of SFAS 123 (see Note 2, "Accounting Policies--Stock Based Compensation"). The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2004	2003	2002
	-----	-----	-----
Risk-free interest rate ...	3.93%	3.14%	3.0%
Expected life, in years ...	6.5	6.5	6.5
Expected volatility	0.293	0.340	0.321
Expected dividend yield ...	1.0%	1.4%	1.4%

A summary of stock option activity for all plans follows:

	2004		2003		2002	
	-----	-----	-----	-----	-----	-----
	OPTIONS	WEIGHTED AVERAGE PRICE	OPTIONS	WEIGHTED AVERAGE PRICE	OPTIONS	WEIGHTED AVERAGE PRICE
	-----	-----	-----	-----	-----	-----
Beginning of year	1,526,271	\$18.08	1,616,359	\$19.34	1,527,414	\$17.8
Granted	77,915	38.99	88,000	24.91	212,800	26.3

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Exercised	(599,446)	19.04	(166,438)	14.60	(105,957)	11.7
Forfeited or expired	(10,800)	22.12	(11,650)	21.59	(17,898)	21.1
	-----	-----	-----	-----	-----	-----
End of year	993,940	\$22.27	1,526,271	\$20.16	1,616,359	\$19.3
	=====	=====	=====	=====	=====	=====
Exercisable at end of year ...	739,480	\$19.69	1,024,882	\$18.08	985,028	\$16.2

The weighted average fair value of options granted was \$7.47 in 2004, \$6.61 in 2003 and \$6.67 in 2002. Options outstanding at December 31, 2004 had option prices ranging from \$10.67 to \$38.99 and expire at various dates between April 20, 2005 and December 6, 2014 (with a weighted-average remaining contractual life of 5.2 years). There are 808,891 shares reserved for future grant.

Included in the summary of stock option activity above, are options granted to GTG employees, which in accordance with SFAS 123, the Company has recorded compensation expense based on using a Black-Scholes option pricing model. This expense was \$144,000 for the seven months ended July 31, 2004, \$271,000 and \$201,000 for the twelve months ended December 31, 2003 and 2002, respectively, and is netted with the Company's equity income from GTG (see Note 6, "Equity Investment"). Under the terms of the Company's sale agreement with Genlyte, all outstanding stock options previously granted to GTG employees became fully vested as of July 31, 2004 and expired as of December 31, 2004. The Company recognized \$759,000 of expense in 2004 related to these options. This amount was recorded against the gain on the sale of GTG.

40

The following table summarizes the status of stock options outstanding as of December 31, 2004:

Range of Exercise Prices	STOCK OPTIONS OUTSTANDING			STOCK OPTIONS EXERCISABLE	
	SHARES	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
-----	-----	-----	-----	-----	-----
\$10.67 to \$14.58	179,063	1.5	\$14.20	179,063	\$14.20
\$16.44 to \$25.00	469,249	4.5	20.10	440,141	20.02
\$25.87 to \$38.99	345,628	8.1	29.40	120,276	26.64
	-----	---	-----	-----	-----
	993,940	5.2	\$22.27	739,480	\$19.69
	=====	===	=====	=====	=====

The Company also issued cash only stock appreciation rights (SAR's) in 2004 and 2003. All SAR's granted have ten year terms. SAR's granted to employees vest and become fully exercisable at the end of four years of continued employment. Under the terms of the Company's sale agreement with Genlyte, SAR's granted to GTG employees became fully vested as of July 31, 2004 and expired as of December 31, 2004. SAR's granted to non-employee directors vest and become fully exercisable as of the date granted. The Company has recorded expense of \$244,000 and \$1,000 in 2004 and 2003, respectively, related to SAR's for Thomas employees and non-employee directors. For SAR's previously granted to GTG employees in 2004, the Company recognized \$177,000 of expense, which was

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

recorded against the gain on the sale of GTG.

A summary of SAR's activity follows:

	2004		2003	
	SAR'S	WEIGHTED AVERAGE PRICE	SAR'S	WEIGHTED AVERAGE PRICE
Beginning of year.....	99,230	\$34.35	--	--
Granted.....	88,000	32.89	99,230	\$34.35
Exercised.....	(61,020)	32.28	--	--
Forfeited or expired.....	(7,480)	32.79	--	--
	-----	-----	-----	-----
End of year.....	118,730	\$34.43	99,230	\$34.35
	=====	=====	=====	=====
Exercisable at end of year...	21,000	\$34.82	--	--

In addition to the options and SAR's listed above, 20,000 performance share awards were granted in both December 2004 and December 2003, and 14,000 performance share awards were granted in December 2002. Performance share awards may be earned based on the total shareholder return of the Company during the three-year periods commencing January 1 following the grant date. A total of 11,526 shares were earned in 2004 from performance share awards granted in December 2001, 10,550 shares were earned in 2003 from awards granted in December 2000, and 11,639 shares were earned in 2002 from awards granted in December 1999. The Company has recorded compensation expense related to performance shares of \$199,000, \$482,000 and \$323,000 for 2004, 2003 and 2002, respectively.

DEFERRED SHARE TRUST

Employees who earn performance share awards as discussed above may elect to defer receipt of such shares until termination of employment. Non-Employee Directors are permitted to receive part or all of their director fees in the form of common stock of the Company and to defer receipt of such shares until retirement or other termination of service. In April 2000, the Company established a deferred share trust (the "Trust") to maintain the shares deferred for these obligations. The Trust qualifies as a rabbi trust for income tax purposes as the assets of the Trust are subject to the claims of general creditors of the Company. Dividends payable on the shares held by the Trust are reinvested in additional shares of common stock of the Company on behalf of the participants. Since there is no provision for diversification of the Trust's assets and settlement can only be made with a fixed number of shares of the Company's common stock, the deferred compensation obligation is classified as a component of shareholders' equity and the common stock held by the Trust is classified as treasury stock. Subsequent changes in the fair value of the common stock are not reflected in earnings or shareholders' equity of the Company.

SHAREHOLDER RIGHTS PLAN

On December 10, 1997, the Board of Directors of the Company adopted a shareholder rights plan (the Rights Plan) pursuant to which preferred stock

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

purchase rights (the Rights) were declared and distributed to the holders of the Company's common stock. These Rights are due to expire on January 5, 2008. The Rights Plan generally provides that the Rights separate from the common stock and become exercisable if a person or group of persons working together acquires at least 20% of the common stock (a 20% Acquisition) or announces a tender offer which would result in ownership by that person or group of at least 20% of the common stock (a 20% Tender Offer). Upon a 20% Acquisition, the holders of Rights may purchase the common stock at half-price. If, following the separation of the Rights from the common stock, the Company is acquired in a merger or sale of assets, holders of Rights may purchase the acquiring company's stock at half-price.

