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GARDNER DENVER INC
Form 10-Q
May 10, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2004

OR

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

Commission File Number 1-13215

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

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

76-0419383
(I.R.S. Employer
Identification No.)

1800 GARDNER EXPRESSWAY
QUINCY, ILLINOIS 62301
(Address of Principal Executive Offices and Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days.

Yes X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No

Number of shares outstanding of the issuer's Common Stock, par value \$.01 per share, as of April 30, 2004: 19,753,950 shares.

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

GARDNER DENVER, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
Revenues	\$154,428	\$101,491
Costs and Expenses:		
Cost of sales (excluding depreciation and amortization)	104,511	70,774
Depreciation and amortization	5,133	3,546
Selling and administrative expenses	34,903	20,677
Interest expense	2,022	1,205
Other (income) expense, net	(2,076)	113
Income before income taxes	9,935	5,176
Provision for income taxes	3,378	1,656
Net income	\$ 6,557	\$ 3,520
Basic earnings per share	\$ 0.40	\$ 0.22
Diluted earnings per share	\$ 0.39	\$ 0.22

The accompanying notes are an integral part of this statement.

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CONSOLIDATED BALANCE SHEET
(in thousands, except per share amounts)

	(UNAUDITED) MARCH 31, 2004 -----	DECEMBER 200 -----
ASSETS		
Current assets:		
Cash and equivalents	\$ 31,519	\$132,
Receivables, net	111,977	81,
Inventories, net	90,991	64,
Deferred income taxes	5,412	3,
Other	5,582	5,
	-----	-----
Total current assets	245,481	287,
	-----	-----
Property, plant and equipment, net	107,675	75,
Goodwill	264,619	205,
Other intangibles, net	44,685	10,
Deferred income taxes	2,265	5,
Other assets	4,875	5,
	-----	-----
Total assets	\$669,600	\$589,
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	\$ 44,673	\$ 16,
Accounts payable and accrued liabilities	123,747	84,
	-----	-----
Total current liabilities	168,420	100,
	-----	-----
Long-term debt, less current maturities	66,015	165,
Postretirement benefits other than pensions	31,833	32,
Other long-term liabilities	48,408	25,
	-----	-----
Total liabilities	314,676	323,
	-----	-----
Stockholders' equity:		
Common stock, \$0.01 par value; 50,000 shares authorized; 19,739 shares issued and outstanding at March 31, 2004	215	
Capital in excess of par value	256,945	174,
Treasury stock at cost, 1,729 shares at March 31, 2004	(26,144)	(25,
Retained earnings	108,864	102,
Accumulated other comprehensive income	15,044	14,
	-----	-----
Total stockholders' equity	354,924	265,
	-----	-----
Total liabilities and stockholders' equity	\$669,600	\$589,
	=====	=====

The accompanying notes are an integral part of this statement.

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

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 6,557	\$ 3,5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,133	3,5
Unrealized foreign currency transaction gain	(1,282)	
Net (gain) loss on asset dispositions	(53)	
Stock issued for employee benefit plans	659	8
Deferred income taxes	(984)	1,3
Changes in assets and liabilities:		
Receivables	(774)	5,9
Inventories	(3,831)	(3,4
Accounts payable and accrued liabilities	(3,007)	(7,1
Other assets and liabilities, net	1,105	6
Net cash provided by operating activities	3,523	5,3
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(81,322)	
Capital expenditures	(3,849)	(2,7
Disposals of plant and equipment	202	
Net cash used in investing activities	(84,969)	(2,7
Cash flows from financing activities:		
Principal payments on long-term debt	(124,056)	(12,6
Proceeds from long-term debt	21,331	4,0
Proceeds from issuance of common stock	79,557	
Proceeds from stock options	2,292	8
Purchase of treasury stock	(197)	(
Other	--	
Net cash used in financing activities	(21,073)	(7,8
Effect of exchange rate changes on cash and equivalents	1,235	6

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Decrease in cash and equivalents	(101,284)	(4,6
	-----	-----
Cash and equivalents, beginning of period	132,803	25,6
	-----	-----
Cash and equivalents, end of period	\$ 31,519	\$ 21,0
	=====	=====

The accompanying notes are an integral part of this statement.

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NOTES TO CONDENSED FINANCIAL STATEMENTS (in thousands, except per share amounts)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Gardner Denver, Inc. ("Gardner Denver" or the "Company") and its subsidiaries. All significant intercompany transactions and accounts have been eliminated.

