GARDNER DENVER INC
Form 10-Q
October 29, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission File Number: 1-13215

GARDNER DENVER, INC.

(Exact name of registrant as specified in its charter)

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

1500 Liberty Ridge Drive, Suite 3000

Wayne, Pennsylvania 19087

(Address of principal executive offices and Zip Code)

(610) 249-2000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 49,101,923 shares of Common Stock, par value $0.01 per share, as of October 24, 2012.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GARDNER DENVER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Revenues	$ 548,484	$ 614,682	$ 1,765,854	$ 1,757,228
Cost of sales	360,562	409,197	1,163,495	1,157,019
Gross profit	187,922	205,485	602,359	600,209
Selling and administrative expenses	95,293	94,179	304,321	295,209
Other operating expense, net	3,577	4,726	21,159	12,425
Operating income	89,052	106,580	276,879	292,575
Interest expense	3,739	2,898	11,540	12,179
Other income, net	(1,252)	(138)	(2,832)	(821)
Income before income taxes	86,565	103,820	268,171	281,217
Provision for income taxes	22,194	29,543	73,082	79,345
Net income	64,371	74,277	195,089	201,872
Less: Net income attributable to noncontrolling interests	268	694	887	1,690
Net income attributable to Gardner Denver	$ 64,103	$ 73,583	$ 194,202	$ 200,182
Net earnings per share attributable to Gardner Denver common stockholders				
Basic earnings per share	$ 1.31	$ 1.43	$ 3.90	$ 3.85
Diluted earnings per share	$ 1.30	$ 1.42	$ 3.88	$ 3.82
Cash dividends declared per common share	$ 0.05	$ 0.05	$ 0.15	$ 0.15

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

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GARDNER DENVER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Comprehensive Income Attributable to Gardner Denver				
Net income attributable to Gardner Denver	$ 64,103	$ 73,583	$ 194,202	$ 200,182
Other comprehensive (loss) income, net of tax				
Foreign currency adjustments, net	20,823	(56,275)	3,465	(6,533)
Unrecognized gain (loss) on cash flow hedges, net	(114)	228	369	464
Pension and other postretirement benefits, net	(854)	310	(198)	(328)
Total other comprehensive (loss) income, net of tax	19,855	(55,737)	3,636	(6,397)
Comprehensive income attributable to Gardner Denver	$ 83,958	$ 17,846	$ 197,838	$ 193,785
Comprehensive Income Attributable to Noncontrolling Interests				
Net income attributable to noncontrolling interests	$ 268	$ 694	$ 887	$ 1,690
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustments, net	31	(392)	12	(4)
Total other comprehensive (loss) income, net of tax	31	(392)	12	(4)
Comprehensive income attributable to noncontrolling interests	299	302	899	1,686
Total Comprehensive Income	$ 84,257	$ 18,148	$ 198,737	$ 195,471

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

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GARDNER DENVER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

(Unaudited)

	September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 248,933	$ 155,259
Accounts receivable (net of allowance of $11,318 at September 30, 2012 and $11,485 at December 31, 2011)	451,132	477,505
Inventories, net	353,371	311,679
Deferred income taxes	36,211	35,948
Other current assets	27,448	35,343
Total current assets	1,117,095	1,015,734
Property, plant and equipment (net of accumulated depreciation of $381,446 at September 30, 2012 and $354,178 at December 31, 2011)	292,777	290,912
Goodwill	677,103	676,582
Other intangibles, net	336,447	348,884
Other assets	33,807	33,456
Total assets	$ 2,457,229	$ 2,365,568
Liabilities and Stockholders Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 108,255	$ 77,692
Accounts payable	195,934	214,514
Accrued liabilities	210,901	213,548
Total current liabilities	515,090	505,754
Long-term debt, less current maturities	331,764	326,133
Postretirement benefits other than pensions	14,293	14,712
Deferred income taxes	72,858	76,761
Other liabilities	155,408	162,577
Total liabilities	1,089,413	1,085,937
Gardner Denver stockholders equity:		
Common stock, $0.01 par value; 100,000,000 shares authorized; 49,099,237 and 50,650,971 shares outstanding at September 30, 2012 and December 31, 2011, respectively	600	598
Capital in excess of par value	615,045	601,854
Retained earnings	1,159,634	972,867
Accumulated other comprehensive income	20,922	17,286
Treasury stock at cost; 10,928,282 and 9,122,204 shares at September 30, 2012 and December 31, 2011, respectively	(430,535)	(315,314)