Notwithstanding the foregoing discussion, under the Rights Plan, the Board of Directors has flexibility in certain events. In order to provide maximum flexibility, the Board of Directors may delay the date upon which the Rights become exercisable in the event of a 20% Tender Offer. In addition, the Board of Directors has the option to exchange one share of common stock for each outstanding Right at any time after a 20% Acquisition, but before the acquirer has purchased 50% of the outstanding common stock. The Rights may also be redeemed at two cents per Right at any time prior to a 20% Acquisition or a 20% Tender Offer.

10. EMPLOYEE BENEFIT PLANS

The Company has noncontributory defined benefit pension plans and contributory defined contribution plans covering its hourly union employees in the U.S. The defined benefit plans in the U.S. primarily provide flat benefits of stated amounts for each year of service. The Company's policy is to fund pension costs deductible for income tax purposes for these plans.

The Company also has noncontributory defined benefit pension plans covering certain employees of its foreign locations. These plans provide benefits to employees based on rate of pay and years of service. The foreign defined benefit plans are not funded.

The Company also sponsors defined contribution pension plans covering substantially all U.S. employees whose compensation is not determined by collective bargaining. Annual contributions are determined by the Board of Directors.

	PENSION BENEFITS				OTHER POSTRETI	
	FOREIGN PLANS		U.S. PLANS		BENEFITS (U.S.)	
	2004	2003	2004	2003	2004	2003
	(IN THOUSANDS)				(IN THOUSAN	
CHANGE IN BENEFIT OBLIGATIONS						
Benefit obligations at beginning of year	\$10,550	\$ 8,056	\$ 8,749	\$7,967	\$1,523	\$1,
Foreign exchange impact	859	1,667	--	--	--	
Service cost	255	288	325	285	96	
Interest cost	643	592	526	513	106	
Plan amendments	--	355	--	163	(44)	
Benefits paid	(373)	(314)	(351)	(764)	(40)	
Actuarial (gain) loss	(120)	(94)	(8)	585	329	
Benefit obligations at end of year	\$11,814	\$10,550	\$ 9,241	\$8,749	\$1,970	\$1,

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

	=====	=====	=====	=====	=====	=====
CHANGE IN PLAN ASSETS						
Value of plan assets at beginning of year	\$ --	\$ --	\$ 8,189	\$7,226	\$ --	\$ --
Actual return on plan assets	--	--	592	1,157	--	--
Employer contributions	373	314	670	570	40	40
Benefits paid	(373)	(314)	(351)	(764)	(40)	(40)
Value of plan assets at end of year ...	\$ --	\$ --	\$ 9,100	\$8,189	\$ --	\$ --

42

	PENSION BENEFITS				OTHER POSTRETIREMENT BENEFITS (U.S.)	
	FOREIGN PLANS		U.S. PLANS		OTHER POSTRETIREMENT BENEFITS (U.S.)	
	2004	2003	2004	2003	2004	2003
	(IN THOUSANDS)				(IN THOUSANDS)	
FUNDED STATUS OF THE PLANS						
Assets less projected obligations	\$ (11,814)	\$ (10,550)	\$ (141)	\$ (560)	\$ (1,970)	\$ (1,970)
Unrecognized actuarial loss	297	404	1,790	1,861	947	947
Unrecognized transition obligations ...	--	--	2	4	110	110
Unrecognized prior service cost	--	--	690	782	--	--
Net asset (liability) recognized at end of year	\$ (11,517)	\$ (10,146)	\$ 2,341	\$ 2,087	\$ (913)	\$ (913)

	PENSION BENEFITS				OTHER POSTRETIREMENT BENEFITS (U.S.)	
	FOREIGN PLANS		U.S. PLANS		OTHER POSTRETIREMENT BENEFITS (U.S.)	
	2004	2003	2004	2003	2004	2003
	(IN THOUSANDS)				(IN THOUSANDS)	
BALANCE SHEET ASSETS (LIABILITIES)						
Prepaid benefit costs	\$ --	\$ --	\$ 114	\$ 107	\$ --	\$ --
Accrued benefit liabilities	(12,012)	(10,707)	(158)	(572)	(913)	(913)
Intangible assets	--	--	692	786	--	--
Accumulated other comprehensive income ...	495	561	1,693	1,766	--	--
Net asset (liability) recognized at end of year	\$ (11,517)	\$ (10,146)	\$ 2,341	\$ 2,087	\$ (913)	\$ (913)
Increase in minimum liability included in other comprehensive income	\$ (67)	\$ 387	\$ (73)	\$ (262)	\$ --	\$ --

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

The Company uses a December 31 measurement date for all U.S. and foreign plans.

The accumulated benefit obligation for all defined benefit pension plans was \$20,685,000 and \$18,942,000 at December 31, 2004 and 2003, respectively.

PENSION BENEFITS			
FOREIGN PLANS		U.S. PLANS	
2004	2003	2004	2003
(IN THOUSANDS)			

INFORMATION FOR PENSION PLANS WITH AN
ACCUMULATED BENEFIT OBLIGATION IN
EXCESS OF PLAN ASSETS:

Projected benefit obligation.....	\$11,814	\$10,550	\$8,786	\$8,315
Accumulated benefit obligation.....	11,444	10,194	8,786	8,315
Fair value of plan assets.....	--	--	8,628	7,743

43

	PENSION BENEFITS				OTHER POS
	FOREIGN PLANS		U.S. PLANS		BENEFITS (
	2004	2003	2004	2003	2004
Discount rate used to determine benefit obligations at December 31	6.00%	6.00%	6.00%	6.25%	6.00%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:					
Discount rate	6.00%	6.00%-7.00%	6.25%	6.75%	6.25%
Expected return on plan assets	--	--	8.00%	8.00%	--
Initial health care cost trend rate	--	--	--	--	11.00%
Ultimate health care cost trend rate	--	--	--	--	5.50%
Year ultimate rate is achieved					2013

To develop the expected long-term rate of return on assets assumption, the Company considered historical returns and future expectations. Over the 10-year period ending December 31, 2003, the compound annual returns on the portfolio have averaged 10.34%. Considering this information and the potential for lower future returns due to a generally lower interest rate environment, the Company selected an 8.00% long-term rate of return on asset assumptions.

The effect of a one-percentage-point change in assumed health care cost trend rates consisted of the following:

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

	ONE-PERCEN POINT INCR ----- (
Increase (decrease) in total postretirement service and interest cost components ...	\$ 30
Increase (decrease) to postretirement benefit obligation	\$254

The following table details the components of pension and other postretirement benefit costs.