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto incorporated by reference in Gardner Denver's Annual Report on Form 10-K for the year ended December 31, 2003.

The results of operations for the three months ended March 31, 2004 are not necessarily indicative of the results to be expected for the full year.

STOCK-BASED COMPENSATION PLANS

As allowed under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," the Company measures its compensation cost of equity instruments issued under employee compensation plans using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Stock options granted during the three months ended March 31, 2004 and 2003 were exercisable at prices equal to the fair market value of the Company's common stock on the dates the options were granted; and accordingly, no compensation expense has been recognized. If the Company had accounted for stock-based compensation using the fair value recognition provisions of SFAS No. 123 and related amendments, net income and basic and diluted earnings per share would have been as follows:

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	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	-----	-----
Net income, as reported	\$6,557	\$3,520
Less: Total stock-based employee compensation expense determined under fair value method, net of related tax effects	305	328
	-----	-----
Pro forma net income	\$6,252	\$3,192
	=====	=====
Basic earnings per share, as reported	\$ 0.40	\$ 0.22
	=====	=====
Basic earnings per share, pro forma	\$ 0.38	\$ 0.20
	=====	=====
Diluted earnings per share, as reported	\$ 0.39	\$ 0.22
	=====	=====
Diluted earnings per share, pro forma	\$ 0.37	\$ 0.20
	=====	=====

Compensation costs charged against income (net of tax) for restricted stock issued under the Company's Incentive Plan totaled \$0.2 million in the three months ended March 31, 2003. There was no restricted stock issued in the current year period.

NOTE 2. ACQUISITIONS

On January 2, 2004, the Company effectively acquired the outstanding shares of Syltone plc ("Syltone"), previously a publicly traded company listed on the London Stock Exchange. Syltone, headquartered in Bradford, United Kingdom ("U.K."), is one of the world's largest manufacturers of equipment used for loading and unloading liquid and dry bulk products on commercial transportation vehicles. This equipment includes compressors, blowers and other ancillary products that are complementary to the Company's product line. Syltone is also one of the world's largest manufacturers of fluid transfer equipment (including loading arms, swivel joints, couplers and valves) used to load and unload ships, tank trucks and rail cars. The purchase price of (pounds)61.1 million including assumed bank debt (net of cash acquired) was paid in the form of cash ((pounds)44.4 million), new loan notes ((pounds)5.2 million) and the assumption of Syltone's existing bank debt, net of cash ((pounds)11.5 million). There are no additional contingent payments or commitments related to this acquisition.

This acquisition has been accounted for by the purchase method and accordingly, its results are included in the Company's consolidated financial statements from the date of acquisition. Net of cash acquired, \$81.3 million in cash was used to fund the Syltone acquisition (and related direct acquisition costs) during the first quarter. The aggregate purchase price (including direct acquisition costs) has been allocated primarily to receivables (\$30,410); inventory (\$22,413); property, plant and equipment (\$33,297); intangible assets (\$92,316); accounts payable and accrued

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liabilities (\$41,586); bank debt, net (\$20,570); net deferred income tax liabilities (\$2,308) and other long-term liabilities (\$21,993), 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 in 2004. Further, other assets and liabilities may be identified to which a portion of the purchase price could be allocated.

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The following table summarizes the preliminary fair values of the intangible assets acquired in the Syltone acquisition:

Amortized intangible assets:	
Customer lists and relationships	\$19,646
Other	5,394
Unamortized intangible assets:	
Goodwill	58,346
Trademarks	8,930

Total intangible assets	\$92,316
	=====

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

The total amount of goodwill that is expected to be deductible for tax purposes is not anticipated to be significant given the stock nature of the acquisition. The assignment of goodwill has been allocated to the Compressed Air Products segment (\$40,842) and the Fluid Transfer Products segment (\$17,504). This allocation is preliminary and subject to change upon completion of appraisals in 2004. See Note 12 for additional segment information.

The following table summarizes supplemental pro forma information as if the Syltone acquisition had been completed on January 1, 2003:

	THREE MONTHS ENDED MARCH 31, ----- 2003 -----
Revenues	\$134,021
Net income	3,505
Diluted earnings per share	\$ 0.22

The pro forma net income above reflects the negative impact of a one-time adjustment on cost of sales of approximately \$1.1 million stemming from recording Syltone's inventory at fair value.