Total Gardner Denver stockholders equity	1,365,666	1,277,291
Noncontrolling interests	2,150	2,340
Total stockholders equity	1,367,816	1,279,631
Total liabilities and stockholders equity	$ 2,457,229	$ 2,365,568

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

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GARDNER DENVER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash Flows From Operating Activities		
Net income	$ 195,089	$ 201,872
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	48,855	45,073
Foreign currency transaction loss, net	1,245	2,614
Net loss on asset dispositions	1,206	1,524
Stock issued for employee benefit plans	677	924
Stock-based compensation expense	4,164	5,320
Excess tax benefits from stock-based compensation	(2,345)	(2,537)
Deferred income taxes	(6,239)	(2,647)
Changes in assets and liabilities:		
Receivables	27,090	(91,265)
Inventories	(41,274)	(42,116)
Accounts payable and accrued liabilities	(19,709)	105,836
Other assets and liabilities, net	(6,373)	(13,082)
Net cash provided by operating activities	202,386	211,516
Cash Flows From Investing Activities		
Capital expenditures	(37,036)	(38,491)
Disposals of property, plant and equipment	8,075	2,439
Net cash paid in business combinations		(2,326)
Net cash used in investing activities	(28,961)	(38,378)
Cash Flows From Financing Activities		
Principal payments on short-term borrowings	(6,125)	(15,063)
Proceeds from short-term borrowings	4,144	10,264
Principal payments on long-term debt	(166,501)	(241,084)
Proceeds from long-term debt	205,028	214,585
Proceeds from stock option exercises	6,011	5,658
Excess tax benefits from stock-based compensation	2,345	2,537
Purchase of treasury stock	(115,207)	(132,578)
Cash dividends paid	(7,455)	(7,853)
Acquisition of noncontrolling interests		(18,806)
Other	(1,087)	(1,024)
Net cash used in financing activities	(78,847)	(183,364)
Effect of exchange rate changes on cash and cash equivalents	(904)	(2,859)
Net increase (decrease) in cash and cash equivalents	93,674	(13,085)
Cash and cash equivalents, beginning of year	155,259	157,029

Cash and cash equivalents, end of period	$ 248,933	$ 143,944

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

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GARDNER DENVER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share amounts and amounts described in millions)

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Gardner Denver, Inc. and its majority-owned subsidiaries (collectively referred to herein as Gardner Denver or the Company). All intercompany transactions and accounts have been eliminated in consolidation.

The financial information presented as of any date other than December 31, 2011 has been prepared from the books and records of the Company without audit. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of such financial statements.

The unaudited interim condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements and notes thereto included in Gardner Denver s Annual Report on Form 10-K for the year ended December 31, 2011.

The results of operations for the three and nine-month periods ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year. The balance sheet at December 31, 2011 has been derived from the audited financial statements as of that date but does not include all of the information and notes required by GAAP for complete financial statements.

Other than as specifically indicated in these Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, the Company has not materially changed its significant accounting policies from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2011.

New Accounting Standards

Recently Adopted Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income* (ASU 2011-05). This update requires that the components of net income, the components of other comprehensive income and the total of comprehensive income be presented as a single continuous financial statement or in two separate but consecutive statements. The option of presenting other comprehensive income in the statement of stockholders equity is eliminated. This update also requires the presentation on the face of the financial statements of reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. In November 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which defers the effective date of presentation requirements included in ASU 2011-05 related to reclassification adjustments. In August 2012, the FASB issued a proposed ASU requiring only enhanced footnote disclosures related to reclassification adjustments. The comment period for the proposed ASU ended on October 15, 2012. These additional disclosure requirements may be effective for public entities for annual reporting periods ending after December 15, 2012, and for interim and annual reporting periods thereafter. ASU 2011-05 was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. A separate statement of comprehensive income has been included in the condensed consolidated financial statements as a result of the adoption of this update.