	PENSION BENEFITS						OTHER POSTRETI	
	FOREIGN PLANS			U.S. PLANS			BENEFITS (U.S.	
	2004	2003	2002	2004	2003	2002	2004	2003
	----- (IN THOUSANDS)						----- (IN THOUSANDS)	
Service cost	\$255	\$288	\$137	\$ 325	\$ 285	\$ 289	\$ 96	\$ 67
Interest cost	643	593	243	526	513	490	106	86
Expected return on plan assets	--	--	--	(623)	(542)	(610)	--	--
Other amortization and deferral ...	--	--	--	188	204	91	54	31
	-----	-----	-----	-----	-----	-----	-----	-----
	\$898	\$881	\$380	\$ 416	\$ 460	\$ 260	\$256	\$184
	=====	=====	=====	=====	=====	=====	=====	=====

44

The Company's pension plan weighted-average asset allocations at December 31, 2004, and 2003, by asset category are as follows:

ASSET CATEGORY	% OF PLAN ASSETS AT DECEMBER 31	
	2004	2003
-----	-----	-----
Equity securities	65%	57%
Debt securities	34%	34%
Short-term investments ...	1%	9%
	----	----
	100%	100%
	====	====

Equity securities include 14,430 shares of Company common stock with a market value of \$576,000 (6 percent of total plan assets) at December 31, 2004 and \$500,000 (6 percent of total plan assets) at December 31, 2003.

Short-term investments include contributions to plans of \$570,000 in

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

December 2003 that had not yet been invested by the investment manager.

The Company's investment objective for plan assets includes exceeding the return generated by an unmanaged index composed of the S&P 500 Stock Index and the Lehman Brothers Government/Corporate Bond Index in proportion to the target portfolio, while achieving a rate of return greater than the actuarially assumed interest rate. The targeted asset mix was 60 percent equities and 40 percent fixed income as of December 31, 2004 and 55 percent equities and 45 percent fixed income as of December 31, 2003. The targeted allocation provides reasonable assurance that the investment objectives can be achieved based on historical performance.

The Company expects to contribute \$670,000 to its pension plans and \$100,000 to its postretirement benefit plans in 2005.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS (U.S. PLANS)
	FOREIGN PLANS	U.S. PLANS	
	(IN THOUSANDS)		(IN THOUSANDS)
2005	\$ 373	\$ 486	\$100
2006	386	479	99
2007	394	535	102
2008	443	468	117
2009	493	464	103
2010-2014	\$3,804	\$2,822	\$808

Thomas sponsors various defined contribution plans to assist eligible employees in providing for retirement or other future needs. Company contributions to these plans amounted to \$2,920,000 in 2004, \$2,591,000 in 2003 and \$1,364,000 in 2002.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"), which introduces a Medicare prescription drug benefit, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit, was enacted. On May 19, 2004, the FASB issued Financial Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", ("FSP 106-2") to discuss certain accounting and disclosure issues raised by the Act. FSP 106-2 addresses accounting for the federal subsidy for the sponsors of single employer defined benefit postretirement health care plans and disclosure requirements for plans for which the employer has not yet been able to determine actuarial equivalency. Except for certain nonpublic entities, FSP 106-2 is effective for the first interim or annual period beginning after June 15, 2004 (the quarter ending September 30, 2004 for the Company). The Company has not yet concluded whether the prescription drug benefits provided under its postretirement plan are actuarially equivalent to the

Medicare benefit as necessary to qualify for the subsidy. The reported net

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

periodic benefit costs of the Company's postretirement plan in the accompanying Financial Statements and included in Note 10 to the Financial Statements do not reflect the effects of the Act. Adoption of FSP 106-2 could require revisions to previously reported information. While the Company may be eligible for benefits under the Act based on the prescription drug benefits provided in its postretirement plan, it does not believe such benefits will have a material impact on our Financial Statements.

11. LEASES, COMMITMENTS AND CONTINGENCIES

Rental expense for building, machinery and equipment was \$7,374,000 in 2004, \$6,810,000 in 2003, and \$3,875,000 in 2002. Future minimum rentals under non-cancelable operating leases are as follows: 2005--\$5,630,000; 2006--\$4,481,000; 2007--\$3,818,000; 2008--\$3,416,000; 2009--\$2,429,000; and thereafter--\$1,647,000.

The Company had letters of credit outstanding in the amount of \$3,080,000 at December 31, 2004.

On August 13, 2002, a petition was filed in the District Court of Jefferson County, Texas, adding Thomas Industries Inc. as a third party defendant in a lawsuit captioned Hydro Action, Inc. v. Jesse James, individually and d/b/a James Backhoe Service of Dietrich, Illinois, Inc. and Original Septic Solutions, Inc. (the "Third Party Plaintiffs") (the "Original Lawsuit"). The Original Lawsuit alleged that the Company violated the Texas Deceptive Trade Practices Act and breached warranties of merchantability and fitness for a particular purpose with respect to pumps sold by the Company and used in septic tanks manufactured or sold by the plaintiffs. The Original Lawsuit was stayed as a result of the bankruptcy filing by Hydro Action, Inc. On October 8, 2003, a lawsuit was filed against the Company, Gig Brewery, Yasunaga Corporation and Aqua-Partners, Ltd. in the District Court of Jefferson County, Texas, making the same allegations set forth in the Original Lawsuit and requesting class-action certification. No class has been certified. The Third Party Plaintiffs are plaintiffs in this action. This complaint has been amended to include approximately 28 plaintiffs. The complaint currently seeks \$3 million per plaintiff and punitive and exemplary damages. The total sales by the Company related to these products were approximately \$900,000. On September 29, 2004, the case was remanded to state court in Jefferson County and the stay is no longer in place. Although this litigation is in the preliminary stages, the Company believes it has meritorious defenses to the claims and intends to vigorously defend this matter. Litigation is subject to many uncertainties and the Company cannot guarantee the outcome of these proceedings. However, based upon information currently available, the Company does not believe that the outcome of this proceeding will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

In the normal course of business, the Company is a party to other legal proceedings and claims. When costs can be reasonably estimated, appropriate liabilities for such matters are recorded. While management currently believes the amount of ultimate liability, if any, with respect to these actions will not materially affect the consolidated financial position, results of operations, or liquidity of the Company, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur, the impact could be material to the Company.

The Company, like other similar manufacturers, is subject to environmental rules and regulations regarding the use, disposal and cleanup of substances regulated under environmental protection laws. It is the Company's policy to comply with these rules and regulations, and the Company believes that its practices and procedures are designed to meet this compliance.

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

The Company is subject to various federal, state and local environmental laws and regulations that require remediation efforts at several locations including both current and former operating facilities. One of the most significant sites is a former manufacturing facility located in Beaver Dam, Kentucky. Since 1992, the Company has been working under an Agreed Order with the Kentucky Natural Resources and Environmental Protection Cabinet to remediate this site. The Company has completed all closure activities and has received approval for implementation of a post-closure plan.

In 2004, a letter was received from the Wisconsin Department of Natural Resources (WDNR) indicating that the Company was solely responsible for remediation of a former manufacturing facility located in Fort Atkinson, Wisconsin, which was sold by the Company in 1985. In response to WDNR's demand, the Company engaged a consultant to perform an initial hydrogeologic site investigation. This initial site investigation found

46

elevated levels of volatile organic compounds including tetrachloroethene and its daughter products. The site investigation will be expanded to determine the extent of the contamination and to develop a remediation work plan. The Company provided a reserve of \$900,000 in the third quarter and an additional \$200,000 in the fourth quarter of 2004 for anticipated future costs associated with remediation of this site.