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NOTE 3. INVENTORIES

	MARCH 31, 2004 -----	DECEMBER 31, 2003 -----
Raw materials, including parts and subassemblies	\$ 42,147	\$ 33,850
Work-in-process	13,203	7,850
Finished goods	38,061	24,731
Perishable tooling and supplies	2,294	2,429
	-----	-----
	95,705	68,860
Excess of FIFO costs over LIFO costs	(4,714)	(4,533)
	-----	-----
Inventories, net	\$ 90,991 =====	\$ 64,327 =====

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NOTE 4. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill attributable to each business segment for the three months ended March 31, 2004, are as follows:

	COMPRESSED AIR PRODUCTS -----
Balance as of December 31, 2003	\$179,854
Goodwill acquired during the period	40,842
Foreign currency translation	395

Balance as of March 31, 2004	\$221,091 =====

Other intangible assets at March 31, 2004 consisted of the following:

	COST -----
Amortized intangible assets:	
Acquired technology	\$20,798
Customer lists and relationships	22,292
Other	3,820
Unamortized intangible assets:	
Trademarks	12,186

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Total other intangible assets	\$59,096
	=====

Amortization of intangible assets for the three months ended March 31, 2004, was \$1.0 million. Amortization of intangible assets is anticipated to be approximately \$3.5 to \$4.0 million per year for 2004 through 2008.

NOTE 5. ACCRUED PRODUCT WARRANTY

The following is a rollforward of the Company's warranty accrual for the three months ended March 31, 2004 and 2003.

	THREE MONTHS ENDED	
	MARCH 31,	
	2004	2003
	-----	-----
Balance at beginning of period	\$ 6,635	\$ 6,635
Product warranty accruals	1,853	1,853
Settlements	(1,802)	(1,802)
Other (acquisitions and foreign currency translation)	1,398	1,398
	-----	-----
Balance at end of period	\$ 8,084	\$ 8,084
	=====	=====

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NOTE 6. PENSION AND OTHER POSTRETIREMENT BENEFITS

The following table provides the components of net periodic benefit expense (income) for the Company's defined benefit pension plans and other postretirement benefit plans for the three months ended March 31, 2004 and 2003:

	Pension Benefits			
	U.S. Plans		Non-U.S. Plans	
	2004	2003	2004	2003
	-----	-----	-----	-----
Service cost	\$ 574	600	\$ 791	385
Interest cost	853	908	1,310	362
Expected return on plan assets	(950)	(855)	(1,286)	(369)
Amortization of transition liability	--	--	--	--
Amortization of prior-service cost	(24)	(25)	5	--
Amortization of net loss (gain)	53	130	59	58
	-----	-----	-----	-----
Net periodic benefit expense (income)	\$ 506	758	\$ 879	436

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NOTE 7. STOCKHOLDERS' EQUITY

Pursuant to its previously filed shelf registration with the Securities and Exchange Commission, the Company completed an offering of 3,450,000 shares of its common stock for net proceeds of approximately \$79.6 million during March of 2004. These proceeds were used to repay borrowings under its Revolving Line of Credit Agreement (the "Credit Line").

NOTE 8. EARNINGS PER SHARE

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

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	-----	-----
Basic EPS:		
Net income	\$ 6,557	\$ 3,520
	=====	=====
Shares		
Weighted average number of common shares outstanding	16,352	16,010
	=====	=====
Basic earnings per common share	\$ 0.40	\$ 0.22
	=====	=====
Diluted EPS:		
Net income	\$ 6,557	\$ 3,520
	=====	=====
Shares		
Weighted average number of common shares outstanding	16,352	16,010
Assuming conversion of dilutive stock options issued and outstanding	401	161
	-----	-----
Weighted average number of common shares outstanding, as adjusted	16,753	16,171
	=====	=====
Diluted earnings per common share	\$ 0.39	\$ 0.22
	=====	=====

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NOTE 9. COMPREHENSIVE INCOME

For the three months ended March 31, 2004 and 2003, comprehensive income was

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\$6.7 million and \$5.2 million, respectively. Items impacting the Company's comprehensive income, but not included in net income, consist of foreign currency translation adjustments.

NOTE 10. CASH FLOW INFORMATION

In the first three months of 2004 and 2003, the Company paid \$0.7 million and \$0.8 million, respectively, to the various taxing authorities for income taxes. Interest paid for the first three months of 2004 and 2003, was \$2.0 million and \$1.5 million, respectively.