Recently Issued Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11). This update requires the following new disclosures related to recognized financial instruments (and derivatives) subject to master netting arrangements or similar agreements: (i) the gross amounts of recognized financial assets and liabilities, (ii) the amounts offset under current GAAP, (iii) the net amounts presented in the balance sheet, (iv) the amounts subject to an enforceable master netting arrangement or similar agreement that were not included in (ii), and (v) the net amount representing the difference between (iii) and (iv). The update also requires qualitative disclosures related to counterparties, setoff rights, and terms of enforceable master netting arrangements and related agreements depending on their effect or potential effect on the entity s financial position. The new disclosures will enable financial statement users to compare balance sheets prepared under GAAP and International Financial Reporting Standards (IFRS), which are subject to different offsetting models. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The Company does not currently expect that the adoption of this update in the first quarter of 2013 will have a significant effect on its consolidated financial statements and related disclosures.

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment* (ASU 2012-02). This update amends existing guidance by giving an entity testing an indefinite-lived intangible asset for impairment the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If an entity determines that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, then the performance of the quantitative impairment test, as currently prescribed by ASC Topic 350, is required. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company does not currently expect that the adoption of this update will have a significant effect on its consolidated financial statements and related disclosures.

Note 2. Business Combinations

On December 15, 2011, the Company acquired Robuschi S.p.A. (Robuschi), a leading European producer of blowers, pumps and compressor packages. These products are used in a wide variety of end markets including wastewater treatment, mining, and power generation, as well as general industrial applications. The Company acquired all outstanding shares and share equivalents of Robuschi for total

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consideration of $200.8 million, which consisted of payments to shareholders of $151.5 million and the retirement of Robuschi external debt at closing of $49.3 million. The Company also assumed approximately $5.2 million of long-term debt in connection with the purchase. There are no contingent payments or commitments remaining related to this acquisition.

Note 3. Restructuring

The Company initiated restructuring plans in 2010 and prior years due to the decline in demand for its products associated with the global economic crisis and to improve the Company s operating margins. Execution of these plans was substantially completed during 2010. In 2011, the Company recorded approximately $8.6 million in charges associated with further streamlining of manufacturing operations and other cost reduction initiatives. In addition, the 2011 charges included costs associated with the establishment of a centralized European shared service center in the Czech Republic. The Company has substantially completed the restructuring actions commenced in 2011 as of September 30, 2012. The Company recorded charges related to 2011 plans of $33 and $1.1 million in the three and nine-month periods ended September 30, 2012, respectively.

In addition, in 2012 the Company launched a broader restructuring program designed to optimize the Company s global manufacturing footprint, better serve customers and expand margins. The initial phase of the global restructuring effort was commenced in the first quarter of 2012. These restructuring actions were primarily focused on the European and North American operations included in the Industrial Products Group reportable segment. These actions, once completed, will reduce the Company s global headcount by approximately 7%. In addition, the Company will close four production facilities, including two facilities in the U.S. and one each in Sweden and the UK. The Company recorded charges related to the initial phase of the restructuring plans of $1.4 million and $14.7 million in the three and nine-month periods ended September 30, 2012, respectively. The Company expects to complete the specific steps contemplated by this initial phase by the end of 2014 and to incur related additional charges of approximately $9.4 million.

On August 16, 2012, the Company announced the launch of phase two of the restructuring program. Phase two involves further reductions in the number of manufacturing facilities and associated headcount. Phase two of the program is subject to required consultations with local stakeholders, including employee representatives, and will continue until the end of 2015.

The Company expects to incur severance and other employment related benefit costs in the range of $60 to $65 million and other costs in the range of $15 to $20 million for phase one and phase two of the restructuring program. Non-cash charges, primarily related to fixed assets, are expected to be in the range of $10 to $15 million.

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Charges recorded in connection with the restructuring plans are included in Other operating expense, net in the Condensed Consolidated Statements of Operations, and are summarized for the fiscal years ended December 31, 2010 and 2011 and the nine-month period ended September 30, 2012 by reportable segment as follows:

	Industrial Products Group	Engineered Products Group	Total
Fiscal year 2010	$ 3,687	$ (1,491)	$ 2,196
Fiscal year 2011	6,621	1,963	8,584
Nine-month period ended September 30, 2012	12,593	3,212	15,805
Total	$ 22,901	$ 3,684	$ 26,585

The following table summarizes the activity in the restructuring accrual accounts for the nine-month period ended September 30, 2012:

	Termination Benefits	Other	Total
Balance as of December 31, 2011	$ 3,188	$ 1,294	$ 4,482
Charged to expense	13,814	1,991	15,805
Payments	(8,340)	(2,469)	(10,809)
Other, net	(459)	162	(297)
Balance as of September 30, 2012	$ 8,203	$ 978	$ 9,181

Note 4. Inventories

Inventories as of September 30, 2012 and December 31, 2011 consisted of the following:

	September 30, 2012	December 31, 2011
Raw materials, including parts and subassemblies	$ 248,103	$ 202,542
Work-in-process	57,591	57,264
Finished goods	67,410	67,748
	373,104	327,554
Excess of FIFO costs over LIFO costs	(19,733)	(15,875)
Inventories, net	$ 353,371	$ 311,679

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Note 5. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill attributable to each reportable segment for the nine-month period ended September 30, 2012, and the year ended December 31, 2011, are presented in the table below:

	Industrial Products Group	Engineered Products Group	Total
Balance as of December 31, 2010	$ 250,084	$ 321,712	$ 571,796
Acquisitions	112,221		112,221
Foreign currency translation	(4,070)	(3,365)	(7,435)
Balance as of December 31, 2011	358,235	318,347	676,582
Adjustments	(634)		(634)
Divestitures	(195)		(195)
Foreign currency translation	482	868	1,350
Balance as of September 30, 2012	$ 357,888	$ 319,215	$ 677,103

The $112.2 million increase in goodwill attributed to acquisitions in 2011 was associated with the Robuschi acquisition.

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

	September 30, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists and relationships	$ 170,971	$ (43,426)	$ 172,724	$ (36,028)
Acquired technology	98,262	(58,147)	99,383	(56,879)
Trademarks	56,733	(12,335)	53,510	(10,591)
Other	11,523	(10,549)	9,171	(6,141)
Unamortized intangible assets:				
Trademarks	123,415		123,735	
Total other intangible assets	$ 460,904	$ (124,457)	$ 458,523	$ (109,639)

Amortization of intangible assets for the three and nine-month periods ended September 30, 2012 and 2011 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Intangible asset amortization expense	$ 4,119	$ 3,869	$ 15,933	$ 12,720

The increase in amortization expense in 2012 is primarily due to the amortization of intangible assets related to the Robuschi acquisition, including $3.4 million of amortization expense associated with customer backlog in the first quarter of 2012. Amortization of intangible assets as of September 30, 2012 is anticipated to be approximately $20.2 million in 2012 and $16.7 million annually in 2013 through 2016 based upon exchange rates as of September 30, 2012.

Note 6. Accrued Liabilities

Accrued liabilities as of September 30, 2012 and December 31, 2011 consisted of the following:

	September 30, 2012	December 31, 2011
Salaries, wages and related fringe benefits	$ 59,316	$ 59,080
Taxes	24,525	34,891
Advance payments on sales contracts	50,599	40,689
Product warranties	24,693	22,939
Other	51,768	55,949
Total accrued liabilities	$ 210,901	$ 213,548

A reconciliation of the changes in the accrued product warranty liability for the three and nine-month periods ended September 30, 2012 and 2011 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Balance at beginning of period	$ 24,606	$ 23,531	$ 22,939	$ 19,100
Product warranty accruals	4,416	6,487	16,999	21,453
Settlements	(4,595)	(6,242)	(15,307)	(17,514)
Effect of foreign currency translation	266	(770)	62	(33)
Balance at end of period	$ 24,693	$ 23,006	$ 24,693	$ 23,006

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Note 7. Pension and Other Postretirement Benefits

The following table summarizes the components of net periodic benefit cost for the Company s defined benefit pension plans and other postretirement benefit plans recognized for the three and nine-month periods ended September 30, 2012 and 2011:

	Three Months Ended September 30,					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	2012	2011	2012	2011	2012	2011
Service cost	$	$	$ 205	$ 272	$ 7	$ 7
Interest cost	826	897	2,646	3,024	181	193
Expected return on plan assets	(1,074)	(1,054)	(2,569)	(2,794)		
Recognition of:						
Unrecognized prior service cost			9	10	(15)	(15)
Unrecognized net actuarial loss (gain)	475	308	309	221	(202)	(318)
Total net periodic benefit cost (income)	$ 227	$ 151	$ 600	$ 733	$ (29)	$ (133)