The Company's policy is to provide for environmental reserves on a discounted basis, when appropriate. Environmental reserves are subject to numerous inherent uncertainties that affect the ability to estimate future costs of required remediation efforts. Such uncertainties involve the nature and extent of contamination, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology and the financial strength of other potentially responsible parties at multiparty sites. Reserves are reviewed for adequacy on a quarterly basis and adjusted, if necessary, as environmental assessment and remediation efforts proceed.

Changes in the Company's environmental reserve at December 31, 2004 and 2003 is as follows (in thousands):

	FOR THE TWELVE MONTHS ENDED DECEMBER 31,	
	2004	2003
	-----	-----
Balance at beginning of period	\$1,321	\$1,350
Environmental accruals	1,100	315
Expenditures	(239)	(344)
	-----	-----
Balance at end of period	\$2,182	\$1,321
	=====	=====

Related to the \$2,182,000 reserve at December 31, 2004, approximately \$1,276,000 of this amount was determined on a discounted basis using a 4.9% discount rate. The \$1,276,000 discounted amount is \$1,977,000 on an undiscounted

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

basis. No recoveries are expected or assumed. Expected payments of the \$1,977,000 are as follows:

2005	\$ 163,000
2006	154,000
2007	162,000
2008	137,000
2009	78,000
Thereafter	\$1,283,000

Total	\$1,977,000
	=====

12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

A summary of accrued expenses and other current liabilities follows:

	2004	2003
	-----	-----
	(IN THOUSANDS)	
Accrued wages, taxes and withholdings	\$14,314	\$10,875
Accrued insurance	1,680	1,878
Accrued interest	3	769
Accrued warranty expense	5,338	5,382
Other current liabilities	12,869	11,615
	-----	-----
Total accrued expenses and other current liabilities ..	\$34,204	\$30,519
	=====	=====

13. INDUSTRY SEGMENT INFORMATION

Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief decision maker or group in deciding how to allocate resources and assessing performance.

The Company has historically been organized into two business segments, the Pump and Compressor Segment and Lighting Segment through its 32% interest in GTG. The segments have been managed separately based on the fundamental differences in their respective operations. The Pump and Compressor Segment designs,

manufacturers, and sells pumps and compressors for use in global original equipment manufacturing applications as well as construction equipment, systems and laboratory equipment. The Lighting Segment designs, manufactures, markets and sells lighting products principally in North America for commercial, industrial and residential applications. See Note 4 which describes in further detail the sale of the Company's interest in GTG.

Industry segment information follows:

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

	2004	2003	2002
	-----	-----	-----
	(IN THOUSANDS)		
SALES AND OPERATING REVENUES			
Pump and Compressor (1)			
Total net sales including inter-area sales ..	\$462,151	\$420,473	\$266,285
Inter-area sales (2)	(52,037)	(43,699)	(25,683)
	-----	-----	-----
Net sales to unaffiliated customers	\$410,114	\$376,774	\$240,602
	=====	=====	=====
OPERATING INCOME (LOSS)			
Pump and Compressor (1)	\$ 40,936	\$ 36,742	\$ 31,675
Lighting (GTG) (3)	18,608	32,138	28,804
Gain on Sale of GTG (3)	160,410	--	--
Corporate	(11,204)	(8,743)	(5,966)
	-----	-----	-----
	\$208,750	\$ 60,137	\$ 54,513
	=====	=====	=====
ASSETS			
Pump and Compressor (1)	\$382,102	\$344,384	\$287,167
Lighting (GTG) (3)	--	214,405	188,810
Corporate	239,834	14,345	15,039
	-----	-----	-----
	\$621,936	\$573,134	\$491,016
	=====	=====	=====
INVESTMENT IN EQUITY AFFILIATES			
Lighting (GTG) (3)	--	\$214,405	\$188,810
	=====	=====	=====
EXPENSES NOT AFFECTING CASH			
Depreciation and amortization			
Pump and Compressor (1)	\$ 16,200	\$ 15,072	\$ 10,312
Corporate	140	135	156
	-----	-----	-----
	\$ 16,340	\$ 15,207	\$ 10,468
	=====	=====	=====
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT			
Pump and Compressor (1)	\$ 16,303	\$ 19,805	\$ 8,208
Corporate	100	303	150
	-----	-----	-----
	\$ 16,403	\$ 20,108	\$ 8,358
	=====	=====	=====

- (1) Includes Rietschle after the August 29, 2002 acquisition date.
- (2) Inter-area sales represent intercompany sales between geographic regions (North America, Europe and Asia Pacific).
- (3) The Company sold its joint venture interest in Lighting (GTG) on July 31, 2004.

Intra-area sales, which represent intercompany sales between locations within a geographic region, have been eliminated from the above tabulation. Operating income by segment is gross profit less operating expenses, excluding interest, general corporate expenses, other income and income taxes.

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Information by geographic area follows:

	2004	2003	2002
	-----	-----	-----
	(IN THOUSANDS)		
REVENUES (1) (2)			
(Total net sales including inter-area sales)			
United States	\$171,063	\$165,899	\$144,481
Germany	209,720	180,568	85,227
Other Europe	84,381	75,194	28,588
Asia Pacific	40,034	34,512	18,568
	-----	-----	-----
	\$505,198	\$456,173	\$276,864
	=====	=====	=====
INTER-AREA SALES (3)			
United States	\$ (14,829)	\$ (12,712)	\$ (13,139)
Germany	(78,660)	(62,243)	(21,969)
Other Europe	(1,451)	(4,262)	(1,135)
Asia Pacific	(144)	(182)	(19)
	-----	-----	-----
	\$ (95,084)	\$ (79,399)	\$ (36,262)
	=====	=====	=====
NET SALES TO UNAFFILIATED CUSTOMERS			
United States	\$156,234	\$153,187	\$131,342
Germany	131,060	118,325	63,258
Other Europe	82,930	70,932	27,453
Asia Pacific	39,890	34,330	18,549
	-----	-----	-----
	\$410,114	\$376,774	\$240,602
	=====	=====	=====
PROPERTY, PLANT AND EQUIPMENT			
United States	29,219	\$ 31,673	\$ 32,069
Germany	65,329	64,859	48,061
Other Europe	17,564	10,864	10,840
Asia Pacific	2,756	954	621
	-----	-----	-----
	\$114,868	\$108,350	\$ 91,591
	=====	=====	=====

 (1) Revenues are attributed to geographic areas based on the location of the selling entity.

(2) Includes Rietschle after the August 29, 2002 acquisition date.

(3) Inter-area sales represent intercompany sales between countries/geographic areas (United States, Germany, other Europe, and Asia Pacific).

Intra-area sales, which represent intercompany sales between locations within a country/geographic area, have been eliminated from the above tabulation.

Net exposed assets, which represents assets less liabilities for geographic operations outside of North America that are exposed to foreign currency risk, at December 31, 2004 are \$239,065,000 and \$19,416,000 for Europe and Asia Pacific, respectively.