NOTE 11. CONTINGENCIES

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

Predecessors to the Company manufactured, distributed and sold the products allegedly at issue in the pending asbestos and silicosis litigation lawsuits. The Company has potential responsibility for certain contingent liabilities with respect to these products, namely: (a) air compressors which used asbestos containing components manufactured and supplied by third parties; and (b) portable air compressors used in sandblasting operations as a component of sandblasting equipment manufactured and sold by others. The sandblasting equipment is alleged to have caused the silicosis disease plaintiff's claim in these cases.

Neither the Company nor its predecessors ever mined, manufactured, mixed, produced or distributed asbestos fiber. The asbestos-containing components used in the products at issue were completely encapsulated in a protective non-asbestos binder and enclosed within the subject products. Furthermore, the Company has never manufactured or distributed portable air compressors.

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

The Company believes that the pending and future asbestos and silicosis lawsuits will not, in the aggregate, have a material adverse effect on its consolidated financial position, results of operations or liquidity, based on: the Company's anticipated insurance and indemnification rights to address the risks of such matters; the limited potential asbestos exposure from the components described above; the Company's experience that the substantial majority of plaintiffs are not impaired with a disease attributable to alleged exposure to asbestos or silica; various potential

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defenses available to the Company with respect to such matters; and the Company's prior disposition of comparable matters. However, due to inherent uncertainties of litigation and because future developments could cause a different outcome, there can be no assurance that the resolution of pending or future lawsuits, whether by judgment, settlement or dismissal, will not have a material adverse effect on its consolidated financial position, results of operations or liquidity.

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

NOTE 12. SEGMENT INFORMATION

Subsequent to the acquisition of Syltone, the Company continues to be organized based upon the products and services it offers but now has four operating divisions: Compressor, Blower, Pump and Fluid Transfer. These divisions comprise two reportable segments, Compressed Air Products and Fluid Transfer Products. The Compressor and Blower (which now includes the Syltone transportation-related activities) divisions are aggregated into one reportable segment (Compressed Air Products) since the long-term financial performance of these businesses are affected by similar economic conditions, coupled with the similar nature of their products, manufacturing processes and other business characteristics. The Pump and Fluid Transfer (which consists of the Syltone fluid transfer-related activities) divisions are aggregated into one reportable segment (Fluid Transfer Products) primarily due to the same factors as noted above.

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	-----	-----
Revenues:		
Compressed Air Products	\$ 122,996	\$ 87,186
Fluid Transfer Products	31,432	14,305
	-----	-----
Total	\$ 154,428	\$ 101,491
	=====	=====
Operating earnings (loss):		
Compressed Air Products	\$ 8,274	\$ 6,576
Fluid Transfer Products	1,607	(82)
	-----	-----
Total	9,881	6,494
Interest expense	2,022	1,205
Other (income) expense, net	(2,076)	113
	-----	-----
Income before income taxes	\$ 9,935	\$ 5,176
	=====	=====

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

RECENT DEVELOPMENTS.

On January 2, 2004, the Company effectively acquired the outstanding shares of Syltone plc ("Syltone"), previously a publicly traded company listed on the London Stock Exchange. Syltone, headquartered in Bradford, United Kingdom ("U.K."), is one of the world's largest manufacturers of equipment used for loading and unloading liquid and dry bulk products on commercial transportation vehicles. This equipment includes compressors, blowers and other ancillary products that are complementary to the Company's product line. Syltone is also one of the world's largest manufacturers of fluid transfer equipment (including loading arms, swivel joints, couplers and valves) used to load and unload ships, tank trucks and rail cars. The purchase price of (pounds)61.1 million including assumed bank debt (net of cash acquired) was paid in the form of cash ((pounds)44.4 million), new loan notes ((pounds)5.2 million) and the assumption of Syltone's existing bank debt, net of cash ((pounds)11.5 million). There are no additional contingent payments or commitments related to this acquisition.

Syltone generated revenues and operating profit (in accordance with accounting principles generally accepted in the U.K.) of (pounds)84.4 million and (pounds)6.3 million, respectively (approximately \$151.1 million and \$11.3 million, respectively as calculated using the December 31, 2003 exchange rate of \$1.79/(pounds)) for the twelve months ended September 30, 2003. Syltone's largest markets are Europe and North America, which represent approximately 67% and 20% of its revenues, respectively. Approximately 70% of Syltone's revenues are generated through transportation-related activities while the remaining 30% are derived from fluid transfer-related activities.