	Nine Months Ended September 30,					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	2012	2011	2012	2011	2012	2011
Service cost	$	$	$ 777	$ 810	$ 21	$ 22
Interest cost	2,478	2,691	7,994	9,060	544	579
Expected return on plan assets	(3,222)	(3,162)	(7,723)	(8,380)		
Recognition of:						
Unrecognized prior service cost			27	29	(45)	(45)
Unrecognized net actuarial loss (gain)	1,425	924	929	664	(606)	(954)
Total net periodic benefit cost (income)	$ 681	$ 453	$ 2,004	$ 2,183	$ (86)	$ (398)

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Note 8. Debt

The Company s debt at September 30, 2012 and December 31, 2011 is summarized as follows:

	September 30, 2012	December 31, 2011
Short-term borrowings	$ 473	$ 2,392
Long-term debt:		
Credit Line, due 2013 (1)	$ 157,000	$ 72,000
Term Loan, denominated in U.S. dollars (USD), due 2013 (2)	231,154	260,000
Term Loan, denominated in Euros (EUR), due 2013 (3)	38,615	50,596
Secured Mortgages (4)	6,160	6,504
Capitalized leases and other long-term debt	6,617	12,333
Total long-term debt, including current maturities	439,546	401,433
Current maturities of long-term debt	107,782	75,300
Total long-term debt, less current maturities	$ 331,764	$ 326,133

(1) The loans under this facility may be denominated in USD or several foreign currencies. The interest rates under the facility are based on prime, federal funds and/or the London Interbank offer rate (LIBOR) for the applicable currency. At September 30, 2012, the applicable rate was 1.8%, and the weighted-average rate was 1.9% for the nine-month period ended September 30, 2012.

(2) The interest rate for this loan varies with prime, federal funds and/or LIBOR. At September 30, 2012, the applicable rate was 1.8%, and the weighted-average rate was 1.9% for the nine-month period ended September 30, 2012.

(3) The interest rate for this loan varies with LIBOR. At September 30, 2012, this rate was 2.1%, and the weighted-average rate was 2.3% for the nine-month period ended September 30, 2012.

(4) This amount consists of two fixed-rate commercial loans with an outstanding balance of 4,791 at September 30, 2012. The loans are secured by the Company s facility in Bad Neustadt, Germany.

Note 9. Stock-Based Compensation

The following table summarizes the total stock-based compensation expense included in the Condensed Consolidated Statements of Operations and the related tax benefits for the three and nine-month periods ended September 30, 2012 and 2011. Stock-based compensation expenses are presented in Selling and administrative expenses in the Condensed Consolidated Statements of Operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Total stock-based compensation expense	$ 33	$ 1,058	$ 4,164	$ 5,320
Income tax benefit	(103)	(279)	(1,435)	(1,511)

Stock-based compensation expense for the three-month period ended September 30, 2012 includes the reversal of $1.5 million in stock-based compensation expense due to the forfeiture of non-vested stock option awards and restricted share awards in connection with the resignation of the Company s former President and Chief Executive Officer, Barry L. Pennypacker, on July 13, 2012.

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Stock Option Awards

A summary of the Company s stock option activity for the nine-month period ended September 30, 2012 is presented in the following table (underlying shares in thousands):

	Shares	Outstanding Weighted-Average Exercise Price (per share)	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life
Outstanding at December 31, 2011	746	$ 43.47		
Granted	217	$ 70.47		
Exercised	(195)	$ 30.85		
Forfeited	(95)	$ 66.44		
Expired or canceled	(4)	$ 71.85		
Outstanding at September 30, 2012	669	$ 52.46	$ 9,215	4.2 years
Exercisable at September 30, 2012	381	$ 40.94	$ 8,465	3.0 years

The aggregate intrinsic value was calculated as the difference between the exercise price of the underlying stock options and the quoted closing price of the Company s common stock at September 30, 2012 multiplied by the number of in-the-money stock options. The following table presents certain other information about the Company s stock options:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Weighted-average estimated grant-date fair value of employee stock options granted (per share)	$ 16.08		$ 25.38	
Total pre-tax intrinsic value of stock options exercised	$ 3,871	$ 1,306	$ 6,360	$ 8,741
Pre-tax unrecognized compensation expense, net of estimated forfeitures as of September 30, 2012			$ 4,073	
Weighted-average period (in years) to be recognized as expense			2.0	