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

14. CURRENCY RISK MANAGEMENT

The Company conducts business in several major international currencies (primarily the European Euro, British Pound, Japanese Yen, Swiss Franc, and Australian Dollar) and is subject to risks associated with changing foreign exchange rates. The Company's objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its core business issues and challenges. Accordingly, the Company enters into contracts that change in value as foreign exchange rates change to protect the value of anticipated foreign currency revenues and expenses. The gains and losses on these contracts offset changes in the value of the underlying transactions as they occur. The Euro is the only currency hedged.

At December 31, 2004, the Company held forward contracts expiring through December 2005 to hedge probable, but not firmly committed, intercompany inventory purchases. These hedging contracts are classified as cash flow hedges and accordingly, are adjusted to current market values through other comprehensive income until the underlying transactions are recognized. Upon recognition, such gains and losses are recorded in operations as an adjustment to the carrying amounts of the underlying transactions in the period in which these transactions are recognized.

49

At December 31, 2004, the foreign currency forward contracts had a notional amount of Euro 6,000,000 and a fair value of approximately \$657,700. The fair value of the foreign currency forward contracts, which represents an asset, is included in other current assets. The amount of the pre-tax net gain deferred through other comprehensive income as of December 31, 2004 was approximately \$631,900. There was \$25,800 of gain recognized in fiscal 2004. There was no gain or loss recognized during 2003.

15. RELATED PARTY TRANSACTIONS

The Company had an accounts receivable of approximately \$500,000 as of December 31, 2004 and \$900,000 as of December 31, 2003, from Werner Rietschle Holding GmbH, a shareholder and the entity which sold the Company assets in the Rietschle transaction. This amount primarily related to taxes paid by the Company on behalf of Werner Rietschle Holding GmbH. Dieter Rietschle, who is the Company's general manager of its TIWR Holding GmbH & Co. KG subsidiary and a former director, has a 49% ownership and 51% voting control of Werner Rietschle Holding GmbH. The \$500,000 amount as of December 31, 2004 was subsequently collected in 2005.

16. SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Unaudited quarterly results of operations follow:

	NET SALES		GROSS PROFIT		NET INCOME	
	2004	2003	2004	2003	2004	2003
	-----	-----	-----	-----	-----	-----
	(IN THOUSANDS, EXCEPT SHARE DATA)					
1st Qtr....	\$109,518	\$ 92,346	\$ 38,383	\$ 33,115	\$ 10,650	\$ 8,806

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

2nd Qtr....	102,656	95,810	37,563	33,760	9,805	9,432
3rd Qtr....	97,697	88,985	35,433	29,513	90,268(1)	10,583
4th Qtr....	100,243	99,633	36,081	33,554	3,431	8,493
	-----	-----	-----	-----	-----	-----
	\$410,114	\$376,774	\$147,460	\$129,942	\$114,154	\$37,314
	=====	=====	=====	=====	=====	=====

	BASIC NET INCOME PER SHARE		DILUTED NET INCOME PER SHARE	
	2004	2003	2004	2003
	-----	-----	-----	-----
1st Qtr....	\$0.61	\$0.51	\$0.60	\$0.50
2nd Qtr....	0.56	0.55	0.55	0.54
3rd Qtr....	5.16(1)	0.61	5.07(1)	0.60
4th Qtr....	0.19	0.49	0.19	0.48
	-----	-----	-----	-----
	\$6.53	\$2.17	\$6.44	\$2.12
	=====	=====	=====	=====

(1) Includes a gain of \$84,135,000 (pre-tax gain of \$160,410,000) from the sale of the Company's joint venture interest in GTG. Net income per share related to this gain was \$4.81 (basic) and \$4.74 (diluted).

17. SUBSEQUENT EVENT

On January 10, 2005 the Company acquired certain assets of the side channel blower business of Ruey Chaang Electric Co, Ltd. of Taipei, Taiwan for approximately \$12 million. A partial payment of \$8.4 million in cash was paid in January 2005, with the balance payable in the third quarter of 2005.

50

DISCUSSION OF UNAUDITED PRO FORMA
CONSOLIDATED STATEMENTS OF OPERATIONS

GENERAL DESCRIPTION

The following unaudited pro forma consolidated statements of operations are based on the historical consolidated statement of operations of Gardner Denver, Inc. ("Gardner Denver" or the "Company") and the historical consolidated statement of operations of Thomas Industries Inc. ("Thomas") and nash_elmo Holdings, LLC ("Nash Elmo") adjusted to give effect to Thomas (acquired July 1, 2005) and Nash Elmo (acquired September 1, 2004) acquisitions and the financing for the Thomas and Nash Elmo acquisitions as if each had occurred on January 1, 2004. The historical statement of operations of Thomas is included in this Form 8-K/A. The historical consolidated statement of operations of Nash Elmo and related pro forma financial information were included in a previous Form 8-K/A filing dated September 2, 2004 and filed on November 17, 2004.

THOMAS ACQUISITION FINANCING AND PURCHASE PRICE ALLOCATION

Pursuant to its previously filed shelf registration with the Securities and Exchange Commission, the Company completed an offering of 5,658,000 shares of

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

its common stock (including shares purchased by underwriters to cover over-allotments) for proceeds of approximately \$199.4 million (net of direct costs associated with the offering) during May 2005. The Company also completed an offering of \$125.0 million of its 8% Senior Subordinated Notes (the "Notes") in a private placement on May 4, 2005. The Company used the proceeds from the shares and Notes, plus funds available under an amended and restated senior secured bank facility, to finance its acquisition of Thomas (consummated on July 1, 2005) and to repay certain indebtedness.

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

On May 13, 2005, the Company entered into a \$605.0 million amended and restated credit agreement (the "2005 Credit Agreement"). Contingent on the completion of the Thomas acquisition (consummated on July 1, 2005), the 2005 Credit Agreement provided the Company with access to senior secured credit facilities including a \$380.0 million Term Loan and restated the \$225.0 million Revolving Line of Credit, in addition to superceding the 2004 Credit Agreement. Proceeds from the 2005 Credit Agreement were used to fund the Thomas acquisition and retire \$144.4 million of debt outstanding under the previously existing Term Loan.

The Revolving Line of Credit matures on September 1, 2009. Loans under this facility may be denominated in U.S. Dollars or several foreign currencies. On June 30, 2005, the Revolving Line of Credit had no outstanding principal balance, leaving \$225.0 million available for letters of credit or for future use, subject to the terms of the Revolving Line of Credit.

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

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

The Company's obligations under the 2005 Credit Agreement are guaranteed by the Company's existing and future domestic subsidiaries, and are secured by a

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

pledge of certain subsidiaries' capital stock. The Company is subject to customary covenants regarding certain earnings, liquidity and capital ratios.