Subsequent to the acquisition of Syltone, the Company continues to be organized based upon the products and services it offers but now has four operating divisions: Compressor, Blower, Pump and Fluid Transfer. These divisions comprise two reportable segments, Compressed Air Products and Fluid Transfer Products. The Compressor and Blower (which now includes the Syltone transportation-related activities) divisions are aggregated into one reportable segment (Compressed Air Products) since the long-term financial performance of these businesses are affected by similar economic conditions, coupled with the similar nature of their products, manufacturing processes and other business characteristics. The Pump and Fluid Transfer (which consists of the Syltone fluid transfer-related activities) divisions are aggregated into one reportable segment (Fluid Transfer Products) primarily due to the same factors as noted above.

RESULTS OF OPERATIONS.

PERFORMANCE IN THE QUARTER ENDED MARCH 31, 2004 COMPARED WITH THE QUARTER ENDED MARCH 31, 2003

Revenues

Revenues increased \$52.9 million (52%) to \$154.4 million for the three months ended March 31, 2004, compared to \$101.5 million in the same period of 2003. This increase is primarily due to the acquisition of Syltone, which contributed \$42.3 million in revenues. Increased volume of well stimulation pumps and pump parts shipments, changes in currency exchange rates and price increases also contributed to this increase.

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For the three months ended March 31, 2004, revenues for the Compressed Air Products segment increased \$35.8 million (41%) to \$123.0 million, compared to the same period of 2003. This increase is primarily due to the acquisition of Syltone (\$29.2 million), changes in currency exchange rates (\$4.3 million) and price increases (approximately \$0.8 million). Fluid Transfer Products segment revenues increased \$17.1 million (120%) to \$31.4 million for the three months ended March 31, 2004 compared to the same period of 2003. This increase is primarily due to the acquisition of Syltone (\$13.1 million), increased volume of well stimulation pumps and pump parts shipments (\$4.5 million) and price increases (\$0.4 million) partially offset by a decrease in volume of drilling pump shipments.

Costs and Expenses

Gross margin (defined as revenues less cost of sales) for the three months ended March 31, 2004 increased \$19.2 million (63%) to \$49.9 million compared to the same period of 2003. Gross margin as a percentage of revenues (gross margin percentage) increased to 32.3% in the three-month period of 2004 from 30.3% in the same period of 2003. This increase in the gross margin percentage was principally attributable to Syltone, which has higher gross margins than the Company's previously existing business. Syltone's gross margin percentage was 34.4% during the first quarter and included a non-recurring negative impact of approximately \$1.2 million stemming from recording their inventory at fair value on the acquisition date. Gross margin percentage was also favorably impacted by the increased volume of well stimulation pumps and pump parts shipments and the related positive impact of increased leverage of the Fluid Transfer segment's fixed and semi-fixed costs over a higher revenue base. Finally, due to the closure of a significant casting supplier in the second half of 2002, the first quarter of 2003 included costs of approximately \$0.6 million to expedite castings from new suppliers which did not recur in 2004. These positive factors were partially offset by higher warranty expense in 2004.

Depreciation and amortization for the three months ended March 31, 2004 increased \$1.6 million to \$5.1 million compared to \$3.5 million in the same period of 2003 primarily due to the Syltone acquisition.

Selling and administrative expenses increased in the three-month period of 2004 by 69% to \$34.9 million from \$20.7 million in the same period of 2003 primarily due to the acquisition of Syltone (\$10.1 million). Higher compensation and fringe benefit costs and changes in currency exchange rates also contributed to this increase.

Other income, net was \$2.1 million for the three months ended March 31, 2004 compared to other expense, net in the comparable prior year period of \$0.1 million. This change was primarily due to foreign currency transaction gains recorded in 2004. These gains included \$1.2 million specifically related to a portion of the proceeds from U.S. dollar borrowings, which were converted to British pounds and appreciated in U.S. dollars in 2004 prior to being used to consummate the Syltone acquisition in January 2004.

The Compressed Air Products segment generated operating earnings (defined as revenues, less cost of sales, depreciation and amortization, and selling and administrative expenses) as a percentage of revenues of 6.7% for the three-month period ended March 31, 2004, a decrease from 7.5% for the same period of 2003. This decrease was primarily attributable to higher compensation, fringe benefit and warranty expense. These negative factors were partially offset by non-recurring costs to expedite castings from new

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suppliers incurred in 2003. Operating

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earnings as a percentage of revenues for the portion of Syltone's business included in this segment were 7.6%.