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Valuation Assumptions

The fair value of each stock option grant under the Company s Amended and Restated Long-Term Incentive Plan was estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average assumptions used for the periods indicated are noted in the table below:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Assumptions:				
Risk-free interest rate	0.5%	1.3%	0.7%	1.9%
Dividend yield	0.4%	0.2%	0.3%	0.3%
Volatility factor	40	45	46	44
Expected life (in years)	3.5	3.8	4.0	4.3

Restricted Share Awards

A summary of the Company s restricted share award activity for the nine-month period ended September 30, 2012 is presented in the following table (underlying shares in thousands):

	Shares	Weighted-Average Grant-Date Fair Value (per share)
Nonvested at December 31, 2011	148	$ 48.59
Granted	88	$ 66.59
Vested	(59)	$ 26.74
Forfeited	(62)	$ 65.02
Nonvested at September 30, 2012	115	$ 64.58

The restricted shares granted in the nine-month period ended September 30, 2012 were valued at the market close price of the Company s common stock on the date of grant. The following table presents certain other information about the Company s restricted share awards:

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Total fair value of awards vested during the period	$ 3,826	$ 3,828
Pre-tax unrecognized compensation expense, net of estimated forfeitures as of September 30, 2012	$ 3,845	
Weighted-average period (in years) to be recognized as expense	1.8	

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Note 10. Stockholders Equity and Earnings Per Share

In November 2008, the Company s Board of Directors authorized a share repurchase program to acquire up to 3.0 million shares of the Company s outstanding common stock. In November 2011, the Company s Board of Directors authorized an additional share repurchase program to acquire up to 1.3 million shares of the Company s outstanding common stock plus an additional amount of common stock to offset dilution resulting from grants under the Company s equity compensation plans. During the six-month period ended June 30, 2012, the Company repurchased 1.8 million shares of the Company s outstanding common stock at a total cost of $114.0 million. These repurchases exhausted the availability under the share repurchase programs announced in November 2008 and November 2011.

In May 2012, the Company s Board of Directors authorized an additional share repurchase program to acquire up to 1.6 million shares of the Company s outstanding common stock plus an additional amount of common shares to offset dilution resulting from grants under the Company s equity compensation plans. As of September 30, 2012, there were 1.6 million shares available for repurchase under this program.

All common stock acquired under repurchase programs will be held as treasury stock and will be available for general corporate purposes.

The following table details the calculation of basic and diluted earnings per common share and antidilutive equity-based awards outstanding not included in the computation of diluted earnings per common share for the three and nine-month periods ended September 30, 2012 and 2011 (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income attributable to Gardner Denver	$ 64,103	$ 73,583	$ 194,202	$ 200,182
Weighted average shares of common stock outstanding:				
Basic	49,038	51,601	49,752	52,028
Effect of stock-based compensation awards	193	367	237	400
Diluted	49,231	51,968	49,989	52,428
Earnings Per Share:				
Basic	$ 1.31	$ 1.43	$ 3.90	$ 3.85
Diluted	$ 1.30	$ 1.42	$ 3.88	$ 3.82
Antidilutive equity-based awards outstanding	331	142	324	116

On April 20, 2011, the Company announced that it had reached an agreement with the minority shareholders of its two joint ventures in China, Shanghai CompAir Compressor Co. Ltd. and Shanghai CompAir-Dalong High Pressure Equipment Co. Ltd., to acquire all of their equity interests in these entities, representing 49 percent and 40 percent of the two entities, respectively. The purchase price of RMB 122.0 million ($18.8 million based on exchange rates at the date of payment) was placed by the Company into escrow with the Shanghai United Assets and Equity Exchange during the second quarter of 2011 pending finalization of certain Chinese governmental approvals. Requisite governmental approvals were received and transfer of the equity interests to the Company was completed during the third quarter of 2011. The share purchase was accounted for by the Company as an equity transaction. The cash payment was classified as a cash flow from financing activities in the consolidated

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statements of cash flows. The excess of the cash exchanged for the shares and the carrying value of the non-controlling interests was recorded as a charge to capital in excess of par value on the consolidated balance sheet and resulted in an $8.8 million reduction in stockholders equity attributable to Gardner Denver. The non-controlling interests associated with these two joint ventures were eliminated from the consolidated statements of operations and balance sheet as of the closing date.