The aggregate purchase price for the Thomas acquisition of \$483.5 million (net of \$265.3 million cash acquired and including \$7.6 million of capital lease obligations assumed and \$7.0 million of direct acquisition costs) has been allocated primarily to receivables (\$59.8 million); inventory (\$76.3 million); property, plant and equipment (\$126.5 million); intangible assets (\$336.5 million); other assets (\$9.4 million); accounts payable and accrued liabilities (\$60.1 million); net deferred income tax liabilities (\$41.0 million) and other long-term liabilities (\$23.9 million), based on their estimated fair values at the date of acquisition. This allocation reflects the Company's preliminary estimates of the purchase price allocation and is subject to change upon completion of appraisals. Further, other assets and liabilities may be identified to which a portion of the purchase price could be allocated. The Company has not yet performed a detailed analysis to identify and measure additional adjustments that may be necessary to conform Thomas' accounting policies with the Company's accounting policies.

The following table summarizes the preliminary fair values of the intangible assets acquired in the Thomas acquisition (in millions):

Amortized intangible assets:	
Customer lists and relationships	\$ 50.0
Technology	9.5
Other	3.5
Unamortized intangible assets:	
Goodwill	228.5
Trademarks	45.0

Total intangible assets	\$336.5
	=====

The preliminary weighted average amortization period for customer lists and relationships and other amortized intangible assets is 20 years and 5 years, respectively.

PRO FORMA ADJUSTMENTS

The unaudited pro forma consolidated statements of operations reflect pro forma adjustments that are described in the accompanying notes and are based on available information and certain assumptions the Company believes are reasonable but are subject to change. In the Company's opinion, all adjustments that are necessary to fairly present the pro forma information have been made. The unaudited pro forma consolidated statements of operations do not purport to represent what the Company's results of operations would actually have been if the Thomas acquisition and the financing for the Thomas acquisition had occurred on such dates or to project the Company's results of operations for any future date or period.

The unaudited pro forma consolidated statements of operations reflect the Company's preliminary estimates of the allocation of the purchase price for the Thomas acquisition and are subject to change. The unaudited pro forma consolidated statements of operations do not reflect any operating efficiencies or cost savings that the Company may achieve with respect to the combined entities nor any expense associated with achieving these benefits.

THOMAS AND GARDNER DENVER HISTORICAL FINANCIAL STATEMENTS

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

The historical consolidated statement of operations of Thomas in the pro forma consolidated statement of operations is based on Thomas' consolidated financial statements. You should read the following unaudited pro forma consolidated statements of operations in conjunction with the Company's historical audited consolidated financial statements, the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which were included in Gardner Denver's Form 10-K for the year ended December 31, 2004 and incorporated herein by reference, the Company's unaudited condensed financial statements, the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which were included in Gardner Denver's Form 10-Q for the quarterly period ended June 30, 2005 and incorporated herein by reference, Thomas' historical audited consolidated financial statements and the related notes, included in this Form 8-K/A.

52

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS SIX MONTHS ENDED JUNE 30, 2005 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	GARDNER DENVER HISTORICAL -----	THOMAS HISTORICAL -----	THOMAS AND RELATED FINANCING PRO FORMA ADJUSTMENTS -----		PRO FOR GARDNER DE THOMAS RELATE FINANCI -----
Revenues.....	\$489,170	\$220,919	\$ --		\$710,08
Costs and expenses:					
Cost of sales.....	328,914	136,242	--		465,15
Depreciation and amortization.....	14,481	8,966	1,637 (A)		25,08
Selling and administrative expenses	104,163	58,060	--		162,22
Interest expense.....	9,284	277	10,215 (B)		19,77
Other income, net.....	(3,322)	(4,306)	2,473 (C)		(5,15
	-----	-----	-----		-----
Total costs and expenses.....	453,520	199,239	14,325		667,08
Income before income taxes.....	35,650	21,680	(14,325)		43,00
Provision for income taxes	10,695	6,742	(4,535) (D)		12,90
	-----	-----	-----		-----
Net income.....	\$ 24,955	\$ 14,938	\$ (9,790)		\$ 30,10
	=====	=====	=====		=====
Basic earnings per share.....	\$ 1.14				\$ 1.1
	=====				=====
Diluted earnings per share.....	\$ 1.11				\$ 1.1
	=====				=====
Basic weighted average number of shares outstanding.....	21,872		3,876		25,74
	=====		=====		=====
Diluted weighted average number of shares outstanding.....	22,433		3,876		26,30
	=====		=====		=====

See accompanying notes to unaudited pro forma

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

consolidated statement of operations

53

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
 JUNE 30, 2005
 (IN THOUSANDS)

	GARDNER DENVER HISTORICAL -----	THOMAS HISTORICAL -----	PRO FORMA ADJUSTMENTS -----	
ASSETS				
Current assets:				
Cash and equivalents	\$ 246,335	\$265,188	\$(393,105)	(E)
Short-term investments	--	122	--	
Receivables, net	162,466	61,334	(1,500)	(E)
Inventories, net	137,939	69,024	3,800	(E), (F)
			4,953	(E)
			(1,500)	(E)
Deferred income taxes	6,836	5,275	2,244	(E)
Other current assets	11,003	6,287	--	
	-----	-----	-----	
Total current assets	564,579	407,230	(385,108)	
	-----	-----	-----	
Property, plant and equipment, net	145,546	105,171	28,000	(E), (G)
			(6,632)	(H)
Goodwill	370,090	66,164	162,313	(E)
Other intangibles, net	107,038	24,111	6,632	(H)
			(30,743)	(E)
			108,000	(E)
Other assets	15,730	3,094	4,480	(I)
	-----	-----	-----	
Total assets	\$1,202,983	\$605,770	\$(113,058)	
	=====	=====	=====	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Short-term borrowings and current maturities of long-term debt	\$ 22,758	\$ 1,629	\$ --	
Accounts payable and accrued liabilities ..	182,121	60,126	--	
	-----	-----	-----	
Total current liabilities	204,879	61,755	--	
	-----	-----	-----	
Long-term debt, less current maturities	274,028	5,930	352,625	(E)
Postretirement benefits other than pensions ..	30,092	--	--	
Deferred income taxes	22,948	8,806	39,685	(E)
Other liabilities	52,171	20,411	3,500	(E)
	-----	-----	-----	
Total liabilities	584,118	96,902	395,810	
	-----	-----	-----	
Stockholders' equity				
Common stock	276	18,676	(18,676)	(J)
Capital in excess of par value	466,365	150,315	(150,315)	(J)
Retained earnings	164,385	335,344	(335,344)	(J)

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Accumulated other comprehensive income	15,121	16,592	(16,592) (J)
Treasury Stock	(27,282)	(12,059)	12,059 (J)
	-----	-----	-----
Total stockholders' equity	618,865	508,868	(508,868)
	-----	-----	-----
Total liabilities and stockholders' equity	\$1,202,983	\$605,770	\$(113,058)
	=====	=====	=====

See accompanying notes to unaudited pro forma consolidated financial statements

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2005
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