The Fluid Transfer Products segment generated operating earnings as a percentage of revenues of 5.1% for the three-month period ended March 31, 2004, compared to an operating loss of 0.6% for the same period in 2003. This improvement was primarily attributable to the positive impact of increased leverage of the segment's fixed and semi-fixed costs over a higher revenue base and operational improvements. Operating earnings as a percentage of revenues for the portion of Syltone's business included in this segment were 4.7%.

Interest expense increased \$0.8 million (68%) to \$2.0 million for the three months ended March 31, 2004, compared to \$1.2 million for the same period of 2003 due to higher average borrowings and rates stemming from the Syltone acquisition. The average interest rate for the three-month period ended March 31, 2004 was 4.4% compared to 4.1% in the comparable prior year period.

Income before income taxes increased \$4.8 million (92%) to \$9.9 million for the three months ended March 31, 2004, compared to the same period of 2003. This increase is primarily due to Syltone, foreign currency gains and the increased volume of well stimulation pumps and pump parts shipments, as discussed above. These positive factors were partially offset by higher compensation, fringe benefit and warranty expense in 2004.

The provision for income taxes increased by \$1.7 million to \$3.4 million for the three-month period of 2004, compared to \$1.7 million for the same period in 2003, as a result of the higher income before taxes and a higher overall effective tax rate. The Company's effective tax rate for the three months ended March 31, 2004 increased to 34.0% compared to 32.0% in the prior year period, principally due to the acquisition of Syltone.

Net income for the three months ended March 31, 2004 increased \$3.1 million (86%) to \$6.6 million (\$0.39 diluted earnings per share), compared to \$3.5 million (\$0.22 diluted earnings per share) for the same period of 2003. This increase in net income is primarily attributable to the same factors that resulted in increased income before taxes noted above partially offset by a higher effective tax rate in 2004. Syltone contributed approximately \$0.07 to diluted earnings per share during the first quarter of 2004.

Outlook

In general, demand for compressed air products correlates to the rate of manufacturing capacity utilization and the rate of change of industrial production because compressed air is often used as a fourth utility in the manufacturing process. Over longer time periods, demand also follows the economic growth patterns indicated by the rates of change in the Gross Domestic Product. In the first quarter of 2004, orders for compressed air products were \$139.7 million, compared to \$93.1 million in the same period of 2003. Backlog for the Compressed Air Products segment was \$77.9 million as of March 31, 2004, compared to \$65.4 million as of March 31, 2003. The increase in orders and backlog compared to the prior year is primarily due to the addition of Syltone's transportation-related activities, which contributed \$31.5 million and \$15.0 million to orders and backlog,

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respectively. Favorable changes in foreign currency exchange rates also added approximately \$5.3 million and \$3.3 million to orders and backlog, respectively. Excluding these favorable items, the growth in orders for this segment stems primarily from an improvement in the U.S. industrial economy and increased demand for European compressors.

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Demand for fluid transfer products, the majority of which are petroleum related, has historically corresponded to market conditions and expectations for oil and natural gas prices. Orders for fluid transfer products were \$36.4 million in the first quarter of 2004 compared to \$20.7 million in the same period of 2003. Backlog for this business segment was \$30.5 million as of March 31, 2004, compared to \$13.1 million as of March 31, 2003. The increase in orders and backlog compared to the prior year is primarily due to the addition of Syltone's fluid transfer-related, which contributed \$9.3 million and \$12.0 million to orders and backlog, respectively. Excluding the impact of Syltone, the increase in orders for this segment stems primarily from increased demand for well stimulation pumps and petroleum pump parts due to continued high prices for oil and natural gas. Future increases in demand for these products will likely be dependent upon oil and natural gas prices and rig counts, which the Company cannot predict.

On April 28, 2004, the Company announced the closure of a facility located in Louisville, Kentucky, which was purchased in the Syltone acquisition. Manufacturing of blower products at this operation will be relocated to an existing facility in Sedalia, Missouri. Fluid transfer operations performed in Louisville will be transferred to another Syltone facility in Houston, Texas. This action is expected to be completed by year-end and anticipated to reduce diluted earnings per share by as much as \$0.03 in 2004, the majority of which will occur in the second quarter.

LIQUIDITY AND CAPITAL RESOURCES

Operating Working Capital

During the three months ended March 31, 2004, operating working capital (defined as receivables plus inventories, less accounts payable and accrued liabilities) increased \$17.6 million primarily due to Syltone (\$7.5 million) and higher inventory and receivable balances stemming from increased activity levels.