- (A) Reflects the change in Thomas' depreciation and amortization expense due to the depreciation of the step-up in its property, plant and equipment to fair value over estimated average useful lives ranging from 3 to 25 years, and the amortization of the separately identifiable intangible assets with finite lives at estimated fair values over estimated useful lives ranging from 5 to 20 years. This adjustment is based on the Company's estimated allocation of the purchase price for the Thomas acquisition. We will base the final allocation on appraisals that have not yet been completed.
- (B) Reflects the following interest expense on the estimated incremental borrowings necessary to finance the Thomas acquisition:

Interest on new senior subordinated notes (\$125,000 at 8.00% for January 1, 2005 - May 4, 2005)	\$ 3,389
Interest on incremental term loan and revolving line of credit borrowings (\$352,625 at 4.85%)	8,481
Interest saved on average revolving credit line of \$124,000 assuming retired with proceeds from the stock offering (January 2005 - May 2005)	(1,669)
Interest saved on average term loan balance of \$147,000 from January 2005 - May 2005 due to lower leverage from retired revolving line of credit	(326)
Net impact on amortization of debt issue costs related to the financing for the Thomas acquisition	659
Prepayment penalty on other borrowings repaid in 2005	(319)

Total interest expense adjustment	\$10,215
	=====

For purposes of determining the adjustment for the credit line and the term loan borrowings, the applicable LIBOR rate plus the applicable margin per the Company's credit agreement was used.

- (C) Reflects the elimination of interest income earned at an average rate of 2.3% on the \$215,000 excess cash at Thomas which was used to fund the acquisition.
- (D) Reflects the income tax effects of the pro forma adjustments to provide for a combined effective income tax rate for Gardner Denver and Thomas of 30.0%.

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

55

(E) Reflects the following estimated sources and uses of cash, purchase price allocation and net fair value adjustments to Thomas' assets and liabilities, including goodwill:

SOURCES AND USES OF CASH:

Consideration paid at closing for the shares of Thomas	\$ 734,224
Cash paid for direct acquisition costs, including financial advisory, legal, accounting, auditing and other costs	7,026

Aggregate purchase price	741,250
	=====
Available cash at Gardner Denver	178,105
Available cash and short-term investments at Thomas	215,000

Total existing cash used for the acquisition	393,105
	=====
Borrowings available under new credit line	117,000
Borrowings available under new term loan	380,000
Existing Gardner Denver debt to be repaid	(144,375)

Total new borrowings	352,625
Less debt issuance costs related to new borrowings	(4,480) (I)

Net borrowings directly related to the acquisition purchase price ...	\$ 348,145
	=====

ESTIMATED PURCHASE PRICE ALLOCATION:

Aggregate purchase price	\$ 741,250
Book value of Thomas' net assets	(508,868)
Capitalized estimated manufacturing profit in inventory acquired	(3,800) (F)
Elimination of LIFO reserve	(4,953)
Step-up in property, plant and equipment to fair value	(28,000) (G)
Elimination of Thomas' historical intangible assets (other than goodwill)	30,743
Separately identifiable intangible assets (other than goodwill)	(108,000)
Adjustment of pension liabilities (equal to excess of the projected benefit obligation over the fair value of plan assets less Thomas' existing liability)	3,500
Additional deferred tax liabilities, net (on fair value changes to assets and liabilities)	37,441
Other asset and liability fair value adjustments, net	3,000

Net adjustment to goodwill	\$ 162,313
	=====

This reflects our preliminary estimates of the purchase price allocation for the Thomas acquisition, which may change upon completion of appraisals. Further, we may identify other assets and liabilities to which a portion of

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

the purchase price will be allocated. The purchase price allocation also does not include an accrual for any anticipated restructuring activities in connection with the Thomas acquisition. The Company has not yet performed a detailed analysis to identify and measure additional adjustments that may be necessary to conform Thomas' accounting policies with the Company's accounting policies.

56

The adjusted pro forma balance of Thomas' other separately identifiable intangible assets is estimated to be comprised of the following:

Other Intangible Assets:

Customer lists and relationships, to be amortized over 20 years	\$ 50,000
Trademarks and trade names, indefinite lives	45,000
Technology (primarily software and patents), to be amortized over	
5-10 years	9,500
Other, to be amortized over 5 years	3,500

Total other intangible assets	\$108,000
	=====

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the pro forma statement of operations does not include amortization of goodwill and other intangible assets with indefinite useful lives acquired in the Thomas acquisition.

- (F) Reflects the estimated purchase accounting adjustment for capitalization of manufacturing profit in inventory acquired with Thomas. The pro forma statement of operations does not reflect the one time adjustment on cost of sales during the period this inventory is sold.
- (G) Reflects the estimated purchase accounting adjustment to Thomas' property, plant and equipment to step-up the basis to estimated fair value. This adjustment is based on the estimated allocation of the purchase price for the Thomas acquisition.
- (H) Reflects the reclassification of Thomas' deferred software costs from property, plant and equipment to other intangible assets.
- (I) Reflects the estimated additional debt issuance costs related to the new borrowings which will be capitalized and amortized through maturity.
- (J) Reflects the elimination of Thomas' historical consolidated equity.

57

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2004
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

	=====	=====	=====	=====
Basic earnings per share	\$ 2.13			\$
	=====			=====
Diluted earnings per share	\$ 2.09			\$
	=====			=====
Basic weighted average number of shares outstanding	18,955		5,658	
	=====		=====	=====
Diluted weighted average number of shares outstanding	19,377		5,658	
	=====		=====	=====

NOTE: THE ABOVE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS INCLUDES EQUITY INCOME FROM THOMAS' 32% INVESTMENT IN GTG. GENLYTE AND THOMAS FORMED GTG ON AUGUST 30, 1998. EFFECTIVE WITH THOMAS' INVESTMENT IN GTG, ITS INTEREST IN GTG WAS ACCOUNTED FOR USING THE EQUITY METHOD OF ACCOUNTING. EFFECTIVE WITH THE CLOSE OF BUSINESS ON JULY 1, 2004, THOMAS SOLD ITS 32% INTEREST IN GTG, TO GENLYTE FOR APPROXIMATELY \$400,900. AS REQUIRED BY ARTICLE 11 OF REGULATION S-X, THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS INCLUDES EQUITY INCOME FROM GTG, AS WELL AS A GAIN FROM THE SALE OF THOMAS' INTEREST IN GTG. IN TOTAL, THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS INCLUDES \$176,954 OF PRETAX INCOME AND \$95,054 OF NET INCOME AND \$3.79 OF DILUTED EARNINGS PER SHARE FROM THE EFFECTS OF GTG. FOR MORE INFORMATION THAT EXCLUDES THE EFFECTS OF GTG, SEE NOTE F BELOW.

See accompanying notes to unaudited pro forma consolidated
statement of operations

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

- (A) Includes a \$3,735 non-recurring unfavorable impact related to recording the acquired inventory of Syltone and Nash Elmo at fair value.
- (B) The Company acquired Nash Elmo on September 1, 2004. The unaudited pro forma consolidated statement of operations therefore includes Nash Elmo's historical results for the eight months ended August 31, 2004, which were included in the Company's 8-K/A filing dated September 2, 2004 and filed on November 17, 2004, and the pro forma adjustments for the Nash Elmo acquisition.
- (C) Reflects the change in Nash Elmo's depreciation and amortization expense due to the depreciation of the step-up in its property, plant and equipment to fair value over estimated average useful lives ranging from 3 to 25 years, and the amortization of the separately identifiable intangible assets with finite lives at estimated fair values over estimated useful lives ranging from 5 to 20 years. This adjustment is based on our estimated allocation of the purchase price for the Nash Elmo acquisition. We will base the final allocation on appraisals that have not yet been completed.
- (D) Reflects the following interest expense on the estimated incremental borrowings necessary to finance the Nash Elmo acquisition:

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Interest on the incremental Credit Line borrowing (\$117,480 at 3.75%) ...	\$ 2,937
Interest on the incremental Term Loan borrowing (\$108,750 at 3.75%)	2,719
Incremental interest on our previously existing average borrowings (excluding the Nash Elmo acquisition related borrowings) due to an increase in rates on borrowings and commitments resulting from the increased leverage from the Nash Elmo acquisition	213
Net impact on amortization of debt issue costs related to the financing for the Nash Elmo acquisition	(117)
Elimination of historical interest expense on Nash Elmo's debt repaid in conjunction with the Nash Elmo acquisition	(2,834)

Total interest expense adjustment	\$ 2,918
	=====

For purposes of determining the adjustment for the credit line and the term loan borrowings, the applicable LIBOR rate plus the applicable margin per our credit agreement was used.

- (E) Reflects the income tax effects of the pro forma adjustments to provide for a combined effective income tax rate for Gardner Denver and Nash Elmo of 30.0%.
- (F) As noted above, effective with the close of business on July 31, 2004, Thomas sold its 32% interest in GTG to Genlyte for approximately \$400,900. The information set forth below adjusts the information presented under the title "Pro Forma Gardner Denver, Nash Elmo, Thomas and Related Financing" to exclude the effects of GTG, assuming Thomas had sold its interest in GTG at the beginning of the period presented and used a portion of the net proceeds from the sale to repay all of Thomas' existing debt other than its capitalized lease obligations:

59

	PRO FORMA GARDNER DENVER, NASH ELMO, THOMAS AND RELATED FINANCING	PRO FORMA ADJUSTMENTS	PRO FORMA GARDNER DENVER, NASH ELMO, THOMAS AND RELATED FINANCING, AS ADJUSTED
	-----	-----	-----
Revenues	\$1,305,970	\$ --	\$1,305,970
Costs and expenses:			
Cost of sales	848,269	--	848,269
Depreciation and amortization	48,334	--	48,334
Selling and administrative expenses	309,679	(353) (1)	309,326
Interest expense	39,131	(1,711) (2)	37,420
Other (income) expense, net	(879)	--	(879)
	-----	-----	-----
Total costs and expenses	1,244,534	(2,064)	1,242,470
Equity income from GTG	18,608	(18,608) (3)	--
Gain on sale of GTG	160,410	(160,410) (4)	--
	-----	-----	-----
Income before income taxes	240,454	(176,954)	63,500
Provision for income taxes	102,704	(82,067) (5)	20,637
	-----	-----	-----

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

Net income	\$ 137,750	\$ (94,887)	\$ 42,863
	=====	=====	=====
Basic earnings per share	\$ 5.60		\$ 1.74
	=====		=====
Diluted earnings per share	\$ 5.50		\$ 1.71
	=====		=====
Basic weighted average number of shares outstanding	24,613		24,613
	=====		=====
Diluted weighted average number of shares outstanding	25,035		25,035
	=====		=====

- (1) The adjustment reflects the reduced bank fees and deferred loan amortization due to applying a portion of the proceeds from the sale of Thomas' interest in GTG to pay down previously existing bank debt, except capitalized lease obligations, as of the beginning of the period.
- (2) The adjustment reflects the reduced interest expense due to applying a portion of the proceeds from the sale of Thomas' interest in GTG to pay down debt as of the beginning of the period.
- (3) The adjustment reflects the elimination of Thomas' equity income from GTG due to the sale of GTG as of the beginning of the period.
- (4) The adjustment reflects the elimination of the pretax gain on the sale of Thomas' interest in GTG as of the beginning of the period.
- (5) The adjustment reflects the income tax effects of adjustments (1), (2), (3) and (4) to reflect an overall effective tax rate of 32.5% excluding the impact of the gain on Thomas' sale of its interest in GTG or its equity income prior to the sale.

Financial information for Thomas includes \$5,245 of non-recurring charges related to plant shutdown, legal and environmental costs.

- (G) Reflects the change in Thomas' depreciation and amortization expense due to the depreciation of the step-up in its property, plant and equipment to fair value over estimated average useful lives ranging from 3 to 25 years, and the amortization of the separately identifiable intangible assets with finite lives at estimated fair values over estimated useful lives ranging from 5 to 20 years. This adjustment is based on our estimated allocation of the purchase price for the Thomas acquisition. We will base the final allocation on appraisals that have not yet been completed.

60

- (H) Reflects the following interest expense on the notes and other estimated incremental borrowings necessary to finance the Thomas acquisition (as discussed above under "--Thomas Acquisition Financing and Purchase Price Allocation").

Interest on the Notes (\$125,000 at 8.00%)	\$10,000
Interest on incremental term loan and revolving line of credit borrowings (\$233,365 at 3.90%)	9,101
Incremental interest on existing borrowings due to increased	

Edgar Filing: GARDNER DENVER INC - Form 8-K/A

leverage	114
Elimination of historical interest expense on other borrowings to be repaid (\$26,900 at 5.25%)	(1,412)
Net impact on amortization of debt issue costs related to the financing for the Thomas acquisition	1,183
Prepayment penalty on other borrowings to be repaid	1,274

Total interest expense adjustment	\$20,260
	=====

The prepayment penalty on other borrowings to be repaid of \$1,274 was based upon interest rates in effect as of January 1, 2004. The actual prepayment penalty incurred in 2005 was \$319.

- (I) Reflects the elimination of interest income earned at an average rate of 1.6% on the \$215,000 excess cash at Thomas, which was used to fund the acquisition. This income was earned by Thomas subsequent to the sale of GTG on July 31, 2004.
- (J) Reflects the income tax effects of the pro forma adjustments to provide for the combined effective income tax rate for Gardner Denver, Nash Elmo and Thomas Industries (excluding the effect of GTG) of 32.5%

SIGNATURES

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

GARDNER DENVER, INC.

Date: September 16, 2005

By: /s/ Helen W. Cornell

Helen W. Cornell
Vice President, Finance and
Chief Financial Officer

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
-----	-----
23.1	Consent of Ernst & Young LLP
99.1	Press Release dated July 1, 2005, filed as Exhibit 99.1 to Gardner Denver's Form 8-K dated July 1, 2005, and incorporated herein by reference.