Cash Flows

During the first three months of 2004, the Company generated cash from operations totaling \$3.5 million, compared to \$5.4 million in the prior year period. This change is primarily due to the unfavorable change in operating working capital (excluding the impact of the Syltone acquisition) due to increased activity levels, partially offset by higher net income. Net of cash acquired, \$81.3 million in cash was used to fund the Syltone acquisition (and related direct acquisition costs) during the first quarter. This use of cash was partially offset by net proceeds from the sale of 3,450,000 shares of common stock in March 2004, which totaled \$79.6 million. These proceeds along with other cash reserves were used to reduce debt by approximately \$102.7 million. The cash flows provided by operating activities and used in financing and investing activities, combined with the effect of exchange rate changes, resulted in a net cash decrease of \$101.3 million during the first quarter of 2004.

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Capital Expenditures and Commitments

Capital projects designed to increase operating efficiency and flexibility, expand production capacity and bring new products to market resulted in expenditures of \$3.8 million in the first three months of 2004. This was \$1.1 million higher than the level of capital expenditures in the comparable period in 2003, primarily due to the timing of capital projects. Commitments for

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capital expenditures at March 31, 2004 were approximately \$10 million. Capital expenditures related to environmental projects have not been significant in the past and are not expected to be significant in the foreseeable future.

In October 1998, Gardner Denver's Board of Directors authorized the repurchase of up to 1,600,000 shares of the Company's common stock to be used for general corporate purposes. Approximately 200,000 shares remain available for repurchase under this program. The Company has also established a Stock Repurchase Program for its executive officers to provide a means for them to sell Gardner Denver common stock and obtain sufficient funds to meet income tax obligations which arise from the exercise or vesting of incentive stock options, restricted stock or performance shares. The Gardner Denver Board has authorized up to 400,000 shares for repurchase under this program and, of this amount, approximately 200,000 shares remain available for repurchase. As of March 31, 2004, a total of 1,572,542 shares have been repurchased at a cost of \$22.8 million under both repurchase programs.

Liquidity

Pursuant to its previously filed shelf registration with the Securities and Exchange Commission, the Company completed an offering of 3,450,000 shares of its common stock for net proceeds of approximately \$79.6 million during March of 2004. These proceeds were used to repay borrowings under its Revolving Line of Credit Agreement (the "Credit Line").

The Credit Line has a borrowing capacity of \$150.0 million and the total debt balance is due upon final maturity on March 6, 2005. Subject to approval by lenders holding more than 75% of the debt, the Company may request up to two, one-year extensions. On March 31, 2004, the Credit Line had an outstanding principal balance of \$11.0 million, leaving \$139.0 million available for future use or for letters of credit, subject to the terms of the Credit Line.

The Company also has a five-year \$50.0 million Term Loan with a final maturity of March 6, 2007. The Term Loan requires principal payments of \$2.5 million in years one and two, and \$15.0 million in years three through five. On March 31, 2004, the Term Loan had an outstanding principal balance of \$45.0 million.

The Company's borrowing arrangements are generally unsecured and permit certain investments and dividend payments. There are no material restrictions on the Company as a result of its credit agreements, other than customary covenants regarding certain earnings, liquidity and capital ratios.

Management currently expects the Company's future cash flows to be

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sufficient to fund its scheduled debt service and provide required resources for working capital and capital investments for at least the next twelve months.

CONTINGENCIES

The Company is a party to various legal proceedings, lawsuits and administrative actions, which are of an ordinary or routine nature. Due to the bankruptcies of several asbestos manufacturers and other primary defendants, the Company has been named as a defendant in an increasing number of asbestos personal injury lawsuits. The Company has also been named as a defendant in an increasing number of silicosis personal injury lawsuits. The plaintiffs in these suits allege exposure to asbestos or silica from multiple sources, and typically the Company is one of approximately 25 or more named defendants. In the Company's experience, the substantial

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majority of the plaintiffs are not physically impaired with a disease attributable to the alleged exposure.

Predecessors to the Company manufactured, distributed and sold the products allegedly at issue in the pending asbestos and silicosis litigation lawsuits. The Company has potential responsibility for certain contingent liabilities with respect to these products, namely: (a) air compressors which used asbestos containing components manufactured and supplied by third parties; and (b) portable air compressors used in sandblasting operations as a component of sandblasting equipment manufactured and sold by others. The sandblasting equipment is alleged to have caused the silicosis disease plaintiff's claim in these cases.

Neither the Company nor its predecessors ever mined, manufactured, mixed, produced or distributed asbestos fiber. The asbestos-containing components used in the products at issue were completely encapsulated in a protective non-asbestos binder and enclosed within the subject products. Furthermore, the Company has never manufactured or distributed portable air compressors.

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

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

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position, results of operations or liquidity.

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

NEW ACCOUNTING STANDARDS

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin No. 51, which addresses consolidation by business enterprises of variable interest entities. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the interest entities do not effectively disperse risks among the parties involved. This interpretation applies to variable interest entities created after January 31, 2003. It applies in the

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first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company has no variable interest entities and has adopted this interpretation which did not have a material impact on its financial statements.

In December 2003, the FASB issued SFAS No. 132 (revised), "Employers' Disclosures about Pensions and Other Postretirement Benefits." This statement requires additional disclosures about plan assets, benefit obligations, cash flows, benefit costs and other relevant information. In addition to expanded annual disclosures, the statement also requires disclosures of various elements of pension and other postretirement benefit costs on an interim basis. The Company has adopted SFAS No.132 (revised) and included the required disclosures in Note 6 to the Condensed Financial Statements.

CRITICAL ACCOUNTING POLICIES

Management has evaluated the accounting policies used in the preparation of the Company's financial statements and related notes and believes those policies to be reasonable and appropriate. Certain of these accounting policies require the application of significant judgment by management in selecting appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, trends in the industry, information provided by customers and information available from other outside sources, as appropriate. The most significant areas involving management judgments and estimates may be found in our 2003 Annual Report on Form 10-K, filed on March 10, 2004, in the Critical Accounting Policies Section of Management's Discussion and Analysis and in Note 1 to the Consolidated Financial Statements contained in our 2003 Annual Report to Stockholders filed as Exhibit 13.0 thereto.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

All of the statements in this Management's Discussion and Analysis, other than historical facts, are forward-looking statements made in reliance upon

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

The following uncertainties and factors, among others, could affect future performance and cause actual results to differ materially from those expressed in or implied by forward-looking statements: (1) the ability to maintain and to enter into key purchasing, supply and outsourcing relationships; (2) the ability to effectively manage the transition of iron casting supply to alternate sources and the skill, commitment and availability of such alternate sources; (3) the ability to identify, negotiate and complete future acquisitions; (4) the speed with which the Company is able to integrate acquisitions and realize the related financial benefits; (5) the successful implementation of other strategic initiatives, including, without limitation, restructuring plans, inventory reduction programs and other cost reduction efforts; (6) the domestic and/or worldwide level of oil and natural gas prices and oil and gas drilling and production, which affect demand for the Company's petroleum products; (7) changes in domestic and/or worldwide industrial

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production and industrial capacity utilization rates, which affect demand for the Company's compressed air products; (8) pricing of the Company's products; (9) the degree to which the Company is able to penetrate niche and international markets; (10) changes in currency exchange rates (primarily between the U.S. dollar, the euro and the British pound); (11) changes in interest rates; (12) the ability to attract and retain quality management personnel; (13) market performance of pension plan assets and changes in discount rates used for actuarial assumptions in pension and other postretirement obligation and expense calculations; (14) the continued ability to effectively manage and defend litigation matters pending, or asserted in the future, against the Company; (15) the development and acceptance of the Company's new product offerings; and (16) the continued successful implementation and utilization of the Company's electronic services.

The Company does not undertake, and hereby disclaims, any duty to update these forward-looking statements, even though its situation and circumstances may change in the future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Company's exposure to market risk between December 31, 2003 and March 31, 2004.

ITEM 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15 of the Exchange Act, the Company has carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. This evaluation was carried out under the

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supervision and with the participation of the Company's management, including the Chairman, President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer. Based upon that evaluation, the Chairman, President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer concluded that the Company's controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's periodic SEC reports is recorded, processed, summarized, and reported as and when required. In addition, they concluded that there were no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or that are reasonably likely to materially affect the Company's internal control over financial reporting.

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

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PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS (1)	T
January 1, 2004 - January 31, 2004	--	--	--	
February 1, 2004 - February 29, 2004	--	--	--	
March 1, 2004 - March 31, 2004	-- --	--	-- --	
Total	-- ==	--	-- ==